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Chair

Mr. Pat Finnigan

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● (1105)

[*Translation*]

The Chair (Mr. Pat Finnigan (Miramichi—Grand Lake, Lib.)): Hello, everyone.

[*English*]

Pursuant to Standing Order 108, the study of debt in the agriculture sector and its effects, I want to welcome all our witnesses.

First, we have Mr. Alan Ker, professor and director of the Institute for the Advanced Study of Food and Agricultural Policy at the University of Guelph, and president of the Canadian Agricultural Economics Study.

We have Mr. Alfons Weersink. Mr. Weersink is a professor in the Department of Food, Agricultural and Resource Economics at the University of Guelph.

Also, last but not least, and fresh from a trip south of the border, we have Mr. Ron Bonnett, president of the Canadian Federation of Agriculture.

Welcome to all of you.

Welcome to all of our members who are also with us. I think we're all the original or the genuine members of the committee.

We will start with an opening statement from Mr. Ker. You have up to 10 minutes.

Professor Alan Ker (Professor and Director, Institute for the Advanced Study of Food and Agricultural Policy, University of Guelph; President, Canadian Agricultural Economics Society, As an Individual): Thank you for having me.

Let me thank the committee for the invitation to testify on debt in the agricultural sector and its effects.

I am the current president of the Canadian Agricultural Economics Society, and professor and director of the Institute for the Advanced Study of Food and Agriculture Policy at the University of Guelph. The society's mandate is to further our understanding of the economics that govern the food, agricultural, and resource sectors. While the institute has multiple mandates, its primary one is to attract students into the food and agricultural sector. Prior to joining Guelph, I was a professor at the Department of Agricultural and Resource Economics at the University of Arizona. While I have not published specifically on farm debt, I have in the past two years published peer-reviewed articles on closely related topics, including crop insurance, price volatilities, economic impact of disease outbreaks, and yield resilience and climate.

The ability to obtain a managed debt is critical to a sector's economic success. This is very true in the farm sector. In fact, because of the growing concern about increases in both farm debt and land values, in May 2015 the institute held a conference titled “Are we headed for another farm financial crisis?” The consensus, which included speakers Dr. Gervais and professors Weersink and Deaton—all of whom you have or will have heard from—was that we are not headed for another farm financial crisis.

Currently, the debt-to-asset ratio is relatively low, and farm cash receipts are strong. Hence, many have testified that debt is not a significant issue for the sector at this time, and I would agree. That said, the complexity of managing debt rises as risk increases, and I expect risk to increase in the future. I will focus my comments today on risk and the efficacy of the government programs that are meant to assist producers in managing risk. I will break risk into three categories: those related to production, those related to the market, and those related to policy.

Production risk can arise from such things as mortality, disease, genetics, weather, etc. Part of my research program deals with modelling crop yields. This research has revealed a number of interesting points related to yield risk. I will focus on corn yields. First, year-to-year yield volatility has doubled over the past 50 years. Second, the increased volatility has not been symmetric. That is, low yields are becoming relatively more volatile than higher yields. Third, this increased volatility can be mostly attributed to innovation rather than a change in climate.

Consider the following example. Over the past 50 years, seed innovations have allowed the planting density per acre to double, thereby increasing average yield per acre. However, the distribution of precipitation has remained constant during this period. While precipitation rarely limited crop yields in the 1960s, given increased planting densities, it does today. Our research shows that insufficient precipitation is now an order of magnitude more likely to cause lower yields because of innovation. As new technologies are adopted, the climate-yield relationship changes. At least historically, that change has increased yield risk, making the management of debt more complicated.

Market risk can arise from input and output prices, interest rates, and exchange rates. Interest rates appear to be relatively stable and low for the foreseeable future, but that can quickly change with changes in monetary policy. Increases in non-food uses, coupled with growth in global population and income, will increase long-run demand for agricultural goods. Long-run supply will be a function of expected returns in productivity growth, the latter driven by research and development expenditures. Overall, I expect long-run output prices to be constant or marginally increased as growth in demand is likely to outpace supply. Short-run prices will fluctuate with current supply, current income, and stocks. Exchange rate risk will continue as in the past, affecting both output and input prices. Our exchange rate is, and will continue to be for the foreseeable future, highly correlated with world crude prices.

Currently, policy risk is at the forefront, given rhetoric regarding a NAFTA renegotiation and component pricing and supply management.

Sometimes rhetoric turns into reality, as in the case of the softwood lumber countervailing duty. As an agriculture sector that depends heavily on trade or protection from trade, policy is perhaps the biggest risk facing Canadian producers right now.

The impacts of changing policy are most often manifested in changing prices as seen from mandatory country-of-origin labelling. Policy changes can have dramatic effects on producer income and, consequently, their ability to meet debt obligations. Moreover, policy changes can rapidly alter the value of assets such as land quota and machinery. Given the increasing global sentiment for stronger borders and the uncertain behaviour of the U.S., I expect policy risk to remain high in the short to medium term.

Business risk management programs like AgriInvest, AgriRecovery, AgriStability, and AgriInsurance assist farmers with the financial consequences of poor production outcomes. In fact, the suite of programs offers producers a significant amount of coverage in this respect. Moreover, the public sector has natural endowments that allow it to deliver protection more efficiently than the private sector.

While these programs shield producers from production risk, they do very little to shield producers from price risks caused by market or policy shocks. In this respect, producers' ability to make debt payments are vulnerable. It is noteworthy that Ontario and Quebec have provided farmers with a commodity-specific gross margin-based insurance program that assists producers in managing price risk. Also notable, the U.S. crop insurance program provides commodity-specific revenue insurance, which covers producers against both price and production risk.

In summary, I believe the current level of debt is not a cause for great concern given current asset levels and farm cash receipts. The greatest risks to the producers' ability to meet their debt obligations in the short run is policy risk related to stronger or weaker borders, always-present exchange rate risk, and interest rate risk. In the long run, greater attention in developing a business risk management policy, which assists producers to manage risk while not incentivizing risky practices, is needed.

Designing this policy, which provides adequate risk without incentivizing producers to adopt riskier practices, is challenging. That challenge will be exacerbated by uncertainty with respect to changing climate, consumer demands, and policy.

Thank you for the opportunity to speak to you today. I look forward to answering your questions.

● (1110)

The Chair: Thank you very much, Mr. Ker.

We now have Mr. Weersink for up to 10 minutes.

Professor Alfons Weersink (Professor, Department of Food, Agricultural and Resource Economics, University of Guelph, As an Individual): I very much appreciate the opportunity to testify to the House of Commons Standing Committee on Agriculture and Agri-Food. It is an honour, and I hope I can justify the invitation with information that is useful to your deliberations.

Today I will speak about the effects of debt on the ability to expand any farm and to transfer an operation between generations. To begin this discussion, I would like to give you a brief personal background that relates to issues of debt and young farmers.

My parents immigrated to Canada from the Netherlands in the late 1950s. As many who came from the Benelux countries after World War II, they came seeking the opportunity to farm, an opportunity that was not available to them due to conventional rules for intergenerational transfer at the time, in which the eldest son was gifted the farm, and to the relative economic opportunities outside of western Europe.

They came to Canada with very little, but thanks to good fortune and hard work, they achieved their dreams and built a successful farm operation. As I will argue later, they may have been one of the last generations able to move into commodity agriculture without significant capital behind them.

Along with one of my younger brothers, I had full intentions of taking over this family farm. We both came back to the farm in 1984 after graduating from university. He had an undergraduate in agricultural mechanization, and I had a master's in agricultural economics. He took over the dairy end of the operation from my parents, who then focused on the cash crops. I worked part-time on the farm and had a full-time job as a credit manager with a major bank.

The timing of this job coincided with a farm financial crisis. Since my portfolio was largely farm-based, I saw first-hand the effects of debt beyond the repayment capacity of farmers. This experience was partially responsible for my decision to pursue a Ph.D., which was likely in the best interests of both me and my brother. As I will discuss later, the circumstances of this farm financial crisis of the 1980s are unlikely to play out today, but there are policy lessons to be learned.

I was fortunate to obtain a faculty position at the University of Guelph upon graduation from Cornell in 1989. A constant over my time at Guelph was teaching a fourth-year class of students in the food and agricultural business major, in the bachelor of commerce degree. There have been two trends in this major over time, reflecting the changing perceptions about agriculture in general, and farming in particular.

One is the increasing number of students from non-rural areas, who are attracted by the employment opportunities in the agrifood sector.

The second is the increasing share of students from farms who want to go back and take over the family farm. The number of students with a farm background who are enrolling has not changed due partially to the shrinking number of farmers, but more of that number want to return to the farm. I think this reflects the excitement about the long-term prospects for agriculture and the challenging skill set required to be a successful operator.

However, there are significant challenges facing the transition of a business that has become so capital-intensive. Family members, including my brother and two brothers-in-law, are now facing these challenges.

The committee has been asked to deliberate on three points with respect to debt: young farmers and intergenerational transfer; start-up farms operating 10 years or less; and the ability to expand farm operations. I will start with the latter, debt and the ability to expand.

Debt is incurred as a means to pay up front for investments deemed to be profitable for the operation, without having to use personal funds. The likelihood of borrowing increases with the annual returns to the farm business from the purchase of that asset, while demand for credit falls with increases in borrowing costs. Thus, the increase in debt level alone can be a sign of strength in the agricultural economy. It signifies the sector reinvesting in technology to increase its productivity and competitiveness. Financial institutions, such as Farm Credit Canada, are providing loans based on a similar assessment on the value of purchases made through credit.

The debt levels alone are not a measure of financial stress. As noted by several other witnesses to the committee, asset values have increased at a faster rate than liabilities, resulting in an increase in equity to the sector. In addition, arrears on loans at FCC at least are at low levels, suggesting no major concern at the current time about the repayment ability for the majority of operations.

This could change with production, market, and policy risks, as outlined by Dr. Ker. There will be continued downward pressure on agricultural returns in the short run, I believe, but the long-term prospects are bright.

● (1115)

I would concur with Dr. Ker that the biggest risk on repayment capacity is associated with an unexpected and dramatic change in policy. The farm financial crisis was arguably brought about by such a policy change. Negative real interest rates had become the norm in the 1970s. Inflation was greater than the nominal interest rate. The U.S. Federal Reserve's attempt to reduce inflation through a dramatic cut in the money supply resulted in record high rates in the space of a short period of time. For example, the Bank of Canada prime rate nearly doubled in 1982 to nearly 22% in less than a year. We were charging 2.5% to 3.5% above that for operating lines to customers who were so-so.

The rise in interest expense, in combination with lower commodity prices, pushed many farms into farm bankruptcy. There were 550 in 1984, for example, whereas the average annual number has been approximately one-tenth that over the last several years. One of the lessons from the farm financial crisis that I observed as a lender is the importance of distinguishing between social policy and farm policy. In the 1980s, the two were interlinked. For example, interest rate reduction policies for all did little to help the farmers really struggling financially and arguably slowed the adjustment within the sector. Farm policy should ensure a competitive sector that is efficient and able to weather the inevitable storms. In contrast, social policy should help the disadvantaged. There were many distressed farm families during this crisis and there were some very important and effective efforts to provide counselling to aid farmers in that difficult transition away from the farm. Hopefully, there is no need for such policies in the future, but if there is, the distinction between farm and social policy is important.

Another lesson from the farm financial crisis was the need for the farm sector to distinguish between the owner and the operator. It used to be that the farmer felt it necessary to own all assets necessary to operate the farm. Purchasing, rather than leasing, puts the farm at greater financial risk. One of the major discussion points in the 1980s was how the sector could attract outside equity. The growing farmland rental market provided by non-farmers is an example of the provision of outside equity that reduces the financial risk to the farm business. This type of market can also help new farmers enter into the sector.

Regarding debt and young farmers, while debt levels are not acting to constrain existing farm operations, I would argue that access to sufficient credit can serve as a barrier to some entrants, but it depends on the type of new farmer. Christie Young of FarmStart, who will be a witness to the committee next week, has identified four types of new entrants: first, young people moving into an existing family operation; second, young people seeking entry into a niche market; third, the middle-aged looking for a second, supplemental career; and fourth, new Canadians. I think the distinction is important. Each of these groups has differing interests and needs. For example, the first group tends to have issues with intergenerational transfer; the middle groups, with obtaining equity; and the latter, the new Canadians, with understanding institutions to produce and serve a growing ethnocultural market. It is not equity that is an issue for them. I'm assuming Christie will discuss the latter three groups and I will focus on the traditional new entrants.

For new entrants looking to transition into a family farm operation, the issue is asset levels, rather than debt per se. The asset value of most commercial farm operations is in the millions of dollars. The financial worth complicates the means of transferring the operation, as a single unit, to the next generation. The transfer needs to balance the desires and financial requirements of the retiring parents, the new entrant or entrants, and other family members. At the extremes, the farm debt could be passed on free to the new farmer with no debt and no compensation to the parents or siblings, or the new entrant could have to pay the full market value of the farm and incur significant debt. The financial viability of the operation revolves around how the farm is gifted to the next generation and subsequent debt levels. Thus, it is the market value of the farm assets and how it is transferred that influences the financial success of the operation, rather than debt levels directly.

While the growing net worth of farmers has enhanced their financial well-being, it has also complicated the intergenerational transfer of their operations.

● (1120)

It was simple for my grandfather. The farm went to the oldest son, who was not my father, and it left my parents with no choice except to move to Canada if they wanted to farm. They were able to do so because—

The Chair: Sorry. The 10 minutes are done. Please quickly conclude.

Prof. Alfons Weersink: Sorry, it's just the last few sentences.

They were able to farm because asset values were significantly less, and the returns were generated through their labour, rather than through capital. It is much more complicated for my brother and brothers-in-law. Successful transfers in a capital-intensive sector involve clear communication between all parties. Policies that aid the conversation would be more beneficial to the majority of operations than direct financial assistance.

Thanks for the opportunity to speak, and I'd be happy to discuss the issues further with you.

The Chair: Thank you, Mr. Weersink.

Mr. Bonnett, you have up to 10 minutes.

Mr. Ron Bonnett (President, Canadian Federation of Agriculture): Thanks to the chairman and committee members for inviting me to present.

Before I get into comments, Alfons was sitting on the banker side of the desk in the 1980s. I was on the other side of that desk, and I think it gave me a real understanding of how policy changes could impact the farm. The figures are embedded in my head: we had an $85,000 loan, we expanded the farm from 1985 on. It was supposed to be a five-year term, at one point, I was making the $1,600 a month payment, and the principal was going up $400 a month. Things like that make you think about what the impact is of debt, interest, and repayment abilities. The situation in the 1980s isn't the same as it is now, but I think there are some lessons to learn from the policy side during the 1980s that have some importance today.

As has been said earlier, rising farm debt in itself isn't necessarily a problem. Producers' demand for credit tends to increase with asset values, and it can provide an important source of proactive investment in productivity, risk mitigation, and to capture emerging opportunities. Meanwhile, the availability of credit in the sector speaks to increased financial health and low interest rates. As we have seen in the recent ambitious growth targets set by the Barton report and the most recent federal budget, there is optimism in Canadian agriculture and its future potential.

In fact, one area we believe needs to be looked at more closely is the influx in capital toward assets like farmland that this optimism has generated. While relatively modest to date, we need to take steps to ensure that farmers maintain control of strategic assets like farmland, and that when farmers invest in their operations they are building long-term equity. Nonetheless, we need to look beyond relatively high debt-to-asset ratios when examining farm financial health. These ratios provide insight into the current state of farm solvency, but years of double-digit increases in farmland values—particularly in places where farmland value increases have outpaced farm income—illustrate why they can be a bit deceptive when looking at overall financial health.

Producers managing debt first have to monitor their cash flow and its sensitivity to interest rates. With increased input costs, generating enough operating capital can be a real challenge. This is particularly true for young farmers or those looking to expand. The advance payments program provides critical assistance in this regard, but increasing farm sizes and rising costs require that the advance limits be increased and indexed to inflation to keep pace. In addition, beginning farmers should have access to greater interest-free advance limits to help them address the unique operating capital constraints involved in getting a business up and running. Producers also need to understand how debt affects profitability. Understanding your return on assets is critical to making informed decisions about debt or future investments. Ultimately, a key measure of debt servicing capacity is farm income.

The historic highs we've seen in commodity markets are declining, leading to a dramatic reduction of farm income in the United States. So far, Canadian farm incomes have avoided the brunt of these declines due to favourable exchange rates. With prices declining and asset value growth beginning to moderate alongside ever-present weather and market volatility, investments in productivity and innovation are critical for long-term growth.

With a global population exceeding nine billion estimated for 2050, Canadian agriculture faces a unique opportunity to define itself as a global leader in sustainable production. Capitalizing on this opportunity will require considerable investment on the part of Canadian farmers and will, for most, unavoidably involve taking on more debt to do so. Effective business management skills are essential to ensuring that this is the case. CFA continues to work with Farm Management Canada to promote a comprehensive, strategic approach to risk management, but believe more must be done by industry and governments to promote business management skills in the sector.

Despite the wealth of opportunities we see for the industry, agriculture continues to face a unique range of risks that in many instances are increasing in their frequency and extremity, while climate change and changing dynamics in the industry continue to pose new risks. Some of these can be managed and adapted to through strategies or new technologies, but others undoubtedly extend beyond the capacity of on-farm management.

● (1125)

Investing in increased productivity, sustainability, and farm business growth requires access to business risk management tools capable of navigating risks beyond their control. Canada's current risk management programs have been around for 10 years now with the basic structure of some dating back multiple decades prior to the emergence of these risks and the investments needed to address them. At this point, we believe it's critical that government and industry step back and do a more fundamental review of whether these programs are effectively contributing to the management of risks that producers face today.

The investments made by current businesses are essential to the growth and continued development of the sector. However, young farmers and new entrants are critical to the long-term success of Canadian agriculture. Young farmers provide new ideas, skills, and energy to the sector that are going to be instrumental in demonstrating Canada's global leadership in sustainable agriculture. The young farmers I meet continue to amaze me with the level of education and business acumen they bring to the table. Not only do they introduce innovative approaches, they are also more likely to invest in growth and expand their operations. Yet they must now contend with record farmland values and increased debt loads associated with today's larger, more capital-intensive farms, making transitioning the farm more challenging than it ever has been before. The steep costs associated with taking over a farm are among the primary challenges for young farmers and new entrants when trying to get started in the business.

Estimates suggest that up to $50 billion in farm assets will be transferred over the next decade. Just using a rough estimate with a debt-to-asset ratio of around 16% and approximately $100 billion in total Canadian farm debt, $8 billion in debt needs to be dealt with in these transfers. We believe effective succession planning is paramount. Developing a plan that ensures the financial viability of both parties requires getting started years in advance, maintaining communication, and bringing expertise to help. However, Canada's Income Tax Act has not kept pace with changes in the sector, such as increased incorporation, larger multi-family farming operations, and reduced gifting of farms from one generation to the next due at least in part to the increases in farm debt. To ensure sustainability of family farms, the provisions of the Income Tax Act originally designed to assist with family farm transfers must be reviewed and amended to ensure they still remain accessible to today's farmers.

Finally, the increased capital tied up in farming operations means access to capital poses a critical hurdle for many new entrants who lack the credit histories or capital available to purchase or launch an operation. At the same time, young farmers looking to take over the farm are increasingly expected to pay more for operations than ever before and the associated farm debts that have in some instances accumulated across generations. Farm Credit Canada offers support to young producers, as do some private lenders, but current programs do not fully satisfy the need. We strongly support FCC's offerings in this area and encourage continued exploration of how it can expand its scope in this area. With the next policy framework approaching, the CFA also encourages governments at all levels to develop and adopt multiple flexible programs in order to ensure they offer assistance that is relevant to a range of situations confronting new entrants. In addition to new capital, new entrants also require assistance in accessing land and knowledge in order to launch their new endeavours.

In conclusion, Canada's rise in farm debt reflects an industry that's seen record prices and incomes alongside historically low interest rates. The sector is primed for further growth, but we cannot assume the same favourable conditions. To position the sector for continued success, we have the following recommendations.

One, we recommend better collect data on outside ownership of agricultural land to inform potential policy responses.

Two, we recommend increasing advance limits to assist with operating capital constraints, particularly for young farmers.

Three, we recommend having industry and government further promote business management skills development.

Four, we recommend taking a look at whether BRM programs meet modern risk management needs required to facilitate investments in future growth.

Five, we recommend updating provisions of the Income Tax Act designed to assist with family farm transfers to ensure they remain conducive to family farm transfers.

Six, we recommend ensuring there's access to a wide range of programs providing new entrants and young farmers with access to capital, land, and knowledge.

Thank you again. I'm looking forward to your questions.

● (1130)

The Chair: Thank you, Mr. Bonnett. You are right on the money at 10 minutes.

We shall start our question round. To lead us off is Mr. Shipley, for six minutes.

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

First of all, Alan, is there a difference in the concern of levels of debt between non-supply and supply-managed groups?

Prof. Alan Ker: Would I be concerned about the levels of debt between the two groups? Is that what you're asking?

Mr. Bev Shipley: No. On those levels of debt, sometimes there may be more in supply management, but not necessarily always. Do you see a change in concern about the level of debt that is held by those in supply management, as opposed to those in non-supply, and the ability to repay?

Prof. Alan Ker: Yes, certainly supply management.... About a year ago I met with a gentleman at the TD Bank working in the ag loans there, and there certainly is a greater appetite to lend to supply-managed producers, for sure. That's obvious because there's a lot more security there, a lot more certainty there. I'm not sure about the numbers, but I would expect that debt could be higher with supply-managed farms. But I wouldn't see that as a problem because you have a more secure income, and so I would expect to see that.

Mr. Bev Shipley: As it relates around cash flow....

Prof. Alan Ker: Yes. So, I'd certainly expect to see that, and I wouldn't see that as concerning at all. That's the market saying that this is a less risky cash flow, and so we're willing to lend more to that sector.

● (1135)

Mr. Bev Shipley: Ron mentioned in his comments...and I was also a part of that what you might call crisis. It was quite an education and management experience in the eighties, and so I go back to that. We're talking now about 2% and 3% interest. We were talking then about 17% on a mortgage maybe, 20%, 21%, 22% on an operating...depending. The numbers are totally different. In terms of interest rates, what would actually be a tipping point for the commodity organizations and the farmers, to put a number of them into a financial crisis?

Mr. Ron Bonnett: I could take the first crack at it. I think it depends on your commodity, how sensitive you would be. Some of the supply management commodities that have a fixed cash flow, I think, might be able to respond a little more. The other commodities are subject to shocks to the market. You mentioned that in your presentation. I was in the U.S. last week, and when that “pull out of NAFTA” announcement came out, corn prices fell 2% almost immediately. Those shocks to the marketplace would affect the ability and how much the interest could go.... But a gut feeling is it wouldn't be in the range of interest increases that we felt in the 1980s. Even a doubling of interest rates right now would be pretty critical to a number of operations, but it would depend on the commodity.

Mr. Bev Shipley: If it went up a couple of points...?

Mr. Ron Bonnett: Yes.

Prof. Alan Ker: It would be just like any business. Ag's really no different.

Mr. Bev Shipley: One of the things we find is that succession planning is actually a lot more than making a will. One of the things we talked about earlier with some of the witnesses is ownership. There's something about farming—and I think in any business—that you want to own. But in real life, when you look at the farmers I'm familiar with around our area particularly, you see there's a great combination of a land base maybe that they've owned. But to lease or to have separate agreements on how to run someone else's land, how is that looked at in terms of the ability...? That isn't really what we want to do. We want to be able to own the land. I think all of us likely know of others who started off with no ownership, but had an agreement with a farmer. This is a point I've noticed happening. We have farmers who want to retire. They may or may not have family who want to be a part of it. They have a great asset level. They may carry some debt. But they also have a passion for this incredible industry that we have, and they are looking to have someone come alongside who they would be able to mentor, and then have a buy-in, some sort of an arrangement...to take over and operate a farm.

What kind of a policy would you see being best looked at to help encourage that? I think there's a lot more of it than we think. In my case we had three children. None of them decided to farm. I'm still considered a farmer. I think that's why the age limit is 55 and over. What kind of a policy would we put in? I think it's really an advantageous thing to look at.

Ron.

Mr. Ron Bonnett: There are a couple of things.

One is that we've been asking budget and finance to take a look at the tax on transition and make sure that the corporate structures are treated in a manner that is equivalent to some of the transfer provisions that were there before.

The other thing there's been a bit of discussion about—and it goes to your talk about the retiring farmer—is looking at tax policy to see if there's a way, if that person holds back a substantial mortgage, that possibly some of the income from that mortgage would have a preferred tax status. Instead of having to charge a high rate of interest because he knows he's going to have to pay a high rate of tax on it, they could actually provide those assets at a lower rate of interest.

This is where we're taking a look at this whole issue of succession planning. It's not one tool that's going to fix it. I think it's going to be a number of tools that are going to fix it. It also goes back to the business planning aspect of taking a look at how to manage those assets.

The other thing that comes into this discussion is off-farm investment.

● (1140)

The Chair: Thank you, Mr. Bonnett, I'm going to have to cut you off. Sorry about that.

We now have Mr. Longfield for six minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Mr. Bonnett, I'd like to continue with your sentence.

This is a good discussion we're having. If you could finish it off, that would be great.

Mr. Ron Bonnett: Just finishing off on that, there are the individual transfers.

The other thing we see emerging is investment farmers taking and putting capital in place, buying farmland, and leasing it back. It could be a tool to help young farmers who don't have equity get into it. This issue was raised in the States when we were talking to them down there last week. It's making sure there's the ability at some point for that young farmer to then buy out that shared position. Having that investment capital there might be good, but if they just leave it frozen for the lifetime of that farm, that takes away the incentive to try to bring it back.

I'll turn it over to some of the other guests.

Mr. Lloyd Longfield: I'll pull it back if that's okay with you, folks.

It's great to have all of you here. I just came back from the States last night with the industry committee, and agriculture is one of our key industries. We're looking at expanding exports to $75 billion by 2025. It's going to take a lot of financial management in order to do that, as well as technology management.

There's a balance between investing in, say, buying a 300-horsepower tractor with no technology or a couple of 100-horsepower tractors with GPS and all of that attached. The assets are going to be a lot more expensive. They may be smaller assets physically, but they're a lot more expensive.

When we talk about investing and farm debt, the land value is one thing and the investment in technology is another thing, which may start approaching the levels of land values.

It's great to have the University of Guelph in the room. Thank you.

Has the University of Guelph looked at technology investment climbing, or the ratio between hard assets and land assets climbing in the next few years?

Prof. Alfons Weersink: I don't believe so, but I think that's a good distinction.

Part of the reason for the increase in land values is the future growth and what it's going to be worth five years, 10 years, and 25 years from now. Technology doesn't have that. Arguably, it can decay very rapidly. It depends. It might be obsolete in a short period of time, especially given the rate of technological innovation. The innovation we're seeing now in agriculture, with big data and the digitalization of agriculture, could lead to real rapid innovations in technology and the consequence that the technology might be obsolete in a short period of time.

Mr. Lloyd Longfield: Possibly the grain suppliers or the other suppliers of inputs could be taking some of those costs, to help with partnering.

Prof. Alfons Weersink: Definitely.

That's one of the things we've seen a lot of in the agricultural sector, in terms of the machinery or the services that are provided by others, particularly input suppliers on the crop side.

Mr. Lloyd Longfield: So there could be some policy development around partnerships between farmers and input suppliers, and maybe some accelerated capital cost allowances that could help with technology investment.

Prof. Alan Ker: For sure.

Technology has had a big effect on those rising land values. Technology is allowing that fixed land to be a lot more productive. And it is. It's become a lot more productive. They feed off each other. They move with each other. You wouldn't see the value of technology and the value of the land moving apart in the long term.

Mr. Lloyd Longfield: The pressure on the farmer to be a financial and technology expert as well as an agriculture expert, which is where the whole thing started, becomes an issue.

When we look at creating super clusters to try to help support the farmers—and hopefully the University of Guelph will play a key role there to try to share or pool knowledge—have you seen anything around young farmers sharing information across provinces or between Canada and other countries? Is that something that we can help with?

Mr. Ron Bonnett: I know the Canadian Young Farmers' Forum is fairly active in sharing information. The other thing is that you have to realize that the young generation of farmers live with technology. They grew up with the technology. They're exchanging information by computers back and forth.

The discussion about high investments in technology is balanced with making sure we have really good business skills to understand, if you're investing in technology, what those investments are going to offset. It could be labour, efficiency of applying crop input things, or even making some of the environmental sustainability demands of society. It's your farm management skills, looking at that new technology, and recognizing that in some cases making that type of investment will actually make you more profitable in the long term if you can save in some of those other areas.

● (1145)

Mr. Lloyd Longfield: The other side is that cash is king, and you mentioned cash flow. I started a business in the eighties and we bought a house in the eighties. We went through those ups and downs. We didn't know where interest rates were going to go. We didn't want to overextend on investing in hardware.

We only have 20 seconds, so I'm just going to take that time to thank you for your input. I hope, as we look at this cluster going forward, we can continue to rely on your expertise around the table.

The Chair: Thank you, Mr. Longfield.

[*Translation*]

Ms. Brosseau, you have six minutes.

[*English*]

Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP): I'd like to thank the witnesses for their presentations and the exchanges this morning. I want to concentrate on young farmers.

A few months ago, we had a great private member's bill that was put forward in the House by my colleague from Rimouski. It built on previous bills in the House of Commons to help facilitate the transfer of family farms. There was support from coast to coast to coast. So many groups came out to support this bill, including municipalities, farmers, and business owners. It would have facilitated the transfer of a fishing or farm business to somebody in the family. Right now, if you want to sell, it is sometimes more profitable to sell your business to somebody on the outside, a stranger, than it is to sell to your children. Sadly, the bill didn't even get to committee for further study, which was really disappointing.

I was wondering if we could have comments on the importance of making changes to the Income Tax Act to facilitate the transfer of farms. In one of the last meetings we had, the importance was raised of making that bill better, building on it, including selling it to not just your daughter or your son but to other family members.

Could I get comments on the importance of legislation changes that could be made here at the federal government to facilitate the transfer?

Mr. Ron Bonnett: It's no surprise we supported the bill. We were surprised when it didn't go through. Members from all parties, in one way or the other over periods of time, have tried to approach this issue and recognize that the current Income Tax Act was designed a number of years ago, and it doesn't recognize some of the structural changes there are in businesses moving forward.

We would support the committee trying to take even a broader look, as you're suggesting. What are the issues around succession planning, and what type of tax policy do we need to facilitate that? I don't think we can get into a detailed discussion here, because when you start getting into financial and tax policy you can get into the weeds really quickly.

I think there are a number of core principles. One is facilitating the transfer from one generation to another, whether it's from one generation that's a family or another generation that's not a family, recognizing that sometimes corporate structures have to be put in place to make it work, but also recognizing, as I said earlier, that you have retiring farmers and asking if there is a way that tax policy can encourage them to transfer that farm. I think it includes the items that were in the bill you talked about.

However, the whole issue of succession planning and transferring that to another generation is worthy of discussion, to take a look at what kinds of recommendations can be made to government on how to address that. Again, going back to those export targets that were in the budget, we're going to have to make sure that we have a bunch of young farmers who have the ability to go after those targets.

Prof. Alfons Weersink: The only thing I would add is that the tax policy will change the absolute amounts. If you can facilitate the means of how we're going to split that amount, that's a difficult part. As Ron has mentioned, the tax laws involve the dollar. The tough part is actually how we are going to split the absolute amount.

● (1150)

Prof. Alan Ker: That's difficult. That's non-trivial. I would agree with that.

Ms. Ruth Ellen Brosseau: About how many farmers have a succession plan? In my constituency, a lot of the farmers are aging, and they're looking at retirement and transferring and selling. I guess the majority would have a succession plan, no?

Mr. Ron Bonnett: We've moved the mark a long way in the last few.... Actually, Alfons and I were at a farm management institute in Ontario together, and that's one of the items that was discussed then; how you increase the number of farms that are doing succession planning. I'm likely not a good example because I had this problem when I took the farm over from my father. It was a very difficult thing. He didn't seem to think he was getting older, but eventually he passed away, and there was no succession plan in place.

It's one of those things in which there's more understanding of a need to do it. Part of that is driven because of the size of the capital assets that are there. One of the things is trying to increase communication on the importance of doing it. There are a few players who would have a role in that. Universities and some of the curriculum encouraging.... It's usually getting the older generation to sit down and have the discussion. Some of the lending institutions, both banks and Farm Credit Canada, have a role to play in that, in ensuring that that type of work is being done, especially for people who are getting to the age when they're going to be looking at transferring that asset. It's not only to the next generation, their kids, it might be to somebody else as well.

Prof. Alan Ker: There are a lot of resources out there that the governments, both federal and provincial, have for this. It's more somewhat the utilization, as was mentioned.

The Chair: Thank you, Mr. Ker and Madame Brosseau.

Ms. Lockhart, you have six minutes.

Mrs. Alaina Lockhart (Fundy Royal, Lib.): Thank you, Mr. Chair, and thank you, each of you, for being here today. It's been very insightful.

In our second hour, we have some representatives from the credit unions. I wanted to talk about FCC—we had them as a witness before as well—the role of credit unions, and FCC versus commercial banking.

What is the advantage from your perspective, knowing some of the challenges that we have?

Prof. Alfons Weersink: I was in a commercial bank, and this commercial bank goes in and out of agriculture. I think that's the major difference. There are some operating lines versus long-term loans, but the major difference is that FCC's business is agriculture, and for the commercial banks, it depends on the time. Three or four years ago, they wanted it as much as anybody, and now not so much.

Mr. Ron Bonnett: I would agree with that. Farm credit has evolved. I can remember back in the day when I was starting out and borrowing from Farm Credit. The saying used to be that Farm Credit would give you a rowboat and one oar, so you were going in circles all the time.

They have evolved. I am extremely impressed with the types of programs they've put in place. Particularly, they're looking at the young farmer issue, but it is a combination of the banks, the credit unions, and Farm Credit. The banks in particular, as Alfons has said, have a tendency to follow the latest sweet spot. That creates some problems for farmers. I know I've changed banks I think five times since I started farming, mainly because of that. You're good for a while, and then, all of a sudden, orders would come up from down high that they didn't really look at agriculture as a favourable investment.

The other aspect of Farm Credit is that the depth of the organization is not just somebody looking at figures. They have agriculture people as part of Farm Credit today, which lends to their ability to analyze the investments that are being made and help provide advice for farmers going forward.

Mrs. Alaina Lockhart: Very good.

I thought your comments were very interesting. When we're talking about new entrants into farming, the issue isn't so much debt as it is asset levels and those requirements. One of the things that we've heard from the young farmers is that they're looking for alternatives because land seems to be one of the biggest assets that they need to invest in.

That brings us to the conversation of rental versus ownership and also offshore investment. Do you have any commentary on that, any path forward, any cautionary comments or perspective on that?

● (1155)

Prof. Alan Ker: I would certainly say that if the rental market weren't there, they wouldn't be able to get their feet in the door, so it's a good thing. I agree that we'd all like to own everything, but the rental market does allow a certain degree of flexibility in and out to weather some of the ups and downs, which young farmers need more than an established farmer does in dealing with risks and things.

A young farmer getting in through the rental market, I think, is a good thing, a good avenue to get into the farming business that perhaps wasn't there 40 years ago.

Mr. Ron Bonnett: The only thing I would add is that even on our own farm, we still rent about 30% of our land, which is good. It works out cheaper for us to rent it than to buy it, although you do come to a position in your farming operation where you realize that you have to own some of those assets just because of pressure from the neighbours who may take that rental land. That brings up another issue.

If you rent an apartment anywhere in this country, usually there are a bunch of rules and laws about the responsibilities of each party. Right now there are private contracts between the person who owns the land and the renter. Those can vary. One of the things with the young farmers entering into rental agreements is really making sure that there's some solid contract behind them so that everybody understands where they are. In many cases, it's difficult to get the owner to sign a contract. We've had property that we've rented for 10 years and all of a sudden—well, actually, we had property right across the road that we'd been pasturing for 25 years. New owners took it over last year and they came and said that they didn't like livestock on farmland, and they wanted to grow it up into trees. That property is gone, but that was one of the ones we had just a handshake agreement on for years. That demonstrates the importance of having a contract in place.

Mrs. Alaina Lockhart: So there are no regulations around rental agreements or anything like that?

Mr. Ron Bonnett: No.

Mrs. Alaina Lockhart: Would that be provincial or federal?

Mr. Ron Bonnett: It would be mostly provincial, I would think.

Prof. Alfons Weersink: Just to interject on that, we've done some work. You had Brady Deaton in here about a month ago, and he's done some work looking at land rents and land values. The vast majority of land rental contracts are simple handshake agreements, and I think that reflects a trust within the farming community, in that if you as a farmer, as a tenant, do something unfavourable on that land, the reputation is going to be lost if you haven't paid, so you're going to have trouble finding land. I think that reflects those informal institutions in the rural areas.

Mr. Ron Bonnett: I think in this case it was only operating the weed sprayer across the road last year.

Mrs. Alaina Lockhart: Thank you very much.

The Chair: Thank you, Ms. Lockhart. Unfortunately that's about the time we have. I can concur with my friends that I am also responsible for keeping that average up and I also lived through those 16% to 18% interest rates. It makes you a better person, or a tougher person, but we lived through them.

Thank you so much to the panel for being here. You've been very informative, and I'm sure it will help us when we do our report.

We shall break for a few minutes to change panels.

● (1155)

(Pause)

● (1205)

The Chair: We'll get the second part of our morning going with our new panel. I want to welcome all of you here today. We're studying debt in agriculture.

From the Canadian Credit Union Association, we have Mr. Robert Martin. Welcome, Mr. Martin.

We also have, with the Libro Credit Union, Mr. Frank Kennes. Welcome Mr. Kennes. Mr. Kennes is vice-president, agriculture and commercial.

With the Canadian Pork Council, we have Mr. Hans Kristensen, board of directors, and Mr. Gary Stordy, whom we have seen before. Welcome to both of you.

We'll start with a 10-minute introduction.

Mr. Martin, would you lead the way?

Mr. Robert Martin (Deputy Director of Policy, Canadian Credit Union Association): Thank you. Good afternoon everyone. The Canadian Credit Union Association welcomes the opportunity to brief the committee in relation to agricultural debt and its effects on Canadian agriculture. I am the deputy director of policy at CCUA. We are the national trade association for about 281 credit unions. These are credit unions that are outside of Quebec.

With me today is Frank Kennes. He is the vice-president for agriculture and commercial services at Libro Credit Union in southwestern Ontario, around London. Frank will give you a practitioner's perspective on farm debt and its impacts.

As some of you may know, credit unions are financial co-operatives that offer retail banking services to their member owners. Credit unions are 100% Canadian owned and are competitors to the big banks. We serve over 5.6 million Canadians outside of Quebec.

Collectively, credit unions employ more than 27,000 people and manage over $202 billion in member assets. In terms of market share, credit unions hold about 6.3% of domestic assets in the financial sector held by deposit-taking institutions, but we have over 11% market share in the small and medium-sized enterprise market.

As some of you may know, credit unions are the mainstay of many rural communities outside of Quebec. In many cases, credit unions that now provide services to rural communities were established by the initial investments of farming families that felt poorly served by institutions headquartered, as we know, in Toronto.

From modest beginnings, credit unions have grown, and now have about an 11% agricultural market share, outside of Quebec. In Manitoba, it is much higher. We have a 26% market share. In Saskatchewan, we have 18%, and in Ontario, where Frank is from, it's 9% and growing quite rapidly.

As co-ops, credit unions exist to serve their member owners. In an agricultural context, that means we are committed partners to Canadian agriculture, and we weather the ups and downs of the sector, along with producers. In downturns, we do not readily pull up stakes and look for returns elsewhere. Rather, credit unions share the economic fate of the communities they serve. In fact, there are now 380 communities in rural and remote Canada where a credit union is the only bricks and mortar financial institution around.

While agriculture is a cyclical sector with its ups and downs, we nevertheless view the future of Canadian agriculture with some tempered optimism. Canada has a diversified farming economy that has a strong international reputation for producing sustainable, high-quality, and safe agricultural products. We see expanding international markets for our agricultural products. As many parts of the world become more affluent, their purchasing power increases and they look for Canadian products.

That said, we recognize that farm debt has been increasing at a steady rate and has more than doubled since 2000. At the end of 2015, outstanding farm debt sat at $92 billion. This rate of increase and that large headline number have attracted attention and concern among some observers.

While we are not dismissive of these concerns, we believe that lenders and policy-makers should look beyond the headline farm debt numbers at other farm financial ratios when assessing the health of a farm or considering the sector as a whole. When we look at these other ratios, the financial health of the sector is less concerning.

First, from a liquidity standpoint, Canadian farms are in a good position to handle their short-term debt obligations. For example, at the end of 2015, farm operations in Canada had a liquidity ratio of 2.38%. That is roughly equal to the average of this ratio for the last 15 years, so it's not out of line. This ratio is useful because it compares the value of current assets, which are cash, accounts receivable, and inventory, with current liabilities, which are debt and accounts payable. A ratio lower than 1 signals that the farm doesn't have the short-term assets to cover short-term obligations, and of course, that means trouble.

Another perspective we look at is the debt-to-asset ratio. We see a similar situation, with this ratio at 15.5% at the end of 2015. This is well below the 15-year average of 16.7%. The debt-to-asset ratio indicates whether a farm would have the assets to cover all of its liabilities if those assets were liquidated. A low ratio indicates that the operation can meet its financial obligations. Admittedly, steady land value appreciation has played a role in keeping this ratio below its 15-year average.

Farms have also enjoyed a healthy return on assets. At the end of 2015, the Canadian farm return-on-assets ratio sat at 2.3%, just slightly below the 15-year average of 2.6%.

● (1210)

The appreciation of farmland has also been at work here with the increased land prices putting downward pressure on profitability.

To sum up, while it's important for farmers, lenders, and policy-makers to watch headline farm debt numbers, it's also important to look at other ratios that contextualize this debt. When we do this, the farm debt number is less concerning.

With that, I would like to turn it over to Frank to provide you with his perspective as a long-term agricultural lender at Libro Credit Union.

Mr. Frank Kennes (Vice-President, Agriculture and Commercial, Libro Credit Union): Thanks, Rob.

As mentioned, I'm the vice-president of agricultural and commercial services at Libro Credit Union. We're based in southwestern Ontario, serving our owners west of the GTA to Essex County and from Lake Huron to Lake Erie.

Libro has the largest credit union agricultural portfolio in Canada. Many of our founding member owners in the 1940s and 1950s were farmers, and agriculture remains a crucial part of our credit union today, as it has over the past 70 years.

We provide state-of-the-art financial services to primary producers and agribusiness in every major commodity group. Our commitment to agriculture has been unwavering throughout our history, when times were good, as they have been for the past few years, and when times were bad, such as the high-interest-rate days of the 1980s.

While we have some concerns when we look at the future of farming, we are excited about the future of agriculture and food processing in southwestern Ontario and across Canada. As Rob noted, the population of the world continues to grow and the increased disposable income in countries like India and China grow the demand for quality Canadian-grown food. Canada, with land, water, research, technology, and, most important, some of the world's most talented farmers, will have the opportunity to play a leading role in meeting the increased demand for quality Canadian food. In short, the demand side of agriculture in Canada looks very positive.

There are, however, concerns that all involved in agriculture must be cognizant of. Over the past 10 years the price of farmland has increased dramatically across the country, particularly in southwestern Ontario. It now sells in some areas for more than $20,000 per acre, so a 50-acre farm sells for more than $1 million. While this has positively increased the value of farm assets, it has also significantly increased farm debt in many cases.

Increased production, decent commodity prices, and low interest rates have resulted in some of the most prosperous years ever experienced by Canadian farmers, but we all expect interest rates to increase someday, and with much larger debt loads farmers need to be prepared to have the income to pay higher interest rates. A 2% increase in rates means an extra $20,000 in annual interest on a $1-million debt, a significant impact on cash flow.

The impact of rising rates will depend on how high they go and also the speed at which they climb. A slow and steady climb in interest rates toward their historic norms would allow farmers time to adjust and to moderate the impact of the rate increases. Of course, rapid rate increases would be difficult to manage. Although we do not see rapid rises in the near term, we at Libro encourage and coach our farm owners to manage their debt wisely, to pay down debt as quickly as possible when profits are strong, and to lock in today's low interest rates for as long a period as possible. Of course, other credit unions do this also.

Predicting the future is impossible but we do know there will always be good times and not-so-good times, but I can predict with certainty that Libro will always stand with its farmers during lean times and in times of plenty.

One last area of concern I wish to address is farm succession. While increasing numbers of young people want to return home to take over the family farm, the current high value of farmland and farm equipment and other farm assets makes it difficult for them to ever save the money for a down payment large enough to be able to purchase a farm operation if they are required to pay today's market rate for the assets to be purchased.

We acknowledge some of the work that Farm Credit Canada does to support young farmers with their young farmer loans. These loans fill gaps in the marketplace and enable young farmers to enter the market and grow. However, high asset prices, the retirement of older farmers, and young talented farmers struggling to get a toehold in the industry are still a fearsome challenge for the sector.

I don't have an answer to solve this problem today, but all of us, government and the private sector, need to work together to come up with workable solutions that will enable our bright young farmers of the future to realize their farming dreams.

I appreciate this opportunity to speak to you today. The future of agriculture is bright. Working together, we as stakeholders can make it even brighter.

We look forward to any of your questions. Thank you.

● (1215)

The Chair: Pork Council, I don't know if you want to split your time or not. You have up to 10 minutes. Thank you.

Mr. Hans Kristensen (Member, Board of Directors, Canadian Pork Council): Mr. Chair, good morning. My name is Hans Kristensen. I am a pork producer from New Brunswick and the Maritime representative of the Canadian Pork Council's board of directors.

I would first like to thank the members of the House of Commons Standing Committee on Agriculture and Agri-Food for the invitation to appear before you again this morning, this time to discuss debt and its effects in the agriculture sector. I always welcome the opportunity to talk about our industry. It's getting me to stop talking that's the difficult part.

Canada's pork industry produces more than 25 million animals a year. It creates 31,000 farm jobs, which in turn, contribute to 103,000 direct and indirect jobs across the country. Those jobs generate $23.8 billion when farms, inputs, processing, and pork exports are factored in. In 2016, as an industry, we exported over one million tonnes of pork and pork products, valued at over $3.2 billion, to 90 countries. This was a new record for our country. The pork sector relies on exports. In fact, more than two-thirds of the hogs produced in Canada are exported as either live hogs or pork products.

Over the past decade, due to the hard work of the entire industry, we have expanded to become the third-largest exporter of pork products in the world. This expansion not only supports hog farmers but also provides thousands of jobs in rural and urban communities, and supports businesses throughout the country.

As a producer, I am well aware that the sector has yet to maximize its potential and there are real, tangible opportunities to continue to sustainably grow its contribution to our economy. The recently concluded Canada-European Union Comprehensive Economic and Trade Agreement and Prime Minister Trudeau's intervention to reopen the Argentinian market are but two examples of emerging opportunities. These, coupled with a sustained global increase in protein consumption, mean that the hog sector is well positioned to play its part in growing the Canadian economy.

However, interruptions in market access affect producers. Hog prices decline when there is a threat to an important export market. This results in producers needing to extend their credit until market conditions return.

Hedging is a tool that can offset an unexpected decline in the market price. While currently producers have access to hedging on the futures market, there are barriers to their doing so. Initiatives to remove these barriers are key to making hedging a useful and used business risk management tool for our sector.

The pork industry takes every step to insulate itself from the effects of market disruptions by opening new markets. Depending on the product, if one shuts down, we want to ensure the industry has the flexibility to move the product to a replacement market on a short-term basis. This flexibility helped when Russia decided to place restrictions on the importation of pork. Overnight a $500-million market was gone. While this was challenging, the industry did manage the situation. However, this flexibility at that level does not exist should Canadian pork become uncompetitive in a high-value market like Japan, since currently Canada and Japan do not have a trade deal.

The Canadian Pork Council supports government in its work to ensure the pork industry operates on a level field to compete effectively in the global market. Opening or maintaining market access is never easy; however, it is only half of the battle. The meat industry is the most highly regulated component of the agrifood sector in this country, and every export shipment must be certified individually by the Canadian Food Inspection Agency.

● (1220)

Our industry is a large user of CFIA services and CPC fully supports the Canadian Meat Council's submission in the phase one consultation on cost recovery by the CFIA. CPC supports an updating of CFIA's cost recovery policy and accepts that some fees will rise over time. However, our industry has a growing concern with the ability of the CFIA and other departments to provide an adequate level of service to maintain existing markets or fully develop and benefit from new export market opportunities. The federal government could improve the trading climate and competitiveness of Canadian pork by strengthening the technical support and quickly solving the issues disrupting the normal flow of trade.

Our industry has to offer a final product that is competitively priced. It must also be extremely efficient in how that product flows through the value chain from producer to final customer, no matter where in the world that customer may be. Feed costs, the Canadian dollar, hog prices, and global economic issues beyond our control affect the competitiveness of the hog sector. Canadian hog producers are accustomed to managing the normal fluctuation of hog prices. The peaks, where prices were higher than the industry average, are not as high and do not last as long as many of our producers would like to see. The lows, unfortunately, can last longer than anyone wishes to talk about.

Producers have also been adapting, using every avenue at their disposal to remain competitive. That is why producers are concerned about a tax placed on carbon and the anticipated increase in cost to production. As price-takers, additional operating costs will not be recovered from our customers. Our success as an industry is due in part to market access and being competitive in our domestic and international markets. This may be hindered when competing directly with countries that are not implementing a carbon tax system.

While we do export 70% of our products, we have to keep in mind that we compete domestically as well with imported products.

The Canadian pork sector has reached a point where, if it is to continue to grow, it must effect a significant level of investment in both infrastructure and people. Attracting this investment will require governments to continue to partner with producers in addressing the risks that limit progress.

The period from 2005 to 2010 was economically a very difficult one for our industry. Memories of the hurt are still fresh, especially within the financial community. Attracting capital is a challenge in our industry, to say the least. Recent disease outbreaks in Canada and other countries have reminded financial investors of the risks associated with animal health.

Recently, producers have benefited from a relatively stable price over the past few years due to the PED virus that interrupted pork production in the U.S., and a rising demand for meat. But our members have told us that the increased revenue was mainly used to service pre-existing debt, to pay for increased cost of biosecurity protocols, and to adjust to other fluctuating costs.

We know that we need to work in the most efficient system possible and that this will involve the regulatory environment in which we operate. We can no longer afford to be catching up to our competitors. We need to be ahead with the most effective, streamlined, and cost-effective regulatory environment possible. This means having access to the best veterinary products available on a timely basis, ensuring grains are developed and grown for livestock-feeding purposes, and ensuring that government polices do not disadvantage livestock production. Governments have to be committed to providing the most competitive environment possible for production to succeed.

The best management tool is a strong market, and producers would prefer to rely on the market for a return on their investment. However, there are times when the market does not work this way. The current business risk management suite is essentially a three-legged stool on AgriStability, AgriInsurance, and AgriInvest. These three programs work in concert to support individual producer actions to manage market risk. Unfortunately for hog producers, two of the three legs provide little, if any, support. One of those is AgriInvest, which has not been of high value to our sector. The second is AgriInsurance. While this is not a novel program, and has, after all, seen decades of success with crops, it is not available to the livestock sector. Losses of productive assets in the hog sector are not adequately covered, putting the sector at risk and compounding when production losses are coupled with market losses.

The repercussion of several years of difficulty in the hog sector is the availability of credit. Federal programs such as the advance payments program will help, but will not help the construction or improvement of buildings. Government can help producers become more efficient by partnering with producers to invest in the construction of new and efficient barns and on-farm upgrades. High-performance facilities can improve animal performance, reduce environmental footprints, and decrease the impact of seasonal variabilities through unit design, construction, control, and monitoring.

● (1225)

A modified Canadian Agricultural Loans Act, CALA, program would be extremely helpful in this regard. The program is designed to increase the availability of loans to farmers and can be a mechanism to further strengthen the hog industry. However, the program's utility is limited and, as a result, has not been extremely useful to our producers. The current limitations to loans are constricting and are not reflective of current farm business practices and sizes. An updated CALA program should reflect commercial farm sizes and more complex farm structures.

Once again, thank you for the opportunity to appear before you today and speak on this important subject. I would be happy to answer any questions on behalf of our producers.

The Chair: Thank you, Mr. Kristensen, and to our panel.

We shall start our questioning round now. We have Mr. Anderson for six minutes.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you to our witnesses today.

Mr. Kristensen, I just want to ask you to follow up on one thing. You talked about hedging and we recognize that as a tool that can be used to protect against debt and financial instability. You suggested that initiatives to remove these barriers are key. What are you suggesting needs to be removed? Also, why don't you tell us a bit about where we can make some recommendations in that area?

Mr. Hans Kristensen: Hedging is a very useful tool for producers. Unfortunately, unless there's a program in place to help us offset the cost, it comes with the risk of rising prices for producers in the ensuing cash calls that can be had on the market. Therefore, we can be in a position where we would hedge 75% of our production, yet prices continue to appreciate. Then we get a cash call from a broker that again, puts us in a working capital crunch, so any type of program that would help us ensure that we offset the cost of that margining would be beneficial.

Mr. David Anderson: Are you talking about some sort of loan program or are you talking about taxpayers taking on producers' debt? What are you suggesting?

Mr. Hans Kristensen: We're talking about some type of hedging insurance program that would help offset the need of that protection against rising market prices.

Mr. David Anderson: I'm from Saskatchewan, so obviously credit unions are very important. It's the one institution that's actually stayed in a lot of our rural communities.

I took a look this morning at some of the numbers on farms. For gross farm receipts of $500,000 plus, there's only 11% of the farmers who are in that situation. That's growing a bit, but 68% of gross farm receipts come out of that 11% or 12% of producers. I've been on this committee a number of times and I think the percentages probably haven't changed. We used to say that 30% of farmers are viable full-time commercial operations, 30% are people who are working part time and trying to get to that point where they're sustainable, and then 30% are hobby farmers or people who are expecting to work full time and farm. I think it's probably stayed pretty close to those averages.

That leaves me wondering, do we need different approaches for different economic levels in the way that we're dealing with farm debt? We're going to be making some recommendations. Do you have any ideas on that or should we just be treating people who want to get into farming as if everyone deserves to farm and they all should be treated the same? Is that realistic?

Mr. Frank Kennes: No. I know that it's a big challenge in our area. I was trying to think of an example. Mr. Shipley, my MP, knows the area that I come from. It's the town of Parkhill and Ailsa Craig. I grew up on a farm there and it's about a 10-mile stretch between the two towns. When I grew up in the 1960s, there was a family farm almost every 100 acres, so every farm was maybe 100 or 200 acres. I was counting up this morning how many main farm operations there are on that 10-mile stretch and it was hard to come up with five, so it's changed a lot. The commercial farmer has become very large in Ontario. Certainly, it's not when compared to Saskatchewan, in terms of the number of acres, but the average farm in Ontario is probably 500 or 600 acres of land, whereas 30 years ago, it was maybe 100 acres, so things have changed a lot. With $20,000 an acre—that's the top end, but even at $15,000 an acre—that's millions of dollars of value in farmland right now.

For someone who wants to start up a small farm, it's impossible. I really don't know how they can do it. Therefore, that is a big challenge that's being faced by all of us, but in the end, there are really two types of farmers. There's a commercial large farmer and a small hobby-type farmer, where one or both of the partners work off the farm in jobs to make ends meet.

● (1230)

Mr. David Anderson: How do you approach the smaller folks who come and they have a niche market that they may be able to fill? How do you measure risk when you're lending to people like that?

Mr. Frank Kennes: We try to take everything into account, so the income that can be earned by doing the niche farm operation and their off-farm income to see if, between everything, we can make a go of it. We look at all the different avenues possible to try to help someone get into farming, but it's really difficult for people. Especially for those who don't have a family behind them to help them get started, it's almost impossible.

Mr. David Anderson: Can I just change direction a bit here?

Exchange rates have changed. Six months ago we wouldn't have expected to see what we're seeing right now. We're starting to hear some extreme suggestions of where we might end up. I'm wondering if you have your prophet's hat on and can give us an idea of where we might end up. When should we start getting concerned about exchange rates, or is it still so simple that if we export, we're doing well, and if we're importing, we're not going to do well at this, but it doesn't really matter? I'm interested in your perspective on that.

Mr. Frank Kennes: I've seen both sides of the coin. When our dollar is very high and the commodities that we sell become expensive, it's been very hard on a number of farm-related operations and just plain primary producers as well. When our dollar goes down, obviously many farmers benefit from that. We all have to be cognizant that those exchange rates change constantly, and we should not become dependent on a low Canadian dollar being what makes us profitable.

Mr. David Anderson: Are we headed to 65?

Mr. Frank Kennes: I have no idea. It's like predicting interest rates. We've talked about interest rates going up for the last five years, and that hasn't happened, so I'm not going to make predictions on those.

The Chair: Thank you.

[*Translation*]

Mr. Breton, you have six minutes.

Mr. Pierre Breton (Shefford, Lib.): Thank you, Mr. Chair.

I would like to thank the witnesses for being here today.

My first question is for Mr. Martin and Mr. Kennes.

How have farm loans changed at credit unions and in the organization over the past 10 years? Has there been an increase in the number of loans? Is the number of farm loans proportional to the number of commercial or other loans? What changes have there been with respect to farm loans?

[*English*]

Mr. Frank Kennes: There's been a tremendous increase in the number of farm loans that have been written over the last 10 years. Part of it is an increase in the value of assets. I would be remiss to say that 10 years ago a lot of our competitors in the banks weren't interested in agriculture, but over the last 10 years they have become very interested in agriculture again, so they're very open to making farm loans.

Perhaps this is an unparliamentary term, but I've used it a few times: agriculture has become very “sexy”. Food—especially eating healthy and growing good Canadian food—has become very popular, so in urban areas there's interest in food and growing things that wasn't there 10 years ago.

There's certainly been a much greater demand for our products. Returns to farmers have been very good as well, so there's been a great interest in lending to farmers, and farm debts have gone up for sure.

● (1235)

Mr. Robert Martin: I can just expand on that. Frank is speaking to the specificity of his credit union. In terms of the credit union sector as a whole, I would say the proportion of farm loans is going down, and that's for a variety of reasons.

Our main strength right now, where we're really growing our book of business, is in small and medium-sized enterprise lending. We're up around 11%, and we continue to grow. A lot of that may reflect the decline in the proportion of loans; it may be the larger farm size, which makes it difficult for some of the smaller credit unions to stay engaged; or it may be changing demographics. That said, we still have a core group of credit unions that are dedicated to agriculture, and they will be there for a long time.

[*Translation*]

Mr. Pierre Breton: Very good.

I have a question for Mr. Kristensen and Mr. Stordy.

As part of our agenda, we hope to increase agricultural exports to $75 billion by 2025. Earlier, you talked about the high volume of pork exports. Congratulations on that.

Are pork producers ready for this opening of the market? We know that we will probably need higher yields and have to be ready to respond to this international demand. We know that we have a high-quality product in Canada that is in demand. So that will also require investment and loans on the part of entrepreneurs and farmers.

Can you talk to me about the current opportunity that will be available for the next seven or eight years?

[*English*]

Mr. Hans Kristensen: While it's true we have emerging markets, and wonderful opportunities continue in Japan and China, we do need to invest in our industry. Our problem right now will be access to capital. Because of the economic troubles of our industry from 2005 to 2010, a lot of our producers had to borrow more money, were very highly leveraged, and it was a very difficult time for our industry.

Subsequently, we've gone through a relatively stable period. We've done quite well financially. We've expanded our markets. With those increased revenues we've paid down our debts and now our lending institutions are comfortable once again, but they remember 2005 and 2010. When I go to them and say I want to double my production base to take advantage of emerging markets, I still find lending institutions nervous toward the hog industry. I understand where they're coming from because of 2005 and 2010 but it's a different world today. Canada is very well poised to supply protein on a world stage.

In my opinion as a producer, one of my single biggest challenges right now is lender confidence in my industry and attracting that capital. That is a significant challenge to us. Anything the federal government can do in the form of loan guarantee programs to help us access capital, raising the limits on the CALA program, for example, to reflect the size of our industry today, would be hugely beneficial. Making sure that any type of programs have the flexibility to allow our financial institutions in times of cash flow issues to convert a loan to interest only without putting the federal guarantees at risk would be hugely beneficial.

If you can get us a free trade deal with Japan, I'll take that too.

The Chair: Thank you, Mr. Kristensen.

[*Translation*]

Thank you, Mr. Breton.

Ms. Brosseau, you have six minutes.

[*English*]

Ms. Ruth Ellen Brosseau: Thank you, Chair.

I'd like to thank the witnesses for their presentations.

Mr. Kristensen, in your presentation you talked about the business risk management suite. Those are the tools that are supposed to be useful for farmers. You were talking about many of the problems and how they're not very useful for your industry.

AgriInvest has no value. AgriInsurance is not available for livestock. Then you talked about the need for renovation in the construction of new brands. Can you maybe talk about more changes that need to be made to the CALA program?

● (1240)

Mr. Hans Kristensen: When it comes to the CALA program, one of the biggest disadvantages we have is the limitations on the amount of borrowing. So an individual producer today can only access that program, I believe, to the tune of $500,000. We operate in a very capital intensive industry. Unlike a lot of other agricultural operations, we are not land based. So the vast majority of the value of our assets is not in land. It's in buildings and equipment that deteriorate, that need to be replaced about every 20 to 25 years.

We're in an industry that needs to reinvest heavily in capital. The cost of a hog operation today is well into seven figures. So while a $500,000 loan guarantee is beneficial, it's not reflective of the size of the operations that we have today. So seeing those limits increased would have a huge impact on our industry.

As far as the existing other three stools: AgriInvest, AgriStability, and AgriInsurance, again AgriInsurance doesn't cover livestock. AgriInvest, while we use it, again is of limited value to us. Since we've changed it from an 85% trigger level to a 70% trigger level, AgriStability is useful as catastrophic relief but it doesn't help manage short-term issues in the marketplace.

Ms. Ruth Ellen Brosseau: I bring up this often when we're talking on the subject of farm debt. More recently in the House we had a private member's bill that would facilitate the transfer of family farms because right now if you want to sell your business, your family farm, to your son or daughter, it is more advantageous, more profitable, if you sell it to somebody from outside the family.

There have been other comments at committees saying maybe we have to look at enlarging the definition of family member. Could you comment on the importance of amending and changing the Income Tax Act to make it easier to transfer your family farm?

Mr. Hans Kristensen: Anything we can do that allows a farm to transition from one generation to the next and stay within the family is beneficial to our industry. As our farm families shrink, as indeed families in general shrink in this country, we need to expand the definition of family to include other relatives other than direct descendants. We also need to make sure that the access to capital is there.

Unfortunately in our industry sometimes, farms transition outside the family simply because the second generation does not have the ability to raise the capital to purchase the operations. The only asset the outgoing generation has is the equity value of that farm, so they can't afford to pass it on without realizing on that equity.

Anything we can do in this context to increase the definition and the breadth of family members who can be transitioned to and programs they can use to help access capital would be hugely beneficial.

Ms. Ruth Ellen Brosseau: Mr. Kennes or Mr. Martin, do you want to comment on succession planning?

Mr. Frank Kennes: On my flight from London today, I sat beside a young man who runs a computer business. We got talking about what we both do. I mentioned I was coming here today. One of the issues we were talking about was succession planning. It turns out this fellow is from Montreal but his wife comes from a farm family south of Montreal. The father and mother have a dairy farm operation where they milk 120 cows. They have six daughters, and one of the daughters wants to take over the farm.

He mentioned what a struggle it is within the family to figure out what to do. One thing we agreed on was that one of the last things this generation of farmers who are transitioning out want to talk about is succession planning. They would rather talk about what kinds of crops they're going to grow this year or how much milk their cow gives.

I think that's one of the big challenges, getting farm families to look at succession planning and talk about it early so that plans can be put in place at an early time, so that the transition will be easier. It's still going to be very difficult. I know life insurance companies are looking at helping with transition. I know we as a credit union are encouraging our farm families, through seminars and webinars, to talk about the issue, to consult their accountants and lawyers, to find ways of transitioning to the next generation.

I think it behooves all of us to bring it top of mind to farm families, have them plan early and come up with some workable solution. That being said, it's a daunting challenge that all of us need to work on.

● (1245)

[*Translation*]

Ms. Ruth Ellen Brosseau: Thank you.

That is all.

The Chair: Thank you, Ms. Brosseau.

[*English*]

Ms. Lockhart, you have six minutes.

Mrs. Alaina Lockhart: Welcome to all of you.

Mr. Kristensen, being from Fundy Royal, from New Brunswick, I have some specific questions for you. You said in your testimony that government can help producers become more efficient by partnering with producers to invest in the construction of new and efficient barns and farm upgrades.

When you said that I thought of the $1.26 billion in the past budget that's been allocated for the strategic innovation fund. We don't know what that program looks like, but I'm very encouraged that it specifically talks about agriculture and agrifood.

Do you want to elaborate on that a bit, or on what your perspective is?

Mr. Hans Kristensen: I'm encouraged by that amount of money and that funding, as well. I know that the hog industry is very innovative. We're very quick to adapt new technologies. We're hoping to access part of those funds.

Our biggest challenge right now is that since 2005 there has been very little capital reinvestment in our industry. If you look at the industry, for example, from a processing and retail point of view, you see they reinvest capital at a rate of about 15% per year, which is normal. In the hog industry, because of the financial crisis we suffered from, especially in 2008-09, and not having the liquidity to do so, our reinvestment of capital since 2005 has been almost nil, around 4%, which is very little.

Now, we're in an industry that requires itself to be renewed and reinvested every 20 to 25 years, which means that we need to invest heavily in capital, in existing infrastructure to replace aging equipment today. We love the innovation program. We're adapting new technology. We'll access all the programs that we can.

However, we still have the issue of an industry where 75% of the bricks and mortar that support the economic contribution we make to the country need to be replaced within the next eight to 10 years. That's our single biggest challenge right now.

Mrs. Alaina Lockhart: Thank you for pointing out that clarification, because I did wonder how the pork industry differs from some of the other commodities that we have in our agriculture sector.

One other thing you talked about, too, and you just mentioned it briefly, was people. It's hard to draw people directly to debt. Could you talk to us about some of the challenges of the workforce and how that's impacting the ability to grow?

Mr. Hans Kristensen: Again, it goes to confidence in our industry. It's difficult to attract new entrants to our industry due to the historical instability, even though lately it has been very good. It's difficult to attract new entrants to our industry with, again, financial institutions being a little bit more nervous about our industry than they are about, say, the dairy industry. That's always been a challenge.

We need to attract younger producers. I am not an old hog producer; I should be, but I'm not. I'm actually probably just barely on the below side of average, which is difficult to believe. Anything we can do—the reinvestment of capital, the strengthening of our export markets, the continuation of profitable markets, a rebuilding of confidence within the lending institutions for our industry—those are what we need to have happen in order to attract new entrants and younger people. We need to look at it as an attractive career choice.

We often look at farming as a way of life, and it is, but it also needs to make economic sense. I'm very aware that any dollar that comes into our industry from the federal government is an investment and that the federal government is utilizing taxpayers' dollars. I always want to make sure that any dollar that is spent on our industry returns two or three to the provincial economy, and so does every young person investing in our industry. They need to know it's a good investment 10, 20, and 30 years down the road, so they don't choose another career path.

Mrs. Alaina Lockhart: Just while I have you here, from New Brunswick as well, what about processing facilities? Do you want to speak to that and the infrastructure that's required there?

Mr. Hans Kristensen: In relation to Atlantic Canada or in relation to the country as a whole?

● (1250)

Mrs. Alaina Lockhart: Well, speak about Atlantic Canada, if you could.

Mr. Hans Kristensen: I think there is a place in Atlantic Canada for, I'm going to say, small-scale processing facilities that serve a local market. I'll probably get shot for saying this when I get back home, but I don't think it's realistic that we would have a viable, federally inspected commercial processing facility with the livestock base that we have. We've managed to adapt our industry very well in Atlantic Canada. We're doing well. We're producing specialty products, mostly in partnership with processors in Quebec. We produce antibiotic-free pork, humane pork, and high-health pathogen-free pork, and it's worked out quite well. I think that Atlantic Canada has carved itself out a very innovative and adaptive niche market that we're settling into quite comfortably, the potential of which we are just starting to tap. We have markets we can't fill.

Mrs. Alaina Lockhart: I appreciate that. Thank you.

Now, on a broader basis across Canada, are there challenges with the processing as well? Is that an area where we need to be investing as well?

Mr. Gary Stordy (Public Relations Manager, Canadian Pork Council): Absolutely. We have seen some of our processing plants independently make investments on their own. It's usually with some of the manufacturing equipment to adapt to labour issues, which are ongoing. But for the most part, most of our processing plants are running slightly under capacity or substantially under capacity due to the lack of supply of hogs. That comes back to creating an environment where a new producer, whether young, middle-aged, or even old, wants to jump into the hog sector and start raising hogs. That is part of the challenge. We have a very modern industry. We talk about how we raise the animals, and the equipment necessary for that, some of the equipment to deal with labour shortage in a barn, such as automated feeders. So there's that. There's a substantial upfront cost to get in, regardless of size. You can be small or large, and there's still that upfront cost, and that is sometimes a barrier for people wanting to jump in.

The Chair: Thank you, Mr. Stordy. We're out of time.

We'll go to Mr. Peschisolido. I think we'll do two four-minute rounds, and I'll give Mr. Shipley one. With both being four minutes each, I think we're good.

Mr. Joe Peschisolido (Steveston—Richmond East, Lib.): Thank you, witnesses, for coming.

I'm going to follow up on Ms. Lockhart's points on the hog industry. Out in British Columbia there's no debt problem because there are no hog farmers. However back in the 1950s and 1960s it was, I would say, bigger than Manitoba. That's changed.

To Mr. Kristensen or Mr. Stordy, is there a possibility to restart not a local hog industry, because there are some processors, but mainly for export? I believe Mr. Kristensen mentioned expanding markets to Japan and to China. There's a huge interest in B.C. for hogs, particularly from the Chinese community, and the Asian community as well. Is there a possibility to restart a hog industry in B.C.?

Mr. Gary Stordy: Absolutely. I will point out that some of the obstacles are the availability of land and the cost.

When a hog barn is constructed or contemplated, there are several processing steps involved, to be more precise. Essentially, you have the land; you place the barn. What are you going to do with some of the by-products that naturally occur from the animal? There are manure treatment plants, so you do need a certain land mass in an area to deal with that, to be environmentally responsible with the product. That is one aspect.

I would suggest it is possible to restart an industry. The hog industry in Manitoba has been relatively stunted in further development because of policies. They are trying to move forward in Manitoba with the construction of new barns. That model is something that can happen in other parts of Canada, even in B.C., frankly, because you have a federally registered processing facility that does process a number of innovative products to ship overseas to China and Japan.

There is the potential there, but it's just creating that groundswell of interest, and then the atmosphere and the environment to further develop it.

Mr. Hans Kristensen: Another aspect of that, too, is sometimes just putting the right players together. There are investors in production and export facilities in B.C. who would benefit from partnerships with the hog producers in the prairie provinces that want to expand. Sometimes, too, it's just an innovative pairing of people, but I absolutely think that British Columbia can certainly get back into this industry, because a lot of our exports are going to the Pacific Rim. We have good investors in B.C. We have processing plants in B.C. There's no reason other than will and networking that we can't do that.

● (1255)

Mr. Joe Peschisolido: Perhaps we can speak off-line on this.

Mr. Hans Kristensen: Okay.

Mr. Joe Peschisolido: We talked about labour. That is an issue for debt, because if you don't have the workers, you have issues.

My buddy and I grew up together, and his father raised a family of four. He worked at Canada Packers in Toronto. He didn't kill them at the slaughterhouse, because he couldn't do that, but he cut them up.

Is the issue of attracting workers a financial compensation part, or is it a sexiness part? Because we do need folks at the slaughterhouses if we want to have a very viable livestock industry.

Mr. Gary Stordy: Certainly, both in the processing plant and even on farms, we have to have an environment that generates interest, whether it's attracting people from the rural community, or attracting people from urban communities to work within that atmosphere. That is one of the challenges. I will state that it's not an easy job in a processing plant or on a hog farm to attract someone, just a neighbour or whatnot. They have to have some type of connection—

The Chair: Thank you, Mr. Stordy. We'll have to move on.

Mr. Shipley, for up to four minutes.

Mr. Bev Shipley: Thank you.

It's good to see you again, Mr. Kennes. My first question is, as a financial institution, what can you do? I know you do things to encourage people into succession planning. That seems to be a huge issue. It's one of the largest issues that we're challenged with here, with the debt.

What can financial institutions do to encourage the beginning of succession planning?

Mr. Frank Kennes: We have annual reviews with all of our farmers. One of the topics on the agenda is always farm succession. We try to introduce it at an early time, talking about thinking about the plans. I mentioned life insurance earlier as one of the tools that some farmers use in order to finance that. To introduce the ideas of planning for this, we hold seminars where we have speakers from the industry—accountants especially, and lawyers who are experts in that whole area—to come out and talk about it. As I said, one of the biggest challenges is always that the farmers themselves are reluctant to talk about their own succession, but we do raise the issue all the time. I know other lenders like Farm Credit, and the other banks as well, are all raising it because we all see it as a major issue. We're going to keep doing that.

Mr. Bev Shipley: Mr. Kristensen, thank you for coming.

You mentioned two or three times the ability to attract new entrants into the industry, with the challenges. I think you and Mr. Stordy have talked about some of the reasons.

Why is that more of a challenge for that industry, which is in an open market, than it is for crop farming, for example, which is also in an open industry...very high innovation, very high tech, very capitalized? I just want to be clear on why it is so difficult to get new entrants into the hog industry than other free market ones?

Mr. Hans Kristensen: It's twofold. First, there is the perceived economic instability of our particular sector, especially if you're looking at it from an historical viewpoint. That's been a challenge. There's a difficulty in accepting what we call the new reality with export markets and a growing world protein consumption that's going to benefit our industry going forward. That's always been a challenge for us.

Second, the other issue we have in attracting new people to livestock is that we are under more and more pressure in the livestock industry from other special interest groups that are not in favour of livestock farming. There is public pressure there that can turn off new entrants.

Mr. Bev Shipley: You made a...and I'm asking if it's a recommendation, because it ties in with the first question I had about AgriInsurance, which you don't have. Is that a recommendation that you would like to see put forward, in terms of your comment that in the livestock sector that insurance is not available?

● (1300)

Mr. Hans Kristensen: Right now, we have AgriInsurance for crops. If there's a catastrophic event in a cropping scenario, the farmer has insurance to cover those production losses. We do not have that in the livestock sector. If we had production insurance the same way we have crop insurance, that would lend stability to our industry. In the case of a disease outbreak like PED, for example, that would help a farm deal with those losses. Production insurance would be very welcome.

Mr. Bev Shipley: You talked about the short-term health. You talked about AgriStability, for example, and we're going to get that. AgriInvest, is at 1.5%, and $15,000 is matched. Do you have some recommendations or thoughts on that?

Mr. Gary Stordy: We've had some discussion around the table on that. Some of our producers, a big group of them, would say that it's not worth applying for. It's basically one feed shipment that they would recover. On the flip side, there are perhaps some smaller producers or medium-sized producers who do take advantage of AgriInvest.

The Chair: Thank you, Mr. Stordy.

Thank you all, Mr. Martin, Mr. Kennes, Mr. Kristensen, and Mr. Stordy, for being here today. Have a good trip back.

Thank you to the members.

The meeting is adjourned.

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