

Minister
of Agriculture and
Agri-Food



Ministre
de l'Agriculture et de
l'Agroalimentaire

Ottawa, Canada K1A 0C5

Quote: 233841

OCT 17 2017

Mr. Patrice (Pat) Finnigan, MP
Chair
Standing Committee on Agriculture and Agri-Food
House of Commons
Ottawa ON K1A 0A6

Dear Mr. Finnigan:

Pursuant to House of Commons Standing Order 109, I am pleased to provide the Government's response to the recommendations of the Standing Committee on Agriculture and Agri-Food report entitled *Debt in the Agriculture Sector and its Effects*, presented in the House of Commons on June 19, 2017.

The Government thanks the members of the Standing Committee for their valuable study examining the issues, challenges, and opportunities facing the agriculture and agri-food sector with respect to debt in the sector. The Government also thanks the many witnesses, including representatives of federal departments and agencies, producer groups, industry associations, advocacy groups, academics and business representatives, who appeared before the Standing Committee. Their observations on current policy and programs, improvements that could be made regarding initiatives that promote business skills, and support to the next generation of farmers when starting up and transferring farms are both informative and insightful.

As you are aware, my mandate includes a commitment to implement a new multi-year agricultural policy framework to replace Growing Forward 2, which will expire on March 31, 2018. On July 21, 2017, ministers of agriculture reached agreement on the key elements of a new five-year, \$3-billion federal-provincial-territorial agricultural policy framework, the Canadian Agricultural Partnership, during the Annual Meeting of Federal, Provincial and Territorial Ministers of Agriculture held in St. John's, Newfoundland and Labrador. The Canadian Agricultural Partnership, which will come into effect on April 1, 2018, will strengthen the agriculture, agri-food, and agri-based products sector, ensuring continued innovation, growth, and prosperity. In addition, producers will continue to have access to a robust suite of business risk management programs.

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Youth engagement is a key priority for the Government of Canada. At all phases of the development of the Canadian Agricultural Partnership, I have actively engaged young and beginning farmers to better understand their unique challenges, and I am pleased to note that the Committee's report and its associated recommendations align with the elements of the new framework. The perspectives and views of Canada's young and beginning farmers will continue to influence the further development of federal, provincial, and territorial programming.

I have found it inspiring and insightful to hold consultations, roundtables, and Facebook Live events focused on youth in agriculture across the country. I am especially proud of the Government's investment of \$5.2 million in the Agricultural Youth Green Jobs Initiative, the doubling of the Farm Credit Canada Young Farmer Loan from \$500,000 to \$1 million, and the commitment to the Agriculture in the Classroom program.

While the challenges for new farmers are significant, Canadian agriculture offers many opportunities for success to those entering the sector. As highlighted in Budget 2017, the economic potential of the agriculture and agri-food sector is anticipated to be a driving force in the Canadian economy. The sector is forecast to continue to grow as the developing world's middle class expands and results in an increased global demand for Canadian agricultural products. While the sector is performing well and opportunities are emerging, the Government of Canada firmly believes that support of young farmers is critical to the renewal and future of Canada's agricultural sector.

The Government has conducted consultations on whether proposed tax changes involving private corporations could affect the transfer of farms to the next generation. As part of these consultations, the Government has been committed to hearing from stakeholders, including farmers, to determine whether, and how, it would be possible to better accommodate genuine intergenerational transfers while still protecting the integrity of the tax system. The Government's priority is to ensure tax fairness, while avoiding unintended consequences for our hard-working farmers. The Government remains committed to supporting farmers by maintaining the tax rollover on intergenerational transfers and the \$1 million lifetime capital gains exemption.

Please find enclosed a copy of the government response to the recommendations of the report.

Sincerely,



Lawrence MacAulay, PC, MP

Enclosure

GOVERNMENT RESPONSE TO THE REPORT OF THE STANDING COMMITTEE ON AGRICULTURE AND AGRI-FOOD ENTITLED: DEBT IN THE AGRICULTURE SECTOR AND ITS EFFECTS

The Government of Canada is pleased to respond to the Report of the Standing Committee on Agriculture and Agri-Food (the Committee) entitled: *Debt in the Agriculture Sector and its Effects* (the Report).

The Government commends the members of the Committee, and the witnesses who appeared before it, for their insight and commitment toward helping to understand debt in the agriculture sector and its effect. The Government supports the positive approach and the constructive thoughts and ideas put forth by the Committee. The Government of Canada agrees with the Committee's commitment to ensure that the next generation of farmers have sufficient business skills and financial support when starting up and transferring farms. Support for young and beginning farmers is critical to the renewal and future of Canada's agricultural sector.

Canadian farms—like businesses in all sectors—use loans as a tool to undertake investments that allow them to innovate and grow their operations. Canadian farms today are, overall, on solid financial footing. At the same time, many current baby boomer farmers are expected to retire over the next 10 to 15 years, and many will transfer their operations to the next generation. The Government of Canada has programs in place to assist in that process and help young and beginning farmers to establish themselves.

Agriculture and Agri-Food Canada (AAFC), together with its portfolio partners, other departments and its provincial and territorial counterparts, has policies and programs in place to help current farm operators manage production and price risks, support young and beginning farmers in establishing and growing their operations, and assist farm families with the transfer of farm operations to the next generation.

AAFC continues to ensure the perspective of young farmers is taken into account as the department develops policies and programs. In particular, AAFC is reaching out to young and beginning farmers as programs are developed for the next agricultural policy framework, the *Canadian Agricultural Partnership*. The Government of Canada is working with experts and stakeholders to identify and address issues and challenges and maximize the potential opportunities of the next generation of farmers. The Government of Canada is committed to helping young farmers assume their role in shaping the sector's future.

RECOMMENDATION 1

The Committee recommends that the Government introduce initiatives to further promote business skills.

The Government supports this recommendation and agrees with the Committee on the need to promote business skills and intends to continue its support towards enhancing skills development of young and beginning farmers.

Through AAFC's AgriCompetitiveness program, the federal government supports organizations that assist young farmers with gaining business and leadership skills. Since November 2015, the federal government has invested close to \$4 million in four organizations towards enhancing skills development of young and beginning farmers. These organizations include: Canadian Young Farmers Forum (\$500,000), 4-H Canada (\$2.5 million), Farm Management Canada (\$900,000), and Canada's Outstanding Young Farmers Program (\$65,000). These organizations facilitate the exchange of information among young innovative farmers in Canada, deliver programs and activities aimed at supporting entrepreneurs, assist young and beginning farmers in adopting business management practices and leadership skills, and provide a networking and mentorship environment toward building partnerships and collaboration.

Under Growing Forward 2 (GF2) cost-shared programming, provinces and territories (PTs) are given the flexibility to design and deliver programs that reflect their respective priorities. Programming includes support for the promotion of business skills, which include, but are not limited to:

- Business Management, Opportunities, and Skills Development;
- Business Knowledge and Strategic Adaptation;
- Business and Leadership Development;
- Developing Management Skills; and more.

GF2 business development programming focuses on supporting the development of business management skills, tools and practices to help agricultural businesses grow profits and market share, and to help meet their business goals. Programming also aims to: increase the adoption of best management practices and management capacity; develop innovative business solutions; enable market development strategies; and increase industry confidence to pursue new business/market opportunities.

Farm Credit Canada (FCC) offers all producers and agribusiness operators complimentary access to learning events where they can build management skills and experience hands-on training, including live events such as FCC Forums, Ag Outlook and Ag Knowledge Exchange events, and access online multimedia on FCC.ca, regarding topics that include managing farm finances, human resources and succession planning.

As a partner in the Government of Canada's Youth Employment Strategy (a horizontal initiative involving eleven federal departments and agencies), AAFC delivers the Career Focus Program and the Agricultural Youth Green Jobs Initiative to help young people, particularly those facing barriers to employment, get the information and gain the skills, work experience and abilities they need to make a successful transition into the labour market.

The Career Focus Program provides funding for employers and organizations to design and deliver a range of activities that enable youth (between the ages of 15 and 30) to make more informed career decisions and to develop their skills. The program provides funding each year to projects that hire recent graduates in agriculture, agri-food science and veterinary medicine. The program helps to fund agricultural internships for Canadian graduates. Each internship lasts from a minimum of 4 months to a maximum of 12 months.

The Agricultural Youth Green Jobs Initiative helps fund internships for post-secondary graduates working in the agricultural industry, as part of the Government of Canada's Youth Employment Strategy. Launched as part of Budget 2016 with a \$2 million allocation, the program created 147 new jobs; this success led to its renewal under Budget 2017 with an additional \$5.2 million two-year allocation. The initiative provides young Canadians with valuable work experience implementing environmentally beneficial activities on the farm and with organizations engaged in the agriculture and agri-food sector.

Funded by Employment and Social Development Canada's Sectoral Initiatives Program, the Canadian Agricultural Human Resource Council (CAHRC) has developed products which aim to increase farm management skills. For example, Agri-leadership is a self-assessment tool designed to assist farm producers in identifying their current skills and those that they may need to develop. Additionally, to help fill the skills gaps, CAHRC has compiled the first national database of agricultural training programs across the country.

To provide better access to information on government programs and policies, AAFC has added a Young and Beginning Farmers section to its website. This site provides links to various programs and services that may be of interest to young and beginning farmers.

The Government will continue to explore ways to enhance skills development to enable young and beginning farmers to make sound management decisions and to better disseminate information on its programming and policies.

RECOMMENDATION 2

The Committee recommends that the Government provide support to the next generation of farmers when starting up and transferring farms through mitigating the financial and tax consequences.

The Government supports this recommendation as it continues to provide support for young and beginning farmers, which includes a wide range of federal programs and measures.

The Government remains committed to supporting young and beginning farmers through AAFC's *Canadian Agricultural Loans Act* Program, a loan guarantee program designed to increase the availability of loans to farmers and agricultural co-operatives. Farmers having farmed less than six years are able to apply for loans with up to 90 per cent financing, resulting in a low down payment of only 10 per cent. Farmers having farmed more than six years require a 20 per cent down payment. Farmers can use these loans to establish, improve, transfer and develop farms, while agricultural co-operatives may also access loans to process, distribute, or market the products of farming. Through the *Canadian Agricultural Loans Act* Program, the Government of Canada is supporting the renewal of the agricultural sector and enabling co-operatives to better seize market opportunities.

The majority of the business development programs under Growing Forward 2 (GF2) also support activities for the next generation of farms. Programming is not aimed to help mitigate tax consequences but does provide new entrants with the financial support to gain the skills and knowledge required for starting or managing farms. Examples of federal-provincial cost-shared initiatives include, but are not limited to:

- **Competitiveness Program, Next Generation stream**
 - This stream facilitates the entry and establishment of new farmers and processors through the enhancement of management knowledge, marketing skills and business and marketing planning. This stream recognizes the value of both group and individual learning/educational settings.
 - It provides financial support for individual young farmers and young agri-product business people to access individual assistance in the following areas: leadership, production, business planning, business management, agri-food and agri-product commercialization, marketing, and market development.
- **Business Management, Opportunities, and Skills Development**
 - The program's main goal is to assist producers in Alberta gain business management skills. Established agriculture producers, new producers, agri-processing industry staff and producer groups may be reimbursed for 75 per cent of tuition fees or the cost to hire an instructor for a group skill training course. Individuals can apply for multiple projects to a maximum of \$10,000 per individual for the life of the program, and groups can apply for multiple projects to a maximum of \$20,000 per application and a maximum of \$40,000 for the life of the program.
- **Business Knowledge and Strategic Adaptation**
 - This program assists farmers in three key areas:
 - **Business Knowledge and Adaptation** - a federal, provincial and territorial initiative that supports farm management speakers to attend industry events as well as providing seminars and business workshops.
 - **Farm Business Advisory Services** - provides producers a two-tier system of assistance with farm financial assessments as well as business planning that involves: succession planning, risk assessment, financial management, production economics, marketing strategy, human resources, and value added ventures.
 - **First Nations Agri-Food Support** - assists First Nations communities with business planning and improving existing projects in the agriculture sector.
- **Agriculture by Choice**
 - Support for workshops, speakers, and investigative travel for producer organizations that focus on beginning farmers and their needs.
 - Support for beginning farmers to establish peer-to-peer training clubs, hire one-on-one mentors or other activities that target the training needs of beginning farmers.

Throughout the development of the *Canadian Agricultural Partnership (CAP)*, federal, provincial and territorial ministers of agriculture have consulted broadly with the agriculture sector, including young and beginning farmers, and have heard about the unique challenges and opportunities they face. As a result, work is underway to ensure that CAP will help strengthen the participation and success of the next generation of farmers and the sector as a whole. Under GF2, AAFC supports young and beginning farmers through the Fostering Business Development program, which is proposed to continue under CAP. The program enables stakeholders to transition their agri-businesses, adapt and improve their profitability and resilience, by nurturing entrepreneurial capacity through the development of youth, young and established farmers, farm safety initiatives and skills, and individual and industry leadership.

Farm Credit Canada (FCC) lends to farmers who are under the age of 40, and in fiscal year 2016-2017, FCC provided loans of \$3.2 billion to young farming professionals. In addition to offering its traditional loan products to young farmers, FCC provides loan programs such as the Young Farmer Loan and the Young Entrepreneur Loan to help young farmers and others entering agriculture, who may have limited access to capital. Both types of loans have a credit limit of \$1 million. The Young Farmer Loan, introduced in 2012 and expanded in 2016, increased its loan limit from \$500,000 to \$1 million and provides qualified producers, under the age of 40, with loans to support the purchase or improvement of farmland and buildings. The Young Entrepreneur Loan, launched in 2017, for young entrepreneurs in the agriculture retail, manufacturing, and food processing sectors, provides financing to qualified applicants for the purchase or improvement of agriculture-related assets or the purchase of shares in an agriculture-related business, including those in the agri-food sector.

The Transition Loan, created by FCC in 2012, builds on pre-existing relationships between a buyer and a seller. For example, farmers who are looking to transfer their farm assets and young farmers who are looking to establish themselves in agriculture. This loan allows beginning farmers to make payments over time so that they can manage cash flow or build equity. It offers farmers under 40 a flexible loan product and free FCC Management Software (AgExpert Analyst) with one-on-one training. With this product, FCC finances the down payment on a separate loan using a principal and interest payment schedule, to a maximum of a seven-year amortization period.

The Government of Canada recognizes that supporting young farmers is critical to the renewal and future of Canada's agricultural sector and is committed to helping young farmers assume their role in shaping the sector's future. There are a range of federal measures that help young farmers to access capital and acquire the skills they need to succeed on the farm. For example, the Government has invested \$5.2 million in the Agricultural Youth Green Jobs Initiative and doubled the Farm Credit Canada Young Farmer Loan from \$500,000 to \$1 million.

The Government has conducted consultations asking Canadians for ideas on how to better accommodate family transfers, while proposing to prevent the use of complex transactions designed to circumvent existing rules restricting the conversion of income (dividends) to capital gains. The Government has been committed to hearing from stakeholders, including farmers, to determine whether, and how, it would be possible to better accommodate genuine intergenerational transfers while still protecting the integrity of the tax system.

The Government remains committed to supporting farmers by maintaining the tax rollover on intergenerational transfers and the \$1 million lifetime capital gains exemption. The Government will continue to explore ways to assist the current generation of farmers in transferring farms to the next generation.