BRIEF SUBMITTED BY
THE UNION DES PRODUCTEURS AGRICOLES

TO THE STANDING COMMITTEE ON FINANCE

Pre-budget consultations for Budget 2022

August 3, 2021

BRIEF

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1. Summary of recommendations

Recommendation 1: That the government increase the global budget for the agricultural sector and that this increase be commensurate with growth in farm cash receipts so that public investment in agriculture is consistent with this sector's size and strategic importance to the Canadian economy.

Recommendation 2: That the government maintain all existing business risk management (BRM) programs and enhance them so that they are better tailored to emerging risks.

Recommendation 3: That the government implement a new program, called Agri-green, to compensate farmers who meet certain environmental requirements or apply certain practices.

Recommendation 4: That the government provide a support program to help farm businesses make the necessary adjustments to deal with climate change.

Recommendation 5: That the government provide a stable and predictable budget for agronomic and agri-environmental research and innovation.

Recommendation 6: That the government provide permanent funding to review and maintain Canada's organic standards.

Recommendation 7: That the government provide a cost-sharing program for organic certification.

Recommendation 8: That the government promptly and fully implement the provisions of Bill C-208, which received Royal Assent on June 29, 2021.

Recommendation 9: That the government eliminate or limit taxable capital gain when certain farm assets are gifted or sold at low cost to a nephew or niece.

Recommendation 10: That the government provide farm businesses that generate gross annual revenues of $50,000 or less with a non-taxable, refundable investment tax credit equal to 30% of the acquisition cost to purchase farm equipment and machinery (new or used).

Recommendation 11: That the government increase, from $10 million to $20 million, the taxable capital threshold that limits access to the small business deduction (SBD) for farm corporations.

Recommendation 12: That the government provide full compensation to dairy farmers to mitigate market losses associated with the Canada-United States-Mexico Agreement (CUSMA).

Recommendation 13: That the government implement a supplementary compensation program to mitigate the negative impacts of the export restrictions imposed by the CUSMA.

Recommendation 14: That the federal government make no further concessions on supply-managed products in future trade negotiations.

The agri-food sector, comprised of agriculture and food processing, has shown great resilience over the past year, posting increased revenues and net incomes in the midst of a pandemic. For this reason, it is a key component of Canada's economic recovery.

In strictly economic terms, the agri-food sector creates one in eight jobs and over $140 billion in revenues. For the past three years, its exports have exceeded $65 billion annually. It is also important to note that the strength of this sector is essential to the prosperity of rural regions and the food security of Canadians.

Farm businesses are willing to do more, particularly with respect to agri-environmental initiatives. To achieve this, farmers need a strong, long-term commitment with significant investment from governments.

2. Ensuring the competitiveness of the Canadian agricultural sector

In Canada, public investment in agricultural development and support has been stagnant or declining for many years, and the country is falling further behind many other countries.

The most recent data published by the Organisation for Economic Co-operation and Development (OECD) indicate that the Canadian producer support estimate (PSE) was 9% of farmers' cash receipts in 2019, compared with 19% in the European Union, 18% in OECD countries and 12% in the United States.

BRM programs are needed more than ever. Farm businesses are increasingly exposed to a variety of emerging risks: the COVID-19 pandemic, trade wars between foreign countries affecting global agricultural markets, extreme weather events, etc. These events, which farmers cannot predict or control, require an array of BRM programs to deal with various situations.

In addition, society's expectations of the agricultural sector and farm businesses are increasing year after year, particularly in terms of environmental protection, the fight against climate change and animal welfare. To meet these expectations, Canadian farm businesses must make investments and assume additional costs despite falling revenues. In doing so, their debt level has almost doubled in the last 10 years.

In this regard, the Union des producteurs agricoles (UPA) asks the federal government to:

- ➔ increase the global budget for the agricultural sector and ensure that this increase is proportional to the growth of farm revenues so that public investment in agriculture is consistent with this sector's size and strategic importance in the Canadian economy; and
- ➔ maintain all existing BRM programs and enhance them so that they are better tailored to emerging risks.

3. Investing in agri-environment

3.1 Compensation and research

Farmers are agents of change in the field of agri-environment. Implementing additional agri-environmental practices and measures may help mitigate the major environmental challenges facing our societies, but most of these practices entail additional costs and risks for farm businesses that must be supported and shared. While not common in Canada, compensating farmers for the public goods they produce encourages the adoption of beneficial practices and provides additional income to farmers.

In this regard, the UPA asks the federal government to:

- ➔ implement a new program, called Agri-green, to compensate farmers who meet certain environmental requirements or who apply certain practices;
- ➔ provide a support program to help farm businesses make all the necessary adjustments to deal with climate change; and
- ➔ provide a stable and predictable budget for agronomic and agri-environmental research and innovation.

3.2. Organic production

Canada needs to provide competitive support to help promote the Canadian organic agricultural sector. For example:

- ➔ National organic standards must be reviewed every five years, but Canada does not have a program to support the review work, unlike the United States and the European Union, which already have such programs; and
- ➔ Canada could also increase the number of certified companies if it were to implement, like the Americans, a cost-sharing program for organic certification.

In this regard, the UPA asks the federal government to:

- ➔ provide permanent funding to review and maintain Canada's organic standards; and
- ➔ provide a cost-sharing program for organic certification.

4. Updating the tax system for farm and forestry businesses

4.1. Intra-family sale of farm business shares

The Department of Finance has announced that it will publish amendments to the rules of Bill C-208, adding measures to ensure the fairness of Canada's tax system.

These announced but unspecified measures create uncertainty. The government should follow the lead of the Quebec government, which has established seven criteria that must be met in order for a family transfer of shares to have the same tax benefits as a sale to a corporation owned by an unrelated person.

4.2 Transfer of farm assets to a nephew or niece

The *Income Tax Act* allows the transferor to limit taxable capital gains when transferring, at low cost, certain types of farm assets used in the business to a child. Today, many farm businesses are operated by more than one family. Nephews or nieces are taking over business without the same tax treatment that is available to children.

4.3. Separation of shareholders from the same family

Contrary to what is seen in other sectors, it is not uncommon for the division of assets between two co-owners who separate and continue their operations individually not to respect the proportions of shareholdings, because of different situations and legislation, including Quebec's *Act Respecting the Preservation of Agricultural Land and Agricultural Activities*. In the interest of fairness, one of the shareholders must then pay a consideration to the other. We believe that this consideration should not be taxable when it is reinvested in the business and farming activities continue.

Bill C-208 addresses this issue. In implementing this legislation, the government will need to ensure that the solution to the shareholder separation issue is fully maintained.

4.4 Investment tax credit for small farms

Statistics Canada data from 2016 show that over 44% of Canadian farms have gross annual revenues of less than $50,000. Among these businesses are tens of thousands of farms struggling to generate revenues so that they can invest to ensure their growth and profitability.

4.5. Accessibility of the SBD for farm corporations

With the significant increase in the cost of farm assets and the resulting debt required to purchase them, it is increasingly common for incorporated farms to exceed the $10 million taxable capital threshold. This limits their access to the SBD.

In this regard, the UPA asks the federal government to:

- ➔ promptly and fully implement the provisions of Bill C-208, which received Royal Assent on June 29, 2021;
- ➔ eliminate or limit the taxable capital gain on the gifting or sale of certain farm assets at low cost to a nephew or niece;
- ➔ grant farm businesses generating gross annual revenues of $50,000 or less a non-taxable, refundable investment tax credit for the purchase of farm equipment and machinery (new or used) equal to 30% of the acquisition cost; and
- ➔ increase from $10 million to $20 million the taxable capital threshold that limits access to the SBD for farm corporations.

5. Supporting the dairy sector through the CUSMA

Canada has made significant concessions for the dairy sector through the CUSMA:

- ➔ providing an additional 3.9% access to the dairy market;
- ➔ eliminating Class 7 dairy ingredients that allowed farmers to offer processors a competitive alternative to imported ingredients;
- ➔ capping exports of non-fat milk solids from its dairy industry and applying a surtax to exports exceeding that threshold; and
- ➔ allowing the United States to review any changes to the classification and prices of farmers' milk sold to Canadian processors.

Despite the government's numerous commitments and the agreement's implementation, farmers are still waiting for an announcement concerning compensation for market losses related to the CUSMA.

In this regard, the UPA asks the federal government to:

- ➔ provide full compensation to dairy farmers to mitigate market losses related to the CUSMA;
- ➔ implement a supplementary compensation program to mitigate the negative impact of the export restrictions imposed by the CUSMA; and
- ➔ not make any further concessions for supply-managed products in future trade negotiations.

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