

L'Union des producteurs agricoles

BRIEF PRESENTED BY

THE UNION DES PRODUCTEURS AGRICOLES

TO THE STANDING COMMITTEE ON FINANCE

Budget 2019 Pre-budget consultations

Supporting agriculture to ensure a prosperous future

3 August 2018

1. Summary of recommendations

- **Recommendation 1:** That the government provide proportional increases to the budget of Agriculture and Agri-Food Canada, including the BRM envelope, that reflect the growth of the agricultural sector.
- **Recommendation 2:** That the government provide more support to agricultural businesses in business risk management programs (BRM).
- **Recommendation 3:** That the government provide access to BRM programs that are adapted to the needs of producers.
- **Recommendation 4:** That the government create a federal compensation program to reduce or eliminate the impacts of carbon pricing on the agricultural sector and ensure interprovincial equity.
- **Recommendation 5:** That the government support the development and implementation of offset protocols adapted to the agricultural context.
- **Recommendation 6:** That the government implement concrete measures with regard to the carbon tax and the capacity of businesses to adapt to climate change and societal expectations.
- **Recommendation 7:** That the government allow approaches that encourage small businesses, including farmers and forest producers, to participate in the carbon market.
- **Recommendation 8:** That the government allow agricultural companies that are shareholders in a group to have access to the small business deduction (SBD) on their sales made to that group, as is the case for sales made to an agricultural cooperative.
- **Recommendation 9:** That the government ensure the availability of the necessary funds to meet producers' needs during natural disasters and that the programs put in place are uniformly applied.
- **Recommendation 10:** That the government fund projects and tools for improving the management of climate risk for farm businesses.
- **Recommendation 11:** That the government support the necessary investments for adapting to societal expectations that significantly change practices, such as those related to animal welfare or agri-environment.
- **Recommendation 12:** That the government exclude from the application of the anti-avoidance rule in section 84.1 of the *Income Tax Act* the transfer, under certain conditions, of a taxpayer's shares to his or her child or grandchild.
- **Recommendation 13:** That the government ensure that BRM programs provide a sufficient safety net to allow the next generation to access the necessary funding.
- **Recommendation 14:** That the government reduce participation costs and provide a higher rate of government contribution to BRM programs in the early years of operation.
- **Recommendation 15:** That the government offer a refundable tax credit of 40% of the interest paid by the transferee to the transferor through a seller-lender agreement.
- **Recommendation 16:** That the government create incentives for financial institutions and government agencies to provide patient capital for next-generation farmers.

2. Supporting agriculture to ensure a prosperous future

2.1 Growth potential commensurate with Canada's ambitions

The agricultural sector is an important contributor to the growth of the Canadian economy, as evidenced by its inclusion among the priority sectors in a previous federal budget. However, government investments will be required to support the development of this sector and increase its rate of growth.

In 2016, ÉcoRessources¹ conducted an assessment of the growth potential of various types of Quebec agricultural production by 2025, and the benefits that could result from them.

The study showed that this growth would involve capital investments and increased operating expenditures. Overall, a 30% increase in farm receipts is projected between 2016 and 2025. The impacts are presented in Table 1.

Table 1 Estimated benefits of 30% growth in Quebec agricultural production by 2025

Benefits	Agriculture	Processing	Total
Jobs	+ 21 000	+ 38 000	+ 59 000
GDP (annual)	+ \$1.8 billion	+ \$3.9 billion	+ \$5.7 billion
Tax revenues (annual)	+ \$250 million	+ \$1 billion	+ \$1.25 billion

The necessary conditions for achieving this potential have been determined. Those prioritized by the Union des producteurs agricoles (UPA) in relation to the 2019 federal budget are presented in the following sections.

3. An effective safety net for sustainable growth

Business risk management (BRM) is the basis for growth in the agricultural sector. More than ever, the insecurity related to the current market environment (negotiation of the North American Free Trade Agreement, imposition of tariffs, etc.) justifies the need for BRM programs that address the risks faced by agricultural producers. However, the current program parameters do not adequately cover these risks, and are therefore preventing the sector from progressing as quickly as it could.

It should be noted that since the implementation of BRM programs under the first APF in 2007, and the last year of Growing Forward 2 (2017), program payments have decreased by 40%. Over that same period, farm cash receipts have increased by more than 60%.

¹ ÉCORESSOURCES, *L'agriculture au Québec, un potentiel à exploiter*, 2017, 51 pages.

These observations, shared by all stakeholders during the consultations surrounding adoption of the next APF, must be reflected in government policies and budgets.

The UPA therefore asks the federal government:

- to provide access to BRM programs that are adapted to the needs of producers;
- to provide proportional increases to the budget of Agriculture and Agri-Food Canada, including the BRM envelope, that reflect the growth of the agricultural sector.

4. Support farmers in adapting to a changing environment

4.1 Fair carbon pricing

Quebec has shown leadership in carbon pricing by requiring fuel companies to acquire emission credits on the market as early as 2015. That situation is now hurting Quebec farmers, because when carbon pricing is implemented in other provinces, there is generally a mechanism for reducing or eliminating the impacts on the agricultural sector. The resulting inequity compromises Quebec agriculture.

Farmers are developing strategies to reduce their carbon footprint.² However, they need help to mitigate the impacts of carbon pricing, particularly in a globally competitive environment.

The UPA therefore asks the federal government:

- to create a federal compensation program to ensure interprovincial equity;
- to support the development and implementation of offset protocols adapted to the agricultural context;
- to allow approaches that encourage small businesses, including farmers and forest producers, to participate in the carbon market.

4.2 Harmful impact of amendments to the *Income Tax Act* on shareholders of private companies that do not have the status of agricultural cooperatives

Some farm companies join forces to improve the marketing of their products by processing and distributing them together in order to deal with competition from the major players in the sector. These companies become shareholders in a company that is not an agricultural cooperative, but whose marketing activities are similar to those of a cooperative and whose shareholders face the same commercial realities as members of a cooperative.

The fact that agricultural companies in a group invest in the shares of the capital stock of a private company rather than in the shares of an agricultural cooperative should not affect the income taxes owed by these companies from the sale of their agricultural products to that group.

² A growing number of sectors (dairy, grain, hog, maple syrup, beef, etc.) are conducting life cycle analyses or evaluating their carbon footprint, and then creating action plans to reduce their environmental impacts.

Groups are not created as a way to increase access to the SBD. Agricultural companies that are shareholders in a group should have access to the SBD on their sales made to that group, as is the case for sales made to an agricultural cooperative.

The UPA therefore asks the federal government:

- to allow agricultural companies that are shareholders in a group to have access to the SBD on their sales made to that group, as is the case for sales made to an agricultural cooperative.

4.3 Proactive action related to climate change and societal expectations

One of the winning conditions for sustained growth in agriculture and its benefits is adequate protection against climate risks. It is therefore essential that BRM programs be improved, and that the government response to natural disasters be consistent across the country. In recent years, differences across provinces have created unfair competitive situations.

For farmers, meeting societal expectations often means changing their practices and making additional investments. These expectations, which affect animal welfare, the use of inputs and the conservation of resources and the environment, are taken seriously by agricultural producers, even if satisfying them requires significant investments. Markets rarely reimburse such investments, however.

The UPA therefore asks the federal government:

- to ensure the availability of the necessary funds to meet producers' needs during natural disasters and to ensure that the programs put in place are uniformly applied;
- to fund projects and tools for improving the management of climate risk for farm businesses;
- to support the necessary investments for adapting to societal expectations that significantly change practices, such as those related to animal welfare or agri-environment.

5. The sustainability of agriculture depends on the next generation

5.1 Facilitated intergenerational transfer

Changes to the provisions of the *Income Tax Act* are needed. Section 84.1 makes it more expensive to transfer a farm to a family member than to an unrelated buyer.

By over-penalizing succession transfers, these rules compromise the survival of family businesses.

The UPA therefore asks the federal government:

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

5.2 Access to patient capital that will lay the groundwork for the next generation

A number of tools are required to effectively support the next generation of farmers in carrying out their projects. The main challenge for young farmers is the cost of purchasing assets. The cost of land alone

has become a major issue when it comes to transferring to the next generation. In 2016, the average value of land held was \$2.1 million³ per farm, or 68% of total assets.

The seller-lender formula in Quebec can increase the transferor's profit from the transaction and facilitate the transfer through the 40% provincial tax credit on interest paid by the transferee.

The UPA therefore asks the federal government:

- to ensure that BRM programs provide a sufficient safety net to allow the next generation to access the necessary funding;
- to reduce participation costs and provide a higher rate of government contribution to BRM programs in the early years of operation;
- to offer a refundable tax credit of 40% of the interest paid by the transferee to the transferor through a seller-lender agreement;
- to create incentives for financial institutions and governments to provide patient capital for next-generation farmers.

³ UPA calculation. STATISTICS CANADA, Tables 002-0020—Balance Sheet of the Agricultural Sector, to December 31 and Census of Agriculture, Farms classified by total farm area, CANSIM (database), 2017.