BRIEF SUBMITTED BY

UNION DES PRODUCTEURS AGRICOLES

TO THE STANDING COMMITTEE ON FINANCE

Pre-Budget Consultations in Advance of the 2023 Budget

October 7, 2022

1. Summary of Recommendations

- **Recommendation 1:** That the government implement a special assistance program specific to the agricultural sector to mitigate the impact of inflation on the financial health of agricultural businesses.
- **Recommendation 2:** That the government expand the AgriStability program by increasing the coverage rate to 85% of the reference margin while maintaining the compensation rate at 80%, as recently announced by Agriculture and Agri-Food Canada (AAFC).
- **Recommendation 3:** That the government ensure a continuum of support and guidance over a 10-year horizon for compensation for environmental goods and services (EG&S) and the fight against climate change, both in terms of adaptation to climate change and reduction of greenhouse gas emissions (GHG).
- **Recommendation 4:** That the government provide a stable and predictable budget for agronomic and agri-environmental research and innovation.
- **Recommendation 5**: That the government provide ongoing funding for the review and upholding of Canada's organic standards.
- **Recommendation 6:** That the government provide an organic certification cost-share program.
- **Recommendation 7:** That the government implement a 30% refundable investment tax credit for the purchase of new or used equipment by farm businesses with gross annual revenues under $50,000.
- **Recommendation 8:** That the government eliminate or limit taxable capital gains on the gifting or low-cost sale of certain farm assets to a nephew or niece.
- **Recommendation 9:** That the government create an individual forestry savings and investment plan for Canadian forest owners.
- **Recommendation 10:** That the government honour its commitment, made in the last budget, to provide full compensation to dairy farmers to mitigate losses resulting from the Canada–U.S.–Mexico Agreement (CUSMA).
- **Recommendation 11:** That the Canadian government make no further concessions on supply-managed products in future trade negotiations.

In 2021, the agri-food sector employed 2.1 million people, accounting for one in nine jobs in Canada, and added nearly $135 billion (about 6.8%) to the country's gross domestic product. Moreover, Canada exported nearly $82.2 billion of agriculture and food products (including agricultural raw materials, fish and seafood, and processed foods). In fact, Canada is the fifth largest exporter of agri-food and seafood products in the world, exporting to over 200 countries in 2021.

2. Building a Resilient Agricultural Industry

Canada's agricultural sector has been disproportionately affected by inflation, particularly since the fall of 2021. Farm input prices increased by 20 percent between the first quarter of 2020 (the start of the pandemic) and the first quarter of 2022 (the latest available), according to Statistics Canada's Farm Input Price Index. In fact, three major production inputs—feed, fertilizer and fuel—saw much higher price increases than the consumer price index, with increases of 100%, 60%, and 50%, respectively. For horticultural production, the price of containers also rose significantly. In Eastern Canada, which relies more heavily on imported fertilizers, the punitive 35% tax imposed on Russian fertilizers has not only increased the cost of fertilizers but has also reduced their availability.

These increases represent nearly $2 billion in additional annual expenses for the Quebec agricultural industry. The Canadian industry, meanwhile, has seen $10 billion in additional expenses, with most of these increases occurring in the last year. This situation is unprecedented. Accordingly, this historic increase in input prices means an unprecedented need for liquidity for agricultural businesses, even for crops whose market conditions are more favourable.

We must also consider that established farm businesses are not the only ones affected. Because of their higher debt load, start-up and emerging businesses are being battered by the rising cost of production.

While the Bank of Canada's desire to curb inflation through interest rate increases is commendable, for the Canadian agricultural sector, this policy will merely replace one problem with another.

Over the past few years, agricultural businesses have had to make massive investments in order to comply with societal expectations regarding the environment and animal welfare. At the same time, the value of agricultural land has more than tripled over the last ten years in Canada. As a result, farm debt has doubled over this period. Each 1% increase in interest rates will ultimately result in approximately $1.2 billion in additional interest expense for Canadian farm businesses, representing approximately 25% of the sector's total net income in 2021. When you consider that the Bank of Canada's key interest rate has increased by 3% since the beginning of the year, you can imagine the enormous pressure that agricultural producers are facing.

Given this scenario and the central role of agriculture in food security, the government must act quickly to support the agricultural sector specifically and to limit this exceptional inflationary environment. In the short term, special assistance is needed to avoid a financial catastrophe for thousands of agricultural businesses. The assistance could be similar to the Canadian Emergency Business Account, which would combine liquidity support (the repayable portion) with assistance to support business profitability (the non-repayable portion). In addition, improvements to business risk-management programs, including the AgriStability program, beyond those announced for the next agricultural policy framework, are also needed to ensure the resilience of agricultural businesses over the longer term.

The UPA is asking:

- **To implement a special assistance program specific to the agricultural sector to limit the impact of inflation on the financial health of agricultural businesses.**
- **To expand the AgriStability program by increasing the coverage rate to 85% of the reference margin while keeping the compensation rate at 80%, as recently announced by AAFC.**

3. Investing in the Agri-Environment

3.1. Ongoing support and guidance

Quebec farmers are drivers of change in the agri-environmental field. Implementing additional agri-environmental practices and measures can help address the significant environmental challenges facing our societies. Most of these practices result in income losses, and additional costs for farm businesses and require an additional financial incentive to make such agri-environmental commitments in the face of climate change.

Compensation to agricultural producers for the EG&S they produce is not widely used in Canada, but it encourages the adoption of beneficial practices and the recognition of their positive contribution.

Several worthwhile initiatives have been established and should be continued such as the On-Farm Climate Action Fund, the Agricultural Climate Solutions Program (ACS) – Living Labs Program and the Resilient Agriculture Landscape Program.

However, additional public investment in agri-environment, comparable to that of their major international competitors, is needed. In the United States, direct support for agri-environmental initiatives through conservation programs accounts for approximately 1% of farm cash receipts and constitutes 25% of the support paid to U.S. farmers. To achieve equivalent agri-environmental support, an annual amount of $650 million would have to be provided to Canadian farm businesses.

The UPA is asking:

- **To ensure a continuum of support and guidance over a 10-year horizon for compensation for environmental goods and services (EG&S) and the fight against climate change, both in terms of adaptation to climate change and reduction of GHG emissions.**
- **To provide a stable and predictable budget for agronomic and agri-environmental research and innovation adapted to the needs of agricultural producers.**

3.2. Organic production

Canada must provide competitive support to develop 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 programs.
- Canada could also increase the number of certified companies if it established a cost-sharing program for organic certification, like the U.S.

The UPA is asking:

- **For permanent funding for reviewing and upholding Canada's organic standards**
- **For a cost-share program for organic certification**

4. Update the Tax System for Farming and Forestry Businesses

4.1. Small farm investment tax credit

Statistics Canada data for 2021 shows that 44% of Canadian farms have gross annual revenues of less than $50,000. These include tens of thousands of farms struggling to generate revenues to invest for growth and profitability.

The UPA is asking:

- **To implement a 30% refundable investment tax credit for the purchase of new or used equipment by farm businesses with gross annual revenues under $50,000.**

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 certain types of farm assets used in the business to a child at low cost. Today, however, many farms are operated by more than one family. Nephews or nieces are taking over the business without the same tax treatment afforded to children.

The UPA is asking:

- **To eliminate or limit the taxable capital gains on the gifting or low-cost sale of certain farm assets to a nephew or niece.**

4.3. Individual forestry savings and investment plan

The federal government should encourage private forest management through the creation of a personal forestry savings and investment plan such as the one proposed by the Canadian Forest Owners in these consultations.

The UPA is asking:

- **To create an individual forestry savings and investment plan for Canadian forest owners.**

5. Support the dairy industry under the CUSMA

It should be noted that Canada made significant concessions to the dairy industry as part of the CUSMA.

- Additional dairy market access of 3.9%.
- Elimination of the dairy ingredient class (Class 7) that allowed producers to offer processors a competitive alternative to imported ingredients.
- Capping exports of non-fat milk solids and applying a surtax to exports above that threshold.
- Subjecting any changes to the classification and sale prices of milk from producers to Canadian processors to U.S. scrutiny.

In the last budget, the government committed to announcing "full and fair" compensation in the fall 2022 economic update.

Despite these many commitments from the government and the agreement's implementation, producers are still waiting for an announcement regarding compensation for market losses related to the CUSMA.

The UPA is asking:

- **To honour its commitment in the last budget to provide full compensation to dairy farmers to mitigate the losses associated with the CUSMA.**
- **To make no further concessions on supply-managed products in future trade negotiation.**

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