

[Letterhead: UPA]

BRIEF PRESENTED BY THE

UNION DES PRODUCTEURS AGRICOLES (UPA)

TO THE STANDING COMMITTEE ON FINANCE

Pre-Budget Consultations for Budget 2018

Investing in agriculture to boost benefits

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1. Summary

The agricultural sector is a key driver of growth in the Canadian economy, being one of the primary sectors targeted in the last federal budget. However, investments will be needed to support development in this sector and to accelerate its pace. Quebec agriculture has the potential to grow 30% by 2025 if certain conditions are met, and the benefits of this investment far outweigh the cost.

In order to create 21,000 jobs in Quebec and generate \$1.8 billion in additional gross domestic product (GDP) and \$250 million in tax revenues, the federal government must make a commitment in Budget 2018, specifically in the following areas:

- Providing increased support to agricultural businesses in risk management;
- Supporting a component of the agriculture policy framework (APF) for the implementation of growth-generating and innovative projects through regional adaptation councils, by and for agricultural producers;
- Taking concrete action to address carbon pricing and to help companies adapt to climate change and societal expectations;
- Providing sustained fiscal and financial support for the next generation of farmers.

These measures are directly related to the objectives of productivity and competitiveness set out by the House of Commons Standing Committee on Finance.

2. Investing in agriculture to boost benefits

2.1 Greater growth than in the economy as a whole

Quebec's agri-food sector is growing faster than the provincial economy as a whole. Agri-food jobs increased by 14% between 2007 and 2015, while the increase was only 7% across all industries. The agri-food GDP grew by 28% over the same period, which was four times higher than the provincial average. Lastly, agri-food exports grew by 81% for a total of \$7.2 billion, compared to 19% for the Quebec economy overall.¹

2.2 Important benefits for the Canadian economy

In 2015, Quebec agriculture generated over \$1 billion in tax revenues, including \$432.3 million federally. When food processing is included as well, these benefits amount to \$4.63 billion, \$1.6 billion of which goes to the federal government. For each direct job, the agri-food industry creates 1.6 related jobs. Similarly, for every dollar generated by agri-food, about one dollar of GDP is generated in another economic sector.

¹ ÉcoRessources (2016). *Les retombées économiques de l'agriculture au Québec*, 26 pages [AVAILABLE IN FRENCH ONLY].

The federal government's net expenses for the Quebec agri-food sector were \$347 million² in 2015–16, while the resulting tax revenues are estimated at \$1,629.7 million for 2015.³ In other words, the federal government recovers \$4.70 for each dollar invested.⁴

2.3 Growth potential in line with Canada's ambitions

In 2016, ÉcoRessources⁵ conducted an assessment of the growth potential of various Quebec agricultural products by 2025 and the potential benefits. This growth would result in capital investments and increased operating expenses. Overall, a 30% increase in farm receipts is anticipated between 2016 and 2025, and the resulting benefits are presented in Table 1.

Table 1: Estimated benefits if Quebec's agricultural production increases by 30% by 2025

Benefits	Agriculture	Processing	Total
Jobs	+ 21,000	+ 38,000	+ 59,000
GDP	+ \$1.8 B	+ \$3.9 B	+ \$5.7 B
Tax receipts (annual)	+ \$250 M	+ \$1 B	+ \$1.25 B

The steps that need to be taken to achieve this growth have been identified. The UPA has outlined which ones should be priorities in the 2018 federal budget in the following sections.

3. The agricultural policy framework: a major lever

3.1 A solid safety net for promoting sustainable growth

Enterprise risk management (ERM) is the basis for growth in the agricultural sector. Businesses need programs that are effective and funded according to their needs, where the funding is predictable. Current program parameters do not adequately address these needs, which prevents the sector from growing as quickly as it could.

All stakeholders who participated in the consultations surrounding the adoption of the next APF agreed that these findings must be reflected in government policies and budgets.

To that end, the UPA is asking the federal government for:

- access to ERM programs tailored to producers' needs;
- increased funding for ERM programs, given that they leverage growth in the sector and generate economic spinoffs.

² Agriculture and Agri-Food Canada (2016). *Farm Income, Financial Conditions and Government Assistance Data Book, 2015*, 78 pages, p. 39.

³ ÉcoRessources (2016).

⁴ Amounts paid by Agriculture and Agri-Food Canada only.

⁵ ÉcoRessources (2017). *L'agriculture au Québec, un potentiel à exploiter*, 51 pages.

3.2 Participatory strategic initiatives focused on innovation and development

Having farmers participate in program administration is an important driver for innovation and development. Quebec would not have such a strong network of independent advisory services today if farmers with that vision had not had the support of a regional adaptation council with the means to support them.

Increased investment in research and development and increased efforts to develop markets for Canadian products must also be the focus of a concerted strategy for growth, productivity and competitiveness. The Organisation for Economic Co-operation and Development (OECD) pointed out in 2015 that “The overall [Canadian] policy environment for innovation to increase productivity and sustainability could be further improved.”⁶

Therefore, the UPA is asking the federal government to:

- steer funding for research, adaptation, innovation and transfer programs to non-profit organizations in direct contact with the agricultural community, such as regional adaptation councils;
- increase funding for research and knowledge transfer;
- give small businesses access to local and national market development assistance in the form of a refundable tax credit.

4. Supporting farmers as they adapt to a changing environment

4.1 Fair carbon pricing

Quebec has been proactive with carbon pricing by asking fuel distributors to buy emissions allowances on the market as of 2015. However, this situation puts Quebec farmers at a disadvantage because the other provinces that have carbon pricing measures in place generally have a mechanism to reduce or eliminate the impacts on the agriculture sector. The resulting inequality undermines Canadian agriculture as a whole.

Farmers are implementing strategies to reduce their carbon footprint.⁷ However, support is needed to mitigate the impacts of carbon pricing, particularly in a global competitive environment. Therefore, the UPA is calling on the federal government to:

- create a federal compensation program to ensure interprovincial equality;
- support the development and implementation of offset protocols adapted to the agricultural context;

⁶ OECD (2015). *Innovation, Agricultural Productivity and Sustainability in Canada*, 201 pages.

⁷ A growing number of sectors (dairy, grain, pork, maple, beef, etc.) conduct life-cycle analyses or evaluate their carbon footprint and then adopt an action plan to reduce their environmental impacts.

- enable approaches encouraging small businesses to participate in the carbon market, including farmers and forest producers.

4.2 Proactive steps related to climate change and societal expectations

Adequate protection against climate risks is one of the most important conditions to ensure sustained growth and benefits in the agriculture sector. Therefore, improving ERM programs is essential, and the government response to natural disasters must be consistent across the country. In recent years, several differences among the provinces have caused unfair competitive situations.

Responding to societal expectations often means changes in farmers' practices and specific investments. These expectations, which affect animal welfare, the use of inputs, and preserving resources and the environment, are taken seriously, even if meeting them entails significant investments, which are not always reimbursed by the markets.

The UPA is asking the federal government to:

- increase the amount of money spent on ERM, particularly in the area of climate change, and ensure that the programs put in place are applied consistently;
- to finance projects and tools to improve climate risk management for agricultural businesses;
- support the investments needed to adapt to societal expectations that significantly modify practices, such as animal welfare or agri-environment.

5. Agricultural sustainability depends on the next generation

5.1 Simpler process to transfer farms to the next generation

Amendments should be made to the provisions of the *Income Tax Act*. Section 84.1 makes it more expensive to transfer a farm to a family member than to an unrelated purchaser. By penalizing both the generation selling the farm and the generation purchasing it, these rules jeopardize the survival of family businesses.

Therefore, the UPA is asking the federal government to:

- exclude the transfer, under certain conditions, of a taxpayer's shares to his or her child or grandchild from the application of the anti-avoidance rule provided for in section 84.1 of the *Income Tax Act*.

5.2 Access to structuring patient capital for succession

Several tools are needed to effectively support the next generation of farmers as they work to achieve their goals. The main challenge for young farmers is how much capital is required. Land value has become a major issue in its own right when it comes to transferring land to the next generation. In 2016, the average value of land held was \$2.1 million⁸ per farm, or 68% of total assets.

The existing vendor-lender formula in Quebec can increase the profit the transferor receives from the transaction as a result of the the 40% provincial tax credit granted on interest paid to the transferor by the next generation.

Therefore, the UPA is asking the federal government to:

- ensure that ERM programs provide a sufficient safety net to provide the necessary funding for the next generation;
- reduce participation costs and increase government contributions to ERM programs during the first years of operation;
- provide a refundable tax credit of 40% of the interest paid by the next generation to the transferor under a vendor-lender agreement;
- create incentives so that financial institutions and public administrations offer patient capita to the next generation of farmers.

6. Conclusion

In conclusion, the OECD mentioned in 2015 that, in Canada:

Productivity growth, resulting from innovation and structural change, has driven production and income growth without significantly increasing pressure on resource use. The capacity to innovate is crucial for the [...] sector to take advantage of the growing and changing demand for food and agricultural products at the global level.⁹

The UPA has no doubt that, if the agriculture and agri-food industry is adequately supported, it will be a central pillar of Canada's economic growth in the coming years. Once implemented, the strategies presented in this document will enable agriculture to drive sustainable and innovative economic development, and will generate significant spinoffs as well.

⁸ UPA calculation. Statistics Canada (2017). *Table 002-0020 – Agricultural Balance Sheet, at December 31 and 004-0201 – Census of Agriculture, farms classified by total farm area*, CANSIM (database).

⁹ OECD (2015).