THE SENATE OF CANADA

FINANCING THE FAMILY FARM TO THE YEAR 2000

Standing Senate Committee on Agriculture and Forestry

APRIL 1988

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REPORT OF THE COMMITTEE

The Standing Senate Committee on Agriculture and Forestry has the honour to present its

SIXTH REPORT

In obedience to the Order of Reference of Wednesday, May 6, 1987, Tuesday, December 15, 1987 and Tuesday, March 22, 1988 your Committee has proceeded to study Farm Finance—assessing curent problems and considering policy and programs, and now presents its report.

Membership of the Committee

The Honourable Daniel Hays, *Chairman*
The Honourable E.W. Barootes, *Deputy Chairman*

and

The Honourable Senators:

Argue, P.C.	Olson, P.C.
Bielish	Phillips
Fairbairn	Riel, P.C.
* MacEachen, P.C. (or Frith)	Rossiter
Marchand, P.C.	Sparrow
* Murray, P.C. (or Doody)	Spivak

* *ex officio* Members

Note: The Honourable Senators Lefebvre, Macdonald *(Cape-Breton)* and Sherwood also served on the Committee at various stages.

Andrew N. Johnson

Clerk of the Committee

Orders of Reference

Extract from the *Minutes of the Proceedings of the Senate*, Wednesday, May 6, 1987:

"The Honourable Senator Hays moved, seconded by the Honourable Senator Gigantès:

That the Standing Senate Committee on Agriculture and Forestry be authorized to examine and report upon Farm Finance to assess the gravity of the current problems facing the Canadian Agricultural Industry, to consider the degree to which existing government policy and programs have been successful in meeting their objectives, and to make recommendations on how to better meet the needs of the Canadian Agricultural Industry; and

That the Committee present its report no later than 31st January, 1988.

After debate, and--
The question being put on the motion, it was—
Resolved in the affirmative."

Extract from the *Minutes of the Proceedings of the Senate*, Tuesday, December 15, 1987:

"With leave of the Senate,
The Honourable Senator Hays moved, seconded by the Honourable Senator Lawson:

That, notwithstanding the Order of the Senate adopted on Wednesday, 6th May, 1987, the Standing Senate Committee on Agriculture and Forestry, which was authorized to examine Farm Finance, be empowered to present its report no later than Thursday, March 31, 1988.

After debate, and--
The question being put on the motion, it was—
Resolved in the affirmative."

Extract from the *Minutes of the Proceedings of the Senate*, Tuesday, March 22, 1988:

"With leave of the Senate,

The Honourable Senator Hays moved, seconded by the Honourable Senator Fairbairn:

That, notwithstanding the Order of the Senate adopted on Tuesday, 15th December, 1987, the Standing Senate Committee on Agriculture and Forestry, which was authorized to examine Farm Finance, be empowered to present its report no later than Thursday, April 28, 1988.

The question being put on the motion, it was—

Resolved in the affirmative."

Le greffier du Sénat

Charles A. Lussier

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Foreword

When the Committee first met to determine what special study it would conduct into the crisis facing Canadian agriculture, it became clear that we would be able to address only one aspect of the problem if we were to report within a reasonable time.

We decided that the most visible symptom of the crisis was the high rate of financial failure in the farm sector, along with the real and potential losses of farm lenders, particularly some government-owned lenders such as the Farm Credit Corporation and the Alberta Agricultural Development Corporation. Problems with farm loans, however, are not rooted only in the granting of credit or the realizing of assets given as security for that credit. They lie more in other countries' farm support policies, which have resulted in an unstable international economic environment for the agricultural sector. It was necessary, therefore, to consider farm debt problems in the broader context of agriculture problems generally.

The Committee is aware of the unacceptable social stress and disruption being experienced by farm families already in financial crisis and by those who see themselves being drawn into that situation. Policy makers have a duty to see farm families through these problems and to ensure that future policies minimize the risk of their recurring.

Canadian policy makers have traditionally supported the family farm but have not always been clear about what this support implied. In any case, governments have not expressly limited farm size as a policy objective. The farm population declined from 11.4% in 1961 to about 4% in 1986. It may be that the only common goal of Canadian policy-makers is that farms continue to be managed and, for the most part, owned by farm families.

This Report describes the expectations of various farming organizations for the future of the family farm. These expectations should assist policy makers to formulate and establish appropriate long-term objectives for Canadian agriculture. These objectives would include the retention of family-operated and, to a very high degree, family-owned farms. These farms must be efficient and competitive enough to survive and prosper, with assistance from taxpayers and consumers in keeping with the value of agriculture to the economy as a whole.

The kind of agricultural production unit which will match this description has not been and will not be static. In addition, as larger units of production evolve, the viability of rural communities must increasingly be taken into consideration. The formulation of a national policy which would ensure adequate credit for the agricultural sector presents a difficult challenge. Such a policy must be flexible enough to accommodate the regional variations encountered in Canadian agriculture and at the same time must be fair to all sectors.

During its deliberations, the Committee obtained valuable evidence from meetings with farmers, governments, government agencies and the academic community. We are grateful for the comprehensive presentations by the numerous witnesses who appeared before us, as well as for the many written briefs solicited by the Committee's advertisement of August and September 1987.

This Report is the result of many hours of work by the Committee members and staff. We would like to thank Jean-Denis Fréchette and June Dewetering of the Research Branch of the Library of Parliament for their excellent research services, Sally Rutherford for her work in the early stages, the Clerk of the Committee, Andrew Johnson, for his efforts on our behalf, and Martin Dubé and June Murray for their editing expertise.

As well, we thank Barbara Reynolds and Jo Oberstar, of the Centre for Legislative Exchange, for arranging the Committee's October 1987 visit to Washington for briefings on U.S. agricultural society.

Daniel Hays
Chairman

Executive Summary

The agricultural industry, and the family farm in particular, is experiencing one of the worst crises in its history. What was expected to be a short-lived recession in the sector has become a major transition in the industry that is having economic, technological, social and political effects. The structure of the industry is being influenced by this transition; nevertheless, the Committee believes that the family farm can survive this crisis and will remain the primary unit of agricultural production.

In the industry, this crisis is being reflected in volatile incomes and record levels of farm debt. In 1987, net farm income, that is income from farming operations and appreciation/depreciation in the value of farm capital, in Canada reached $5.6 billion, a slight increase from the 1986 level of $5.5 billion. Most analysts agree that farm income remains at this level largely as a result of record levels of direct government payments to producers. In 1986, these payments, net of producer premiums, reached $2.5 billion, representing 45.7% of net farm income.

Farm debt, in 1986, totalled $22.9 billion, 38.6% of which was held by chartered banks, with a further 20.3% held by the Farm Credit Corporation. According to Agriculture Canada, approximately 22,440 farmers, or 12.5% of farm borrowers, were in financial difficulty in 1987; of these, 5,900 were in a non-viable position, 7,280 were in a deteriorating position, and 9,250 were financially vulnerable. With an unchanged government agricultural policy, some or all of these farmers may have to exit the industry as a result of the unmanageable debt burden.

The government annually commits significant funding to the agricultural sector under its various support and credit programs. A noteworthy program in this regard is the Special Canadian Grains Program. The Program, designed to ease the impact of the international subsidy war between the European Economic Community and the United States, paid $1 billion to grain producers in 1987 and will pay $1.1 billion to a broader range of producers in 1988. Important initiatives are also being made to help restructure the financial position of farmers through the Farm Debt Review process. Should a farmer find that it is no longer feasible for him to remain on the farm, he can be recommended, by a Farm Debt Review Board, for assistance under the Canadian Rural Transition Program. This Program, which provides financial assistance, and personal and job counselling, is available to assist the farmer as he makes the transition from farming into another way of life. Both programs are being funded to 1991.

In formulating government agricultural policy, alleviating the short-term stress, as well as the long-term problems, of farmers, must be a policy objective. To ease the short-run stress being experienced by farmers, an interest-relief scheme that would allow write-down or set-aside of a farmer's interest charges would be an appropriate mechanism. The Farm Credit Corporation might be a proper agency to disburse the funds committed to any such scheme. Any recommendation by a Farm Debt Review Board, with respect to a farmer's eligibility for such relief, might be given some weight.

For the longer term, the development of a government-assisted secondary market for agricultural loans would enable lenders to provide farmers with longer-term loans at lower, fixed rates. In such a market, lenders would experience less risk, thereby encouraging lenders to enter into and compete in the agricultural loan market. Government involvement in this market could be achieved through the Farm Credit Corporation playing a role as insurer, for a fee, of the loans made by approved lenders.

The Government must allocate additional resources and create policies to further assist farmers developing the good management information they need to meet the challenges of today's agriculture.

In order that government funding made available to help those in need of credit assistance be allocated optimally, funds should be made available only to borrowers who demonstrate that they have adequate financial information on their operations upon which to base their management decisions. As well, government guarantees, which will allow the development of a secondary market for agricultural loans, should be made available only to lenders who show responsible lending practices and have, or are developing, properly-staffed farm lending departments.

In the future, "decoupling," or providing support to farmers in such a way that their production decisions will not be influenced, is a concept that will doubtless be of increased importance, in particular as the General Agreement on Tariffs and Trade discussions continue.

An agricultural policy that addresses both the short- and long-term problems facing farmers, then, might allow an enhanced role for the Farm Credit Corporation. The FCC, in addition to remaining an agricultural lender, could distribute funds committed to an interest-relief scheme, and act as the insurer of loans under a secondary market. As well, the Farm Debt Review Boards could play an increased role, both expediting the application process for farmers referred by them to the Canadian Rural Transition Program, and making recommendations to the Farm Credit Corporation about farmers' eligibility for assistance under an interest-relief scheme. The Committee is convinced that the implementation of such an agricultural policy will ensure the long-term survival of the family farm.

List of Recommendations

I. Recognizing that aid will be necessary until the grain surplus and the price wars have ended, the Committee recommends that programs like the Special Canadian Grains Program be continued to enable producers to maintain both the Canadian share of the grain export market and a viable grain growing industry in Canada.

II. The Committee thus recommends that Farm Debt Review Panels maintain their role as mediators, but recommends that their mandate be enhanced, so that

1. Panels have the authority to refer farmers to the Farm Credit Corporation for assistance under the interest-relief scheme, with their recommendation being given some weight (see recommendation VI. on p. 69);

2. Panels make the final determination of eligibility for benefits under the Canadian Rural Transition Program; and

3. The recommendations of Panels be given some weight in the determination of eligibility for social programs (see recommendation IV. on p. 49).

III. The Committee recommends that the operations of the Farm Debt Review Boards and the Canadian Rural Transition Program receive annual reviews by Agriculture Canada to ensure their effectiveness. Further, the Committee recommends that the results of these reviews be referred to the appropriate Standing Committees of the House of Commons and the Senate.

IV. The Committee recommends that farmers be allowed to benefit, on a short-term basis, in a manner similar to non-farmers, from the broad range of income support measures now available.

V. The Committee recommends that no commitment of federal government funding be made to an equity financing scheme at this time.

VI. **The Committee recommends that the Government complete its review of the role and mandate of the Farm Credit Corporation and recommends that, for now, the Corporation retain its role as a direct lender. Further, the Committee recommends that the role of the Farm Credit Corporation be expanded to allow it to become the agency responsible for disbursing the funds committed to the proposed interest-relief scheme described above.**

VII. **The Committee recommends that the Government ensure that programs be implemented to provide farmers with direct and indirect assistance in developing the management information systems necessary to make well-informed decisions. The Committee considers that it is important for borrowers to maintain adequate records for use in a management information system compatible with farm operations. The Committee therefore recommends that federal lending agencies consider such records in determining farmers' access to federal government lending programs, whether direct or by guarantee.**

VIII. **The Committee recommends that the Government create a secondary agricultural mortgage market and expand the mandate of the Farm Credit Corporation to allow it to function as the insurer of agricultural mortgages.**

IX. **The Committee recommends that the concept of decoupling be thoroughly analyzed and commends Agriculture Canada for having undertaken a study of this concept. The Committee acknowledges that decoupling could radically change the use of programs forming the basis of Canadian farm policy. The Committee therefore recommends that any reform tied to the concept of decoupling take place only after in-depth consultations with all those involved in farming.**

Chapter I

An Historical Perspective on Canadian Agriculture

A. A Brief History of Agricultural Markets

Agricultural markets and their associated returns have varied widely over the period from 1960 to the present. The development of domestic marketing structures for dairy products, eggs, poultry and hogs, and significant changes in the international market for grains and oilseeds have played a significant role in determining the structure of Canadian agriculture.

While provincial marketing boards have existed since the 1920s, until the mid-1960s the only "national" board was the Canadian Wheat Board, established in 1935 with control over the import of wheat, oats and barley. In the relatively short period from the early 1960s to the early 1970s, a number of national marketing agencies were formed by provincial boards in an attempt to alleviate the problems of overproduction and price competition that were bankrupting a number of sectors. Thus, the Canadian Dairy Commission was formed in 1966, the Canadian Egg Marketing Agency in 1972, the Canadian Turkey Marketing Agency in 1973 and the Canadian Chicken Marketing Agency in 1978. These agencies resulted in a significant rationalization of production of these commodities and in fewer producers with more assured incomes. Although the supply-managed commodities have not been without their problems, producers have benefited from the pricing formulae that provide them with their cost of production. Indeed, rationalisation of the dairy and feather industries in Quebec and Ontario have greatly contributed to the stability of the farm financial situation in Central Canada.

For most other commodities, particularly red meats and grains, the 1960s, 1970s and 1980s have been characterized by wide fluctuations in production and prices. Producers of these commodities have been the most susceptible to financial difficulty because of their failure to generate sufficient income to pay their operating costs and, in particular, to service their debt.

The red meat industry, being highly dependent on feed prices, has closely followed the price cycles of the grain industry. Consequently, the red meat industry as a whole was not very profitable during the mid-1960s when grain prices were high, was again profitable in the late 1960s and early 1970s as grain prices dropped, and took a downward turn again in the mid-1970s, when grain sales and prices rose again. Feedlots emptied and breeding herds declined. The problems in the industry were compounded over the 1960-1985 period by a major change in consumption patterns. In 1960, annual beef consumption was 70 pounds per capita and, as incomes grew and per capita consumption kept pace, reached 84 pounds in 1970; in 1979, per capita consumption was 88 pounds, and projections were for it to increase up to 100 to 110 pounds per year by 1990. Yet, as the 1990s approach, even with relatively low beef prices, annual per capita consumption remains in the 85 pounds range. Health concerns and low poultry prices have had a major impact on beef consumption in North America. After suffering such financial difficulty for a number of years, however, the beef industry faces relatively strong prices in a stable market.

The hog industry has also experienced significant changes closely related to the availability of cheap feed grain and to various provincial subsidy programs. Although in 1969-71 western hog production increased significantly, as a result of large carryovers of feed grain, in 1972-73 it declined by almost 50% as grain sales increased and prices rose. In Eastern Canada there was an increase in production through to the early 1980s, with Quebec in particular encouraging production and the industry moving into vertically-integrated operations. After 1980, western producers, again responding to low feed prices, also began to increase their production. Consolidation has been taking place across the country; between 1966 and 1976 the number of hog farms fell by 61% as the industry moved toward intensive production requiring major capital investments.

In recent years, farm financial problems have been concentrated in the grain and oilseed industry, partly because of its size and its value to the economy, and partly because of subsidies being paid by the United States and the European Economic Community to their domestic producers. The present downturn is not the first in the grain industry since 1960. The grain industry suffered a downturn and a price slump in that year and also late in the 1960s, when, after improving, the market waned and prices fell again, leaving farmers with bins full of unsaleable grain and falling land prices. In the early 1970s, however, markets once again expanded, primarily because of large crop failures in the U.S.S.R. and drought in Africa. Prices remained high and land values increased through to 1976. Input prices also began to rise, particularly petroleum-based fuel and fertilizers. R.M. Loyns and Colin A. Carter, writing in *Grains in Western Canadian Economic Development to 1990*, stated that:

> ...[T]he 1973-76 period was extremely buoyant for Prairie farmers and farm related industries. Net farm incomes set records, machinery sales boomed, land prices soared, pesticide and fertilizer sales took off, and the beginnings of a new era in Prairie agriculture were established on the basis of the new-found funds that existed in those years. (p. 32)

They point out that, in general, Western Canadian grain production entered the 1980s in a reasonably healthy state.

Western agriculture, and the grain industry in particular, began to experience problems as interest rates rose rapidly. The large debt incurred by many farmers, who had been encouraged by rising grain prices to expand at very high land costs, was unmanageable. As interest rates fell, grain prices also began to decline. The incentives they had received to plant new land and to produce to the limit for a growing world population had not taken into account the major advances of a number of former grain-buying nations, France and India in particular, to supply their own needs and even to export; in addition, the growing debt of Third World buyers left them unable to continue grain purchases. The result was a surplus of unsaleable grain. Subsidies for the production of grain for export became a significant component of the agricultural income of producers in other major grain-producing and grain-exporting countries. The competition in grain markets drove prices down further and put Canadian producers, in particular, at a disadvantage. However, because of the high quality of the grain, Canada's regulation and long-term contracts negotiated by the Canadian Wheat Board, sales have remained high. Nevertheless, in October 1987, the price of Canadian wheat on the international market was $2. 50CDN per bushel while U.S. farmers, for example, received $5.00CDN per bushel after government payments.

The relationship between markets, income, structure, general economic conditions and decision-making is quite clear -- in hindsight. Farmers and farm lenders were inevitably influenced by their recent experience and by projections for the future. The past determined immediate income levels, the level of input and machinery purchases, and the level of solvency. Projections for the future determined whether farmers would remain in the business, the type of crop and the acreage planted.

B. The History of Agricultural Credit

The availability of long-term credit has always been important to the agricultural industry. In 1912, Nova Scotia and New Brunswick were the first provinces to implement government-sponsored lending, followed closely by all the other provinces except Quebec and Prince Edward Island. These provincial schemes were superseded by a national program, the Canadian Farm Loan Board (CFLB), in 1929. Until 1976, the CFLB's successor, the Farm Credit Corporation (FCC), was the single most important source of long-term credit, although credit unions and trust companies did grant some loans. Amendments to the *Bank Act* in 1977 permitted chartered banks to take on long-term mortgages in agriculture.

The prevalent characteristic of agricultural lending in the period from 1960 to the early 1980s was the continually increasing amount of loans made. The FCC's mandate was broader than that of the CFLB and its lending practices more liberal. G.C. Van Kooten states in his paper *Agricultural Finance in Canada: Historical, Empirical and Philosophic Perspectives* that "[i]n its first three years of existence, the FCC made 16, 821 loans worth $169.3 million. This compares with the 54,600 loans worth $168.9 million made by the CFLB during its entire 30 year existence" (p. 16).

It soon became evident that the money available for loans was not sufficient to meet the demand. It was also recognized that as farming became more mechanized, loan provisions had to be altered to provide more flexibility for producers. Amendments to the *Farm Credit Act* were made in the early 1960s to:

- make more farmers eligible for long-term loans;
- permit farmers to engage in off-farm employment;
- permit the FCC to make loans to specialized agricultural areas such as hogs and poultry, where most of the farm's value is in buildings and improvements rather than land; and
- permit farms to develop secondary industries.

The FCC's capital increased from $8 million in 1960 to $40 million in 1965. The amount of money disbursed continued to increase until 1968 when commodity prices fell, lowering farm incomes and the demand for loans.

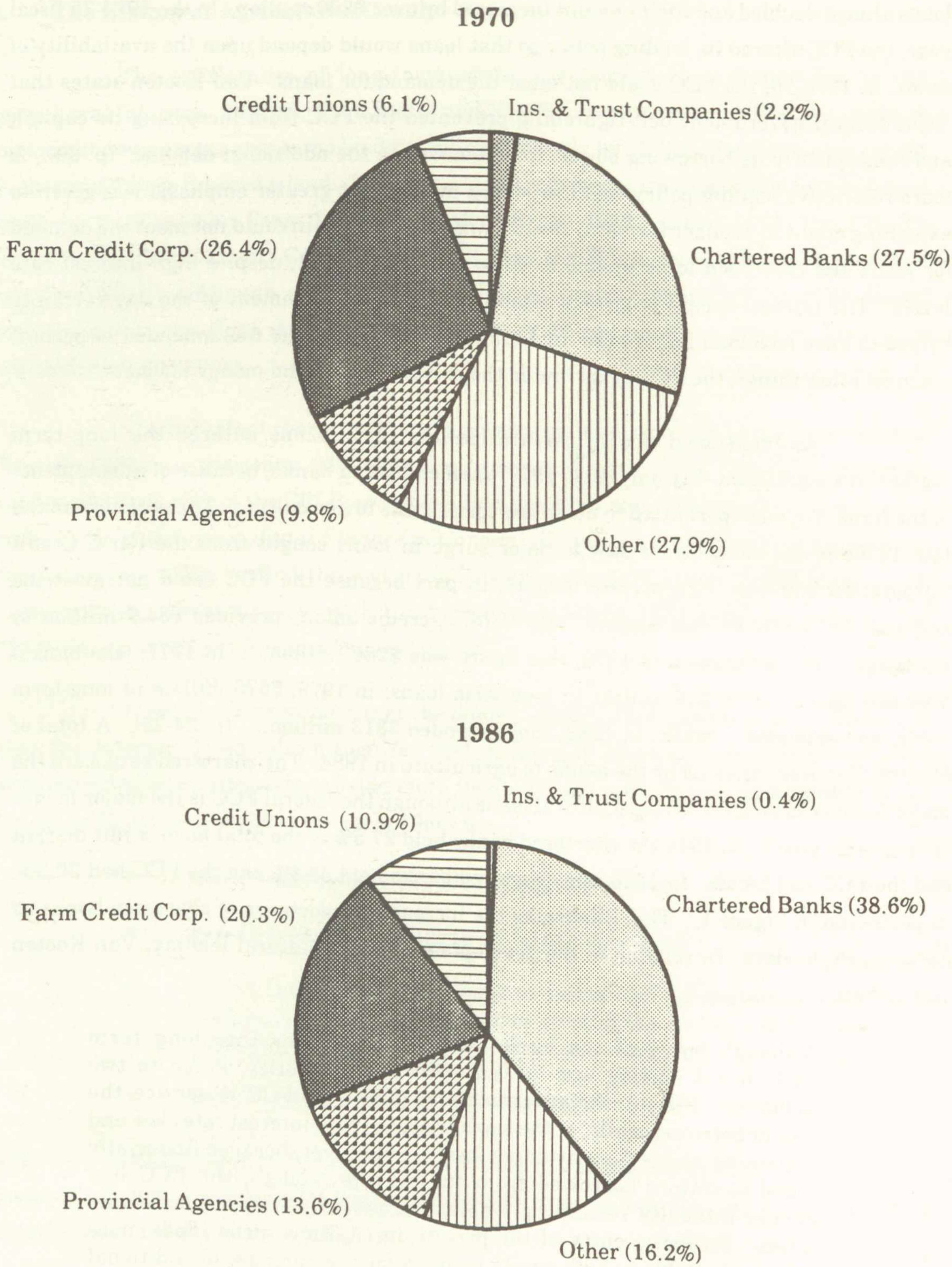
Throughout the 1970s, farm incomes increased, as did the cost of farming and, once again, the demand for loans. Between 1972-73 and 1973-74 the number of approved loans almost doubled and their amount increased by over $200 million. In the 1974-75 fiscal year, the FCC altered its lending policy so that loans would depend upon the availability of funds. In 1975-76, the FCC could not meet the demand for loans. Van Kooten states that "[t]he federal government belt-tightening prevented the FCC from increasing its capital, and consequently its borrowing power, to accommodate the additional demand" (p. 20). A more restrictive lending policy was introduced in 1975 but greater emphasis was given to extending credit to younger farmers. By 1977-78, the FCC again could not meet the demand for loans and continued to be unable to do so through to 1981, despite high interest rate levels. The interest rebate programs established by the government of the day certainly helped to keep new loan levels high. In 1982 the *Farm Credit Act* was amended to permit, amongst other things, the FCC to borrow on the private capital and money markets.

As mentioned above, private lending institutions entered the long-term market in a significant way only after 1977 when chartered banks, because of amendments to the *Bank Act*, were permitted to make mortgage loans to agriculture. The period from the late 1970s to the early 1980s saw a major surge in loans sought from the Farm Credit Corporation and also from private lenders, in part because the FCC could not meet the demand. According to Van Kooten, "(i)n 1976,..., credit unions provided $84.9 million in mortgage loans to farmers; in 1979, this figure was $280 million. ... in 1977, (the banks) provided farmers with $16 million in long-term loans; in 1979, $575 million of long-term credit was extended ... while, in 1982, they extended $813 million..." (p. 24-25). A total of $840 million was extended by the banks to agriculture in 1984. The chartered banks are the major lenders in terms of all agricultural loans although the federal FCC is the major lender of long-term credit. In 1970 the chartered banks held 27.5% of the total farm credit market and the FCC had 26.4%. In 1986, the chartered banks held 38.6% and the FCC had 20.3%, as portrayed in Figure 1. This illustrates the increased importance of chartered banks as agricultural lenders. In relation to the developments in agricultural lending, Van Kooten states that:

> Although entry of the banks and credit unions into long term agricultural lending was looked upon as good policy, it led to two problems. Firstly, the government required the FCC to service the riskier borrower while, at the same time, keeping interest rates low and remaining viable (i.e., avoiding losses). However, because financially sound operators borrowed from the private lenders, the FCC had greater difficulty remaining viable, and recently it has experienced losses. Secondly, entry of the private institutions made funds more readily available to high-equity farmers for the purchase of additional land and this may have contributed to demand pressures on land. (pp. 25-26)

FIGURE 1

AGRICULTURAL LENDERS IN CANADA



Source: Agriculture Canada, Market Commentary Farm Inputs and Finance, various years.

Professor St. Louis of Laval University told the Committee that:

> One thing that can be said, in my view, is that with this kind of demand for capital, farmers, like members of other sectors, did contribute to bringing the real price they're going to pay for capital up to about the same level as in the rest of the economy. That is, agriculture has now been grafted onto the main trunk of the financial system. ... When you look at the interest rates for the (F)arm (C)redit (C)orporation, you realize that as you come close to the present time, the Corporation's rate is increasingly in line with the prevailing rates charged for farm credit in our economy. Let's bear in mind that this is the other factor in what I like to call the shockwaves. That is, farming since 1960 had been becoming more and more capital intensive. The financial market was tending toward higher and higher interest rates. So in my opinion it was inevitable. Two trends were developing that had to crash head on sooner or later. (Professor Robert St. Louis, Laval University, Issue 8:24, June 9, 1987.)

Agricultural lending has followed the market pattern fairly closely - demand for credit appears to have a direct relationship with income levels. Most influential are the legislative and policy constraints that affect the FCC's financial position. Even more important in the long run is the fact that trends in granting agricultural credit do follow the trends of the economy as a whole.

C. Farm Income in Canada: A Macroeconomic Approach

Farm income is a basic element in the farmer's decision-making because it enables him to plan his personal expenditures, his operating expenditures, his debt servicing and his new investments. It is essential that every farmer be fully aware of his financial situation at all times, and that he has sufficient financial information available to make the best possible forecast of his future income.

Farm income is made up of two main components: first, income from actual farming operations, including direct and indirect payments; second, potential income from changes in the value of assets. Because agriculture has become more capital-intensive, changes in the value of these assets constitute an important but unstable source of potential revenue. Academics from various universities, including Professor Kraft of the University of Manitoba and Professor St. Louis of Laval University, demonstrated to the Committee that the ratio of capital to sales is considerably higher in agriculture than in any other sector of the Canadian economy. For example, in 1967 a capital investment of $7.80 was needed to generate $1.00 of sales; in 1976, the requirement was $9.20 per $1.00 of sales, and by 1982 it was $12.74. Comparatively, in 1982, for every $1.00 of sales, a capital investment of $0.37 was required in the forest industry, $2.96 in the mining industry and $1.09 in manufacturing industries. Consequently, modern agriculture depends more than ever on current macroeconomic conditions, and must adjust to the inherent instability of external shocks. This instability, in conjunction with the variability of direct farm income, according to Professor Brinkman of the University of Guelph, explains why farmers must maintain high levels of owner's equity and inputs of funds if they are to minimize financing risks. It would be different if farmers could spread their risk over a wide range of assets whose returns varied according to the overall economic situation. Unfortunately, at the individual level, it is hard for farmers to acquire the information they need to assess the risk. As a result, they are at the mercy of often unpredictable fluctuations in income.

Agriculture is not homogeneous, and includes many classes of farm size and commodity sectors; thus, overall farm income is not always the best indicator of agriculture's economic health. Nevertheless, analysis of the farm income situation highlights certain factors that are affecting agriculture in the 1980s and that have the potential to transform this sector of the Canadian economy.

A number of analysts have tried to explain the current crisis as being the result of a subsidy-inspired world grain surplus which has resulted in a price war in international markets between the European Economic Community and the United States, increasingly uncertain markets, higher interest rates and a precipitous drop in the value of farmland. When these factors are combined with a growing farm debtload, the precariousness of the current situation is understandable. The agricultural sector generally follows its own cycle and is now going through its "recession" a little behind that of the economy as a whole. That is not to say, however, that the crisis, which is doing great damage to Canadian farmers, especially in the West, is familiar to or understood by most Canadians. Prairie Pools Inc. told the Committee of a survey they had conducted in Winnipeg on the level of awareness of the farming economy in Manitoba. The results indicated that, contrary to what one might think, people in Winnipeg were not fully aware of the situation in the agricultural sector.

1. The Instability of Farm Income

According to Statistics Canada, net income from farming operations, in current dollars, reached $5.5 billion in 1986, an increase of 26.3% over 1985. It reached only $5.6 billion in 1987, however, a change of just 1.3% over the year before. It has been climbing steadily since 1983 when, at only $2.7 billion, it was, with the exception of 1977, the lowest since 1972, when the rapid growth in farm income in the 1970s started.

Although current farm income growth rates may seem closer to those of the early 1970s, there is a fundamental difference in the components of this income. Since 1984, more than 50% of net farm income has derived from direct payments under government programs, for a total of around $2.9 billion in 1986; during the 1970s, these payments remained relatively stable and never exceeded $1 billion. Even with producer premiums excluded, direct government payments represent a large part of net farm income; in 1986 they were $2.5 billion or 45.7% of total net farm income.

Although most government agricultural programs are necessary and generally effective, questions may be raised about some of their characteristics: as they almost always support the production of specific commodities, they inhibit the future diversification of the industry; they tend to influence market production signals; and they may create an illusion of well-being, which may delay new initiatives or distort investment decisions.

An examination of farm income in constant 1981 dollars confirms that the financial situation of farmers continues to be unstable. In 1986, real farm income reached $4.1 billion and although real income has been growing over the past three years, its almost uninterrupted fall between 1976 and 1983 seriously undermined farmers' financial viability and also their confidence, as pointed out to the Committee by the Western Canadian Wheat Growers Association. Many farm groups appearing before the Committee asserted that the drop in farm incomes had already altered not only the economic environment of the farm community but also its social base. In its brief presented to the Committee, the Government of Saskatchewan pointed out that:

> [t]he current farm financial crisis reaches beyond the farm. ... It is estimated that Saskatchewan communities with less than 500 people will be able to support 20-25 per cent fewer retail establishments while centres between 500 and 1000 will lose ten per cent of their retail outlets. ... Farm property tax arrears will have an adverse effect on rural municipalities and rural schools that are highly dependent on property taxes. (Brief presented to the Committee by the Government of Saskatchewan, January 25, 1988)

In retrospect, an examination of real farm income shows that the situation in the 1970s was an aberration. The perception of the early 1980s that agriculture was simply going through a temporary cyclical low and that the growth rates of the 1970s would resume, was wrong. Figure 2 shows that real farm income has historically remained within

TOTAL NET FARM INCOME
In current and constant (1981) Dollars

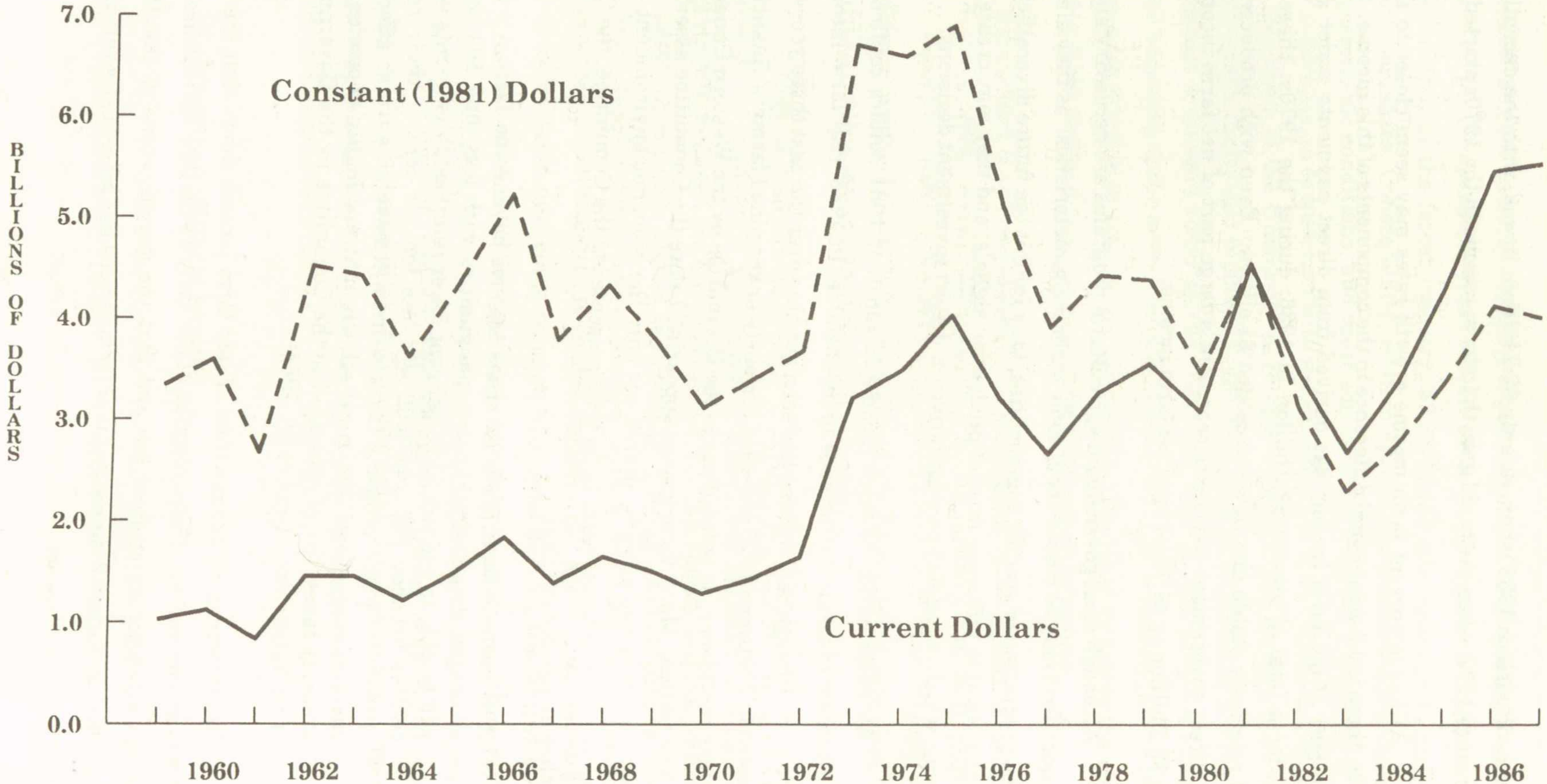


FIGURE 2

Source: Statistics Canada, Cansim Division and Library of Parliament

very narrow margins and that in 1986 it only just passed the historic median of $3.7 billion, in constant dollars, attained in 1972.

It is important to remember that Canadian agriculture is very heterogeneous and that its various sectors go through different economic cycles; data on total income mask this variability. Figure 3, on cash receipts, shows that producers of grains, particularly wheat, suffered a drop in income in recent years, while livestock producers did better. From this perspective, witnesses told the Committee that they feared that the current financial crisis for grain growers may have repercussions on other sectors.

2. Changes in the Value of Farm Assets

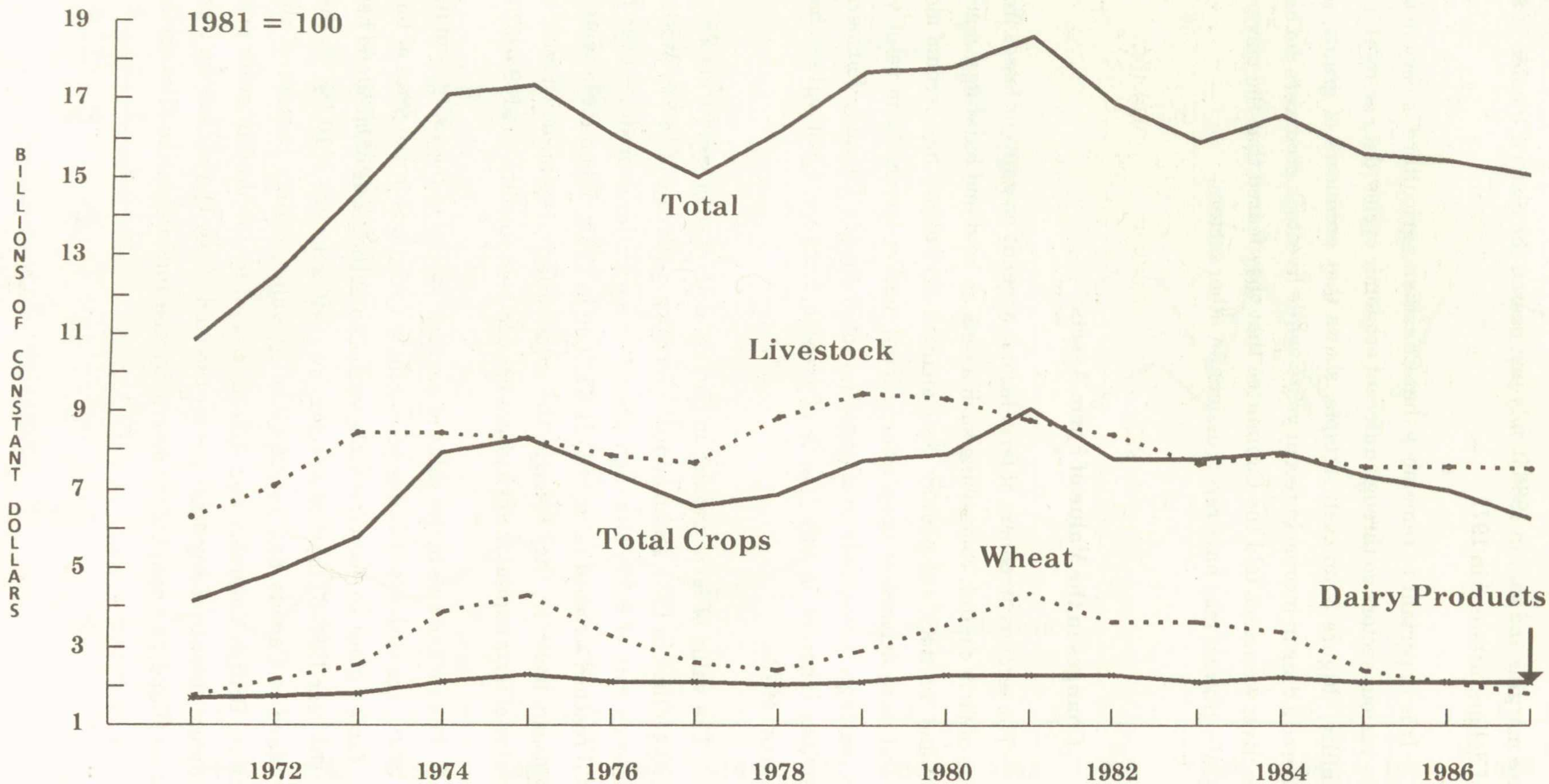
The second component of farm income depends on gains or losses from changes in the value of farm capital, comprising such assets as land and buildings, machinery and equipment, and livestock and poultry. As Canadian agriculture has become more capital-intensive and more dependent upon international market trends, farm asset values have become increasingly susceptible to changes initiated outside Canada. Farmers tended to forget the risks inherent in this source of income, because asset values had steadily increased in the 1970s.

The value of farm capital, in current dollars, increased from $23.9 billion in 1971 to $130.4 billion in 1981, for an annual average growth rate of 18.5%. With an average annual inflation rate of 8.5%, and high prices for agricultural products over this period, farm capital reached a record value of $131.6 billion in 1982. When these same two factors took a downturn, however, they brought the value of farm capital down with them. Since 1982, the value of farm capital in agriculture has declined steadily, to $109.6 billion in 1986.

The sudden rise in the value of farmers' capital in the 1970s, and its decline in the early 1980s, are both attributable primarily to variations in the price of buildings and farmland. Table 1 gives an overview of the variation in the value of farmland between 1984 and 1987. The year 1986-87 marked a record low, with a decline of 10.1%. In the past three years, farmland in Canada has lost 23.7% of its value, mainly because of the losses in Saskatchewan, British Columbia and Alberta caused by the drop in grain prices and the almost complete absence of any other use for the land. Only Quebec saw an increase in the value of its farmland, as a result of the diversification and integration of its agriculture.

FIGURE 3

TOTAL FARM CASH RECEIPTS
By Product



Source: Statistics Canada, Cansim Division and Library of Parliament

TABLE 1

Percentage Variations in the Value of Farmland Canada

	1984-1985	1985-1986	1986-1987	1984-1987
British Columbia	-13.7	- 6.6	-11.3	-28.5
Alberta	- 8.3	- 8.2	- 8.3	-22.8
Saskatchewan	-10.3	- 8.3	-15.3	-30.3
Manitoba	- 7.3	- 4.9	- 6.7	-17.7
Ontario	- 9.4	- 4.8	- 3.9	-17.1
Quebec	- 1.0	+ 1.4	+ 2.3	+ 2.7
New Brunswick	+ 1.0	- 2.1	+ 0.6	- 0.5
Nova Scotia	- 4.3	+ 1.7	+ 2.1	- 0.6
Prince Edward Island	-11.4	- 7.9	- 7.5	-24.5
Newfoundland	0	n.d.	n.d.	n.d.
Canada	- 8.8	- 6.9	-10.1	-23.7

Source: Farm Credit Corporation Canada, Trends in Farmland Values, Economic Report No. 21, December 1987.

Low interest rates in an inflationary period had induced farmers to assume more debt. In addition, because their capital worth was growing faster than the rate of inflation, borrowing to buy more land seemed a foolproof strategy. But this failed to take into account the productive capacity of their land and the demand for agricultural products. Speculation on changes in land values is risky even in expansionary periods; nevertheless, farmers have to assess this risk, which influences their return on capital.

Capital appreciation, as a source of farm income, is a controversial issue; many people believe that unrealized income should not be included in farm returns. Instead of using net income from farming operations, however, capital appreciation may be used as collateral for borrowing or as a form of savings. Thus, although capital appreciation may be a form of income on paper only, it does represent an asset that can be realized annually and that does increase a farmer's wealth. The appreciation in land values and buildings increased from $1.4 billion in 1972 to $13.9 billion in 1979, while net cash income grew much more modestly, rising from $1.6 billion to $3.6 billion, as shown in Table 2. These figures reveal the growing imbalance between the real profit potential of the land and its appreciated value. Since 1981, the value of farmland has been falling while net income is reaching record highs. Under the impact of declining capital returns, the financial situation of Canada's farmers continues to deteriorate, and the adjustment is just as significant as was the growth in assets during the 1970s. The situation is worst on the Prairies, since the drop in income from appreciated land values has been greater there, and the price of grain remains low and generally below the cost of production. Witnesses, including the Western Canadian Wheat Growers Association, told the Committee that, in addition to farmers determined statistically to be in difficulty, there are many farmers who are not yet in financial difficulty but who have lost confidence in the industry because of low price and income expectations. Many farmers are operating at a loss and are likely to be in financial difficulty in the near future.

Farmland remains the main capital investment involved in production, and from this perspective many witnesses before the Committee expressed fears that the current financial crisis is resulting in the misuse and the loss of farmland.

TABLE 2

Adjusted Net Farm Income
in Terms of Appreciation of Land and Buildings
- Canada 1987 -

	Total Net Income from Farming Operations	Income from Appreciation - Land and Buildings	Total Income from Farming Operations and Appreciation
		- millions of dollars -	
1971	1,439	174	1,613
1972	1,632	1,437	3,069
1973	3,203	3,884	7,087
1974	3,499	6,788	10,287
1975	4,050	7,620	11,670
1976	3,222	6,914	10,136
1977	2,664	6,435	9,099
1978	3,294	9,298	12,592
1979	3,560	13,863	17,423
1980	3,086	18,877	21,963
1981	4,567	11,247	15,814
1982	3,482	365	3,847
1983	2,700	(4,236)	(1,536)
1984	3,383	(4,362)	(979)
1985*	4,341	(6,655)	(2,314)
1986*	5,484	(6,351)	(867)

* Data updated.

Source: Canadian Bankers' Association, from Economic Trends in Canadian Agriculture, data based on Statistics Canada. October 1987.

D. Farm Debt in Canada

From 1971 to 1981, farm debt in current dollars quadrupled from $4.6 billion to $18.4 billion, for an average annual increase of 14.8%. During the same period, the value of farm capital in agriculture increased by an average annual rate of 18.5%, rising from $23.9 billion to $130.4 billion, as illustrated in Table 3. This growth in the value of farm capital was mainly caused by inflation. Even in real terms, the value of farm capital grew faster, at an average of 8.6% per annum, than farm debt, which grew at an average of 5.3% per annum.

Between 1981 and 1986, farm debt increased from $18.4 billion to about $22.9 billion, for an average annual increase of 3.8%, while the value of farm capital decreased by an average of 3.5% per annum. Allowing for inflation, farm debt remained relatively stable between 1981 and 1986, but the value of farm capital fell 8.4% per annum on average. This increasingly heavy debtload forced Canadian farmers to consolidate and reschedule their debts over longer terms. Since 1983, long-term debt has represented more than 50% of total farm debt, whereas in the early 1970s it accounted for about 42%. According to Mr. Arnold Rovers of the Nova Scotia Farm Loan Board,

> [t]he inability of farm businesses to service the debt accumulated in the expansion decade is the key element of the financial difficulty. The percentage of farm cash income required to service debt, after all other farm expenses were paid, increased from 20.4% in 1972 to 45.4% in 1985. (Paper presented by Mr. Arnold Rovers at the Canadian Bankers' Association Conference in November 1987).

The FCC, in its appearance before the Committee, confirmed that 19.5% of its accounts, representing $343.4 million as of 31 March 1987, were past due; as of February 1988, the arrears had increased to $401 million, representing 20% of its accounts. The banks have about 9,187 "problem" accounts, that is, accounts that have been past due for at least 90 days, for a total of $747 million as of 31 July 1987; this represents less than 9% of their farm loans.

TABLE 3

Farm Debt and Farm Capital
- Nominal and Real Terms -
- Canada -

	Nominal Terms		Real Terms**	
	Value of Farm Capital*	Farm Debt	Value of Farm Capital*	Farm Debt
	- millions of dollars -			
1971	23,882	4,617	56,998	11,019
1972	26,225	4,980	59,199	11,242
1973	31,658	5,740	65,680	11,909
1974	39,820	6,750	72,269	12,250
1975	48,284	7,962	79,677	13,139
1976	57,043	9,359	86,691	14,223
1977	64,534	10,630	92,323	15,207
1978	76,871	12,151	103,600	16,376
1979	95,359	14,644	116,862	17,946
1980	117,047	16,583	129,764	18,385
1981	130,397	18,417	130,397	18,417
1982	131,589	19,805	120,835	18,186
1983	127,256	20,831	111,335	18,225
1984***	123,033	21,602	104,265	18,307
1985***	115,279	22,129	94,724	18,183
1986***	109,577	22,869	87,451	18,251

* Includes Newfoundland starting in 1976.

** Corrected for inflation using the gross domestic product implicit price index.

*** Data uptated.

Source: Canadian Bankers' Association, Economic Trends in Canadian Agriculture, based on Statistics Canada data, October 1987.

According to estimates by Agriculture Canada, 22,400 farm borrowers may be in financial difficulty. Almost 5,900 borrowers are considered non-viable, and 7,280 are in a situation that could make them non-viable within 18 to 24 months. Saskatchewan and Manitoba proportionally have the highest number of non-viable farms while in absolute terms, Saskatchewan, with 7,540 borrowers in difficulty, Alberta, with 4,810, and Manitoba, with 2,910, dominate the overall picture in Canada, as shown in Table 4.

According to an FCC study which used a different methodology to evaluate the financial strain on Canadian farmers, around 14,000 farms, or 8%, may be practically insolvent because of a debtload that is too heavy for their revenue-generating capacity, as shown in Figure 4. Almost 40,000 farmers may be experiencing cash-flow difficulties that seriously limit their debt servicing. A number of organizations acknowledged to the Committee that these figures are an accurate portrayal of the situation. In its brief presented to the Committee, Prairie Pools Inc. pointed out that:

> The burden of farm debt servicing has become unmanageable for many in the current environment of depressed grain prices ... Continuation in farming today is dependent not only on one's managerial abilities but whether the farm is debt free. (Brief presented to the Committee by Prairie Pools Inc., December 8, 1987.)

From an historical perspective it is increasingly obvious that the financial crisis in agriculture results from the interaction of many factors, especially the multiplier effect of external disturbances that have intensified the changes in agricultural variables. However, a careful examination of certain factors that were masking the real situation would have revealed the warning signs of the current crisis. For example, the equity:total farm capital ratio was 86.4:100 in 1961 and 86.5:100 in 1981; this astonishing stability hid the fundamental structural changes undergone by agriculture during this period, and minimized the importance of the increasing farm debtload. The declines in asset values and equity levels illustrated in Figure 5 indicate that the restructuring and the transition in agriculture are not complete. Our experience must be used to formulate new policies, so that farm credit can be used to implement an agriculture policy incorporating such aspects as the preservation of the family farm, farm transfers, diversification, application of research and development, and soil conservation.

TABLE 4

Estimated Number of Farm Borrowers in Financial Difficulty by Region (the number as a percentage of the region's farm borrowers is shown in brackets)*
- Canada 1987 -

	Non-viable	Deteriorating	Financially Vulnerable	Total
British Columbia	230 (3.3)	180 (2.5)	200 (2.9)	610 (8.7)
Alberta	1,060 (3.4)	1,820 (5.9)	1,920 (6.2)	4,810 (15.5)
Saskatchewan	2,130 (4.6)	2,670 (5.7)	2,750 (5.9)	7,540 (16.2)
Manitoba	880 (4.6)	1,070 (5.6)	960 (5.0)	2,910 (15.2)
Ontario	750 (2.6)	1,040 (3.6)	1,060 (3.7)	2,850 (9.9)
Quebec	620 (1.6)	270 (0.7)	1,620 (4.2)	2,520 (6.5)
Atlantic	230 (2.8)	230 (2.7)	740 (8.8)	1,200 (14.3)
Canada	5,900 (3.3)	7,280 (4.0)	9,250 (5.2)	22,440 (12.5)

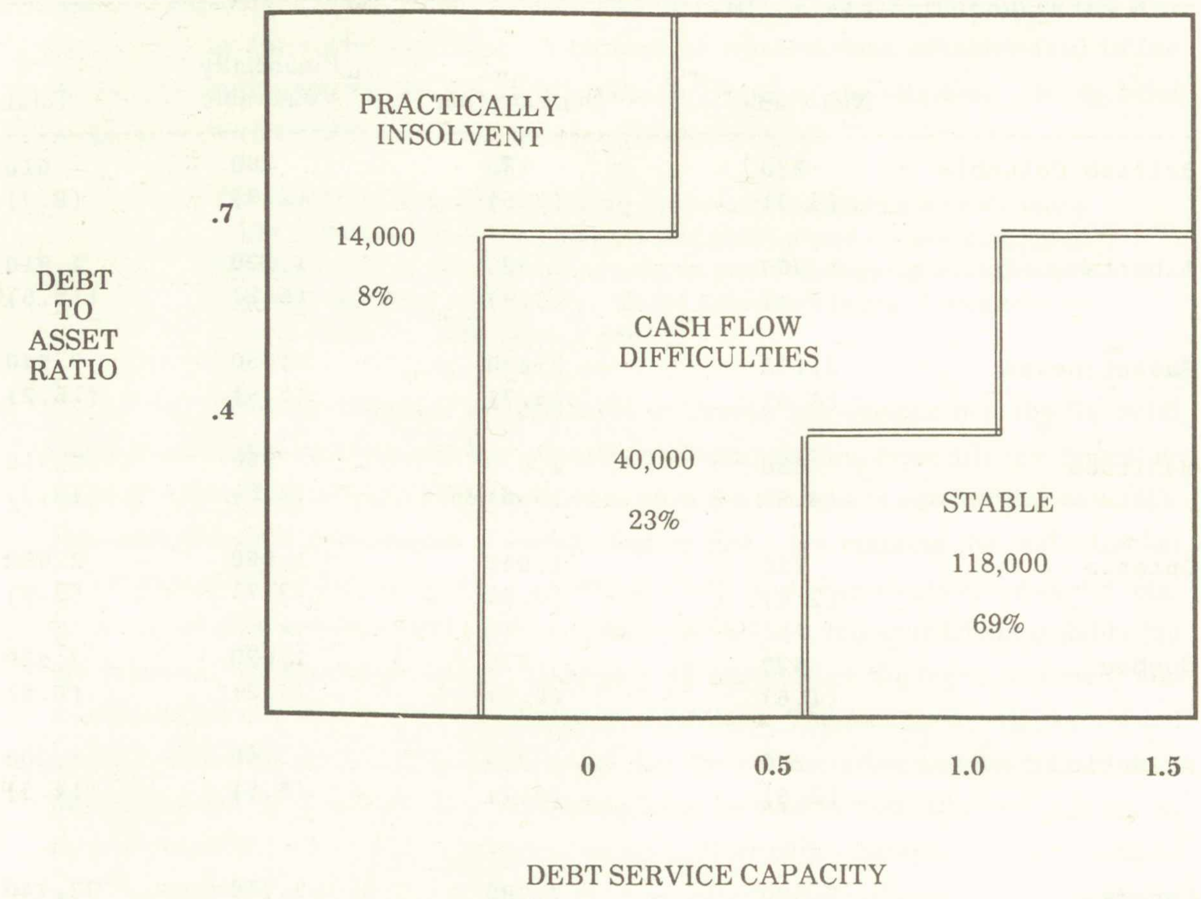
* Estimates of the number of farm borrowers in each province were derived from the Farm Credit Corporation 1984 farm survey.

Source: Agriculture Canada, Farm Financial Assessment Report, August 1987, p. 5.

FIGURE 4

Financial Profile of Canadian Farmers
as of January 1, 1987

(farms with sales less than $20,000 excluded)

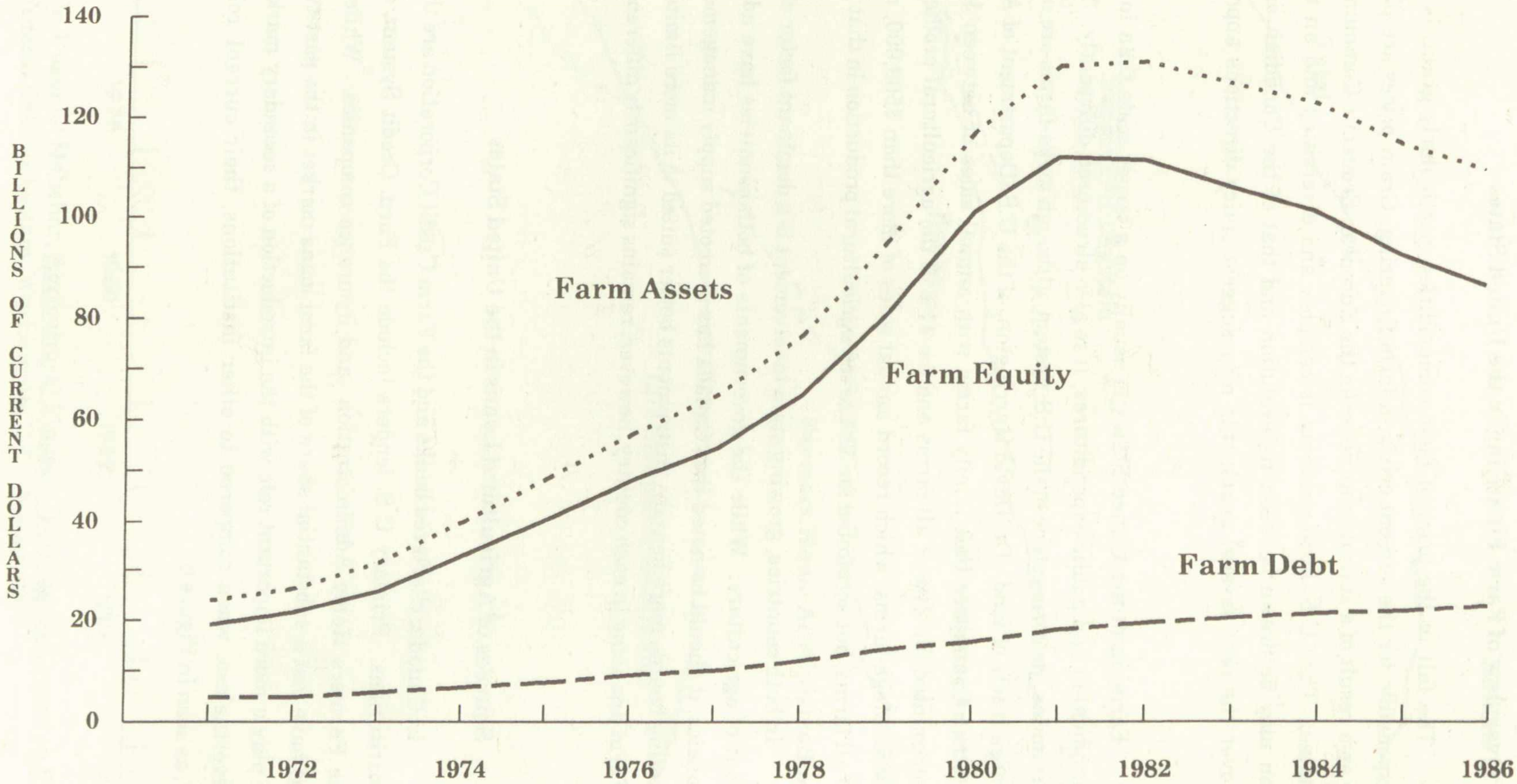


Source: Ralph Ashmead, Economic Transition in Farming, paper presented at the Canadian Bankers' Association Conference, November 1987.

FIGURE 5

TOTAL FARM EQUITY AND FARM DEBT

Canada, 1971 - 1986



Source: Statistics Canada, Cansim Division and Library of Parliament

E. An Overview of Farm Financing in the United States

The fall in the price of farm commodities, particularly grain, is one of the factors responsible for the current crisis in farm financing. Grain prices are plummeting, primarily as a result of a subsidy war between the European Economic Community and the United States. The U.S. farm economy is complex and diversified and an interesting comparison may be drawn between its evolution and that of the Canadian agricultural industry over the past several years; this may suggest policy directions appropriate for Canada.

Farming in the United States is usually on a larger scale than in Canada in terms of production and public expenditures; it is also structured differently. The family-run farm remains the cornerstone of the U.S. system, although mega-farms are increasingly farming large tracts of land. Dr. David Harrington, of the U.S. Department of Agriculture, reported to the Committee that family farms with annual sales of between $40,000 and $250,000 accounted for 24% of all farms and for 41% of the agricultural production in the U.S. in 1985. Mega-farms, which record annual sales of more than $500,000, represented only 1% of all farms, but accounted for 32% of the agricultural production in that year.

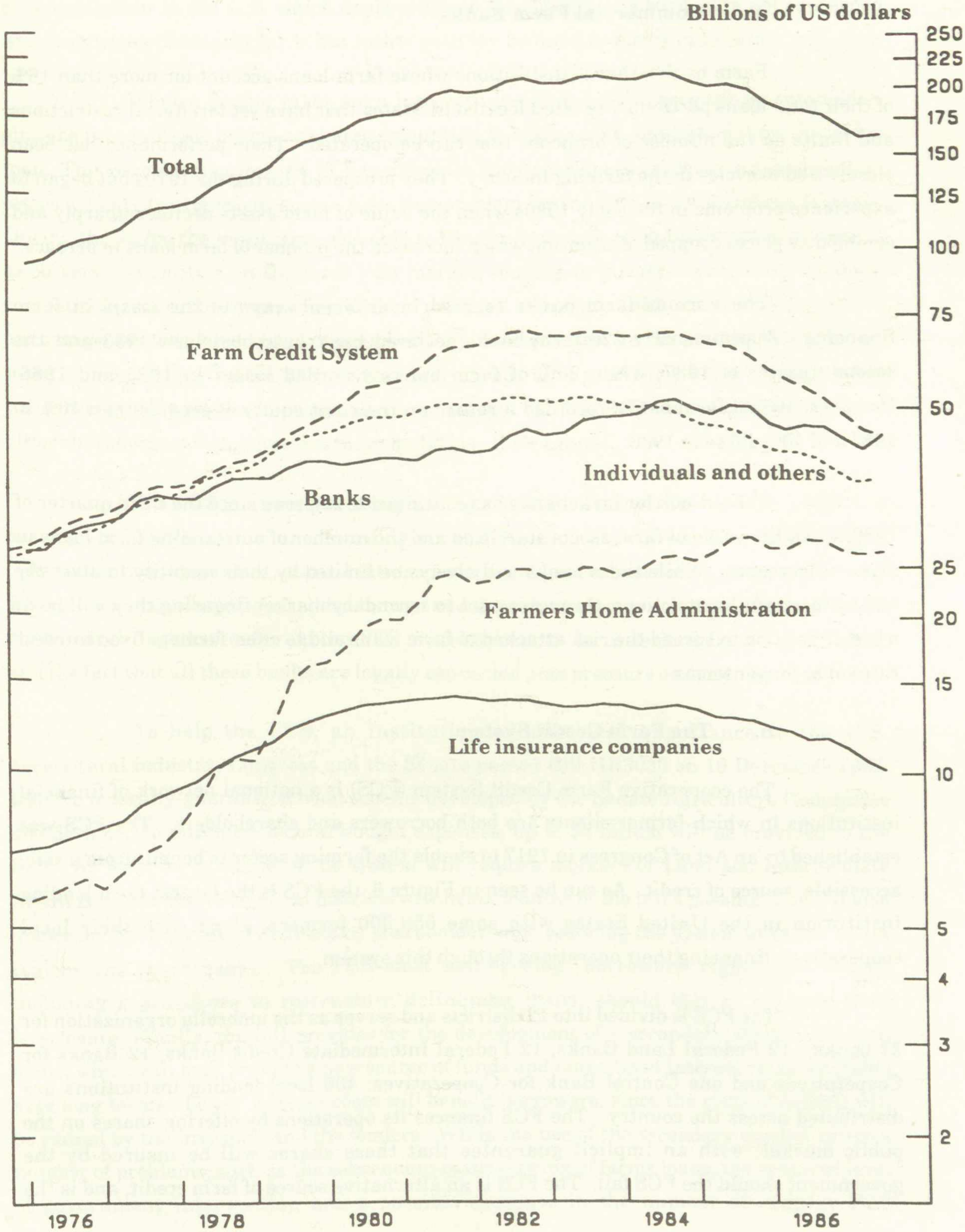
In both countries, growing state involvement is a dominant factor affecting the development of agriculture. While the governments of both countries have adopted some similar policies, it should be noted that Canada has promoted supply management systems and marketing boards more heavily, instruments better suited to its more limited domestic market. Farm financing in each country, however, remains significantly different.

1. Sources of Agricultural Loans in the United States

In Canada, chartered banks and the Farm Credit Corporation are the principal lending institutions. Primary U.S. lenders include the Farm Credit System, commercial banks, the Farmers Home Administration and insurance companies. While insurance companies have lost a substantial share of the farm loans market in the past two decades, they may play a more important role with the introduction of a secondary market for farm loans. Nevertheless, when compared to other institutions, their current role remains marginal, as seen in Figure 6.

FIGURE 6

OUTSTANDING FARM DEBT
UNITED STATES 1975-1987



Source: Dr. Emanuel Melichar, Agricultural Finance: Turning the Corner on Problem Farm Debt, Federal Reserve System, Washington, D.C., August 1987.

a. Commercial Farm Banks

Farm banks, that is institutions whose farm loans account for more than 16% of their total loans portfolio, are often located in states that have set territorial restrictions and limits on the number of branches that can be operated. Their performance has been closely tied to cycles in the farming industry. They prospered during the 1970s but began to experience problems in the early 1980s when the value of farm assets declined sharply and commodity prices dropped, a situation which increased the number of farm loans in arrears.

The various farm banks reacted in different ways to the crisis in farm financing. Approximately 220 farm banks declared bankruptcy between 1983 and the second quarter of 1987, while 20% of farm banks recorded losses in 1985 and 1986. However, 50% of farm banks recorded a return on their net equity of greater than 10% in 1985 and 40% did so in 1986.

The outlook for farm banks has continued to improve since the third quarter of 1986, when the value of farm assets stabilized and the number of outstanding farm loans in arrears decreased. While these banks will always be limited by their inability to diversify and by territorial restrictions, through access to secondary market financing they will be in a better position to spread the risk attached to farm loans and to offer farmers fixed interest rates over longer terms.

b. The Farm Credit System

The cooperative Farm Credit System (FCS) is a national network of financial institutions in which farmer-clients are both borrowers and shareholders. The FCS was established by an Act of Congress in 1917 to enable the farming sector to benefit from a safe, accessible source of credit. As can be seen in Figure 6, the FCS is the largest farm lending institution in the United States with some 650,000 farmers, along with their local cooperatives, financing their operations through this system.

The FCS is divided into 12 districts and serves as the umbrella organization for 37 banks: 12 Federal Land Banks, 12 Federal Intermediate Credit Banks, 12 Banks for Cooperatives and one Control Bank for Cooperatives; 400 local lending institutions are distributed across the country. The FCS finances its operations by offering shares on the public market, with an implicit guarantee that these shares will be insured by the government should the FCS fail. The FCS is an alternative source of farm credit, and is the only institution in the U.S. which deals solely in farm loans. As such, it is not concerned with promoting the family farm, but rather with the farming industry in general.

When a farmer takes out a loan with the FCS, he also becomes a shareholder, since he is required to purchase shares amounting to between 5% and 10% of the value of his loan. This practice requires the FCS to maintain substantial cash reserves to guard against losses arising from problem loans. A serious problem for the FCS is the matching of funds. During the 1970s the institution was able to benefit from long-term funds which allowed it to be very competitive on the farm loan market, lending to farmer-clients at lower-than-competitive rates. However, when interest rates fell sharply in 1982, it lost its comparative advantage and was forced to charge higher-than-market rates. In the process, the FCS lost many clients, in particular its best borrowers, who refinanced their loans through other institutions. This resulted in a decline in the market value of FCS shares, prompting many other shareholders to pull out lest they should lose their capital.

The FCS is at present experiencing the worst crisis in its history: while it is designed to handle loan volume totalling about $80 billion, its current loan volume totals only $50 billion; as a result, annual infrastructure and general operating costs, which total $800 million, have become an added burden and the target of some criticism. Nine of the 37 banks which together make up the FCS would appear to be in serious financial difficulty and the fact that all these banks are legally connected puts pressure on the entire system.

To help the FCS, an institution of historical importance to the U.S. agricultural industry, Congress and the Senate passed Bill HR3030 on 19 December 1987. Using a federally-guaranteed bond scheme developed by the Senate Agriculture Committee and designed to minimize federal budget expenses, up to $4 billion will be provided to the FCS. As well, an overhaul of the system will require mergers of Land and Intermediate Credit Banks in the 12 regional districts within six months of the bill's passing. The bill also allows for the merging of districts by shareholder vote, reducing the system to as few as six regions and seven banks. The FCS must also develop "borrowers' rights" provisions, including a procedure to restructure delinquent loans, should this be cheaper than foreclosure. Finally, the bill provides for the development of a secondary market for farm loans, which will both provide a new source of funds and make fixed interest rates available over long terms. Lower interest costs will benefit borrowers, since the risks of default will be shared by the investors and the lenders. While the use of the secondary market raises a number of problems, such as the subsequent restructuring of farms loans, the required level of government intervention and a possible decrease in the number of regular FCS borrowers, the legislation has emerged in response to a certain consensus on the need to find new, more diverse and less expensive sources of farm credit.

c. The Farmers Home Administration

Established in 1935, the Farmers Home Administration (FmHA) is regarded as the lender of last resort in the agricultural sector: it gives credit to farmers who cannot obtain it from commercial banks. In this respect the FmHA resembles Canada's Farm Credit Corporation.

The FmHA is financed through the sale of government securities and through interest revenue on the loans it makes. When a loan is guaranteed by the FmHA, the commercial bank can provide money directly to the borrower. In 1986, the FmHA made some 75,400 loans and grants, valued at a total of $4.4 billion; in addition, 43,000 loans were rescheduled over longer periods, 25,000 were subordinated to other lenders to allow new credit to be extended, and 28,000 were refinanced at a more favourable interest rate. Loans guaranteed by the FmHA but financed by other institutions reached $1.6 billion in 1986. "Borrowers' rights" provisions will also be applicable to FmHA borrowers.

The FmHA serves more than 1.2 million borrowers, 294,000 of whom are farmers with total outstanding debts of $29.7 billion in 1986. The FmHA also gives loans to enable low-income rural families to buy or repair their homes, and is involved in home rentals and the developing and improving of public services in rural areas. More than a simple lending institution, the FmHA is a major economic force in rural America, and its various mandates illustrate increasing government intervention.

2. A Comparison of the Farm Financing Crisis in Canada and in the United States

As just presented, farm financing in Canada differs significantly from farm financing in the United States; nevertheless, in both countries government intervention remains a major influence in the evolution of agriculture and its financing.

The financial situation of agriculture in Canada resembles that in the United States in a number of ways. Farms are becoming larger and the number of farmers is in steady decline. During the 1970s, both countries experienced strong growth in agricultural production, sales and prices, accompanied by an unprecedented rise in the value of farm assets and, simultaneously, in farm indebtedness. A total reversal in market conditions in the early 1980s put an unexpected stop to this strong expansion, and both countries experienced a decline in agricultural product prices and the value of farm assets. Confronted with these adverse conditions, many farmers found their debtloads becoming impossible to service, and both countries saw -- and are still seeing -- a high number of bankruptcies and farms at the limit of their financial capacities.

After the collapse of the 1970s, farm incomes fluctuated more widely in the United States than in Canada, although they continued in general to rise; as well, an adjustment to the decreased value of farm assets and a heavy debtload came about more rapidly than in Canada. Dr. David Freshwater, an economic consultant with the U.S. Department of Agriculture, told the Committee that the internationalization of American agriculture and the shrinkage of export markets in the early 1980s could explain the difference between the countries. It should be noted that American agriculture is now much more dependent on exports than it used to be in maintaining its relative position in the U.S. economy. In Canada, farm exports are important for the sector's well-being, but even when they increased considerably in the 1970s their proportion of total farm receipts remained relatively constant. The differences in the evolution of farm incomes, value of farm assets and debtload in the United States may also reflect greater fluctuations in interest rates and government payments in that country.

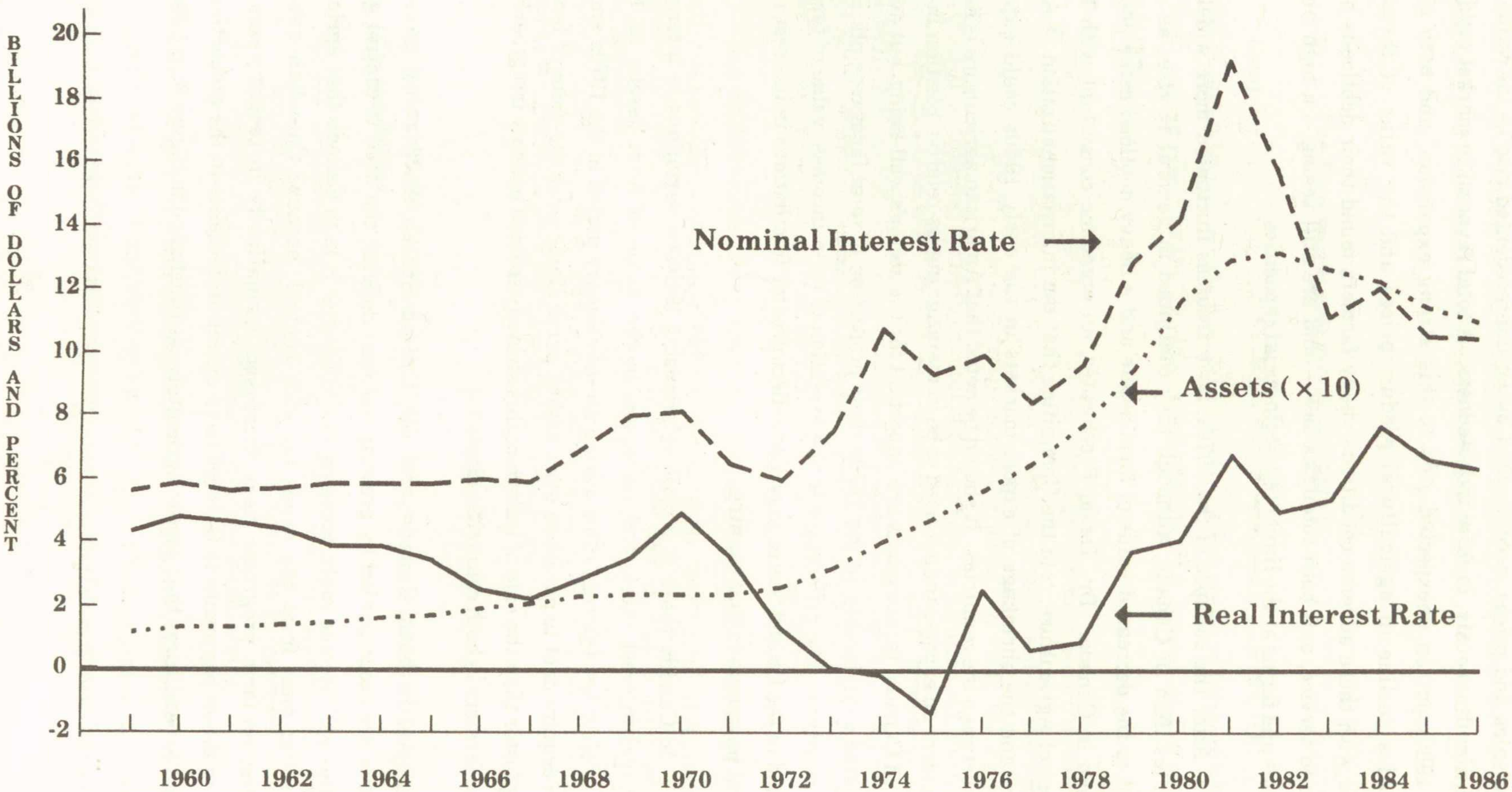
In Canada there is a close relationship between variations in interest rates, especially real interest rates, and variations in the value of farm assets, as Figure 7 indicates. Fairly low interest rates during an inflationary period in the 1970s encouraged farmers to acquire debt to purchase more assets, particularly since the value of farm assets was rising faster than the rate of inflation; this strategy seemed not only irreproachable but astute, and farmers in both countries adopted it.

As, in both Canada and the United States, increasing government expenditures are accompanied by growing national deficits, the need to control growth in expenditures will become more pressing in the future. It is in Canada that agriculture is likely to suffer most from the needs for such control, because Canadian government expenditures on farm programs have increased dramatically in recent years. These increases in direct payments to farmers have meant an increase in the proportion of total government expenditures that goes to agriculture, as illustrated in Figure 8; in 1986 such

FIGURE 7

INTEREST RATES AND FARM ASSET VALUES

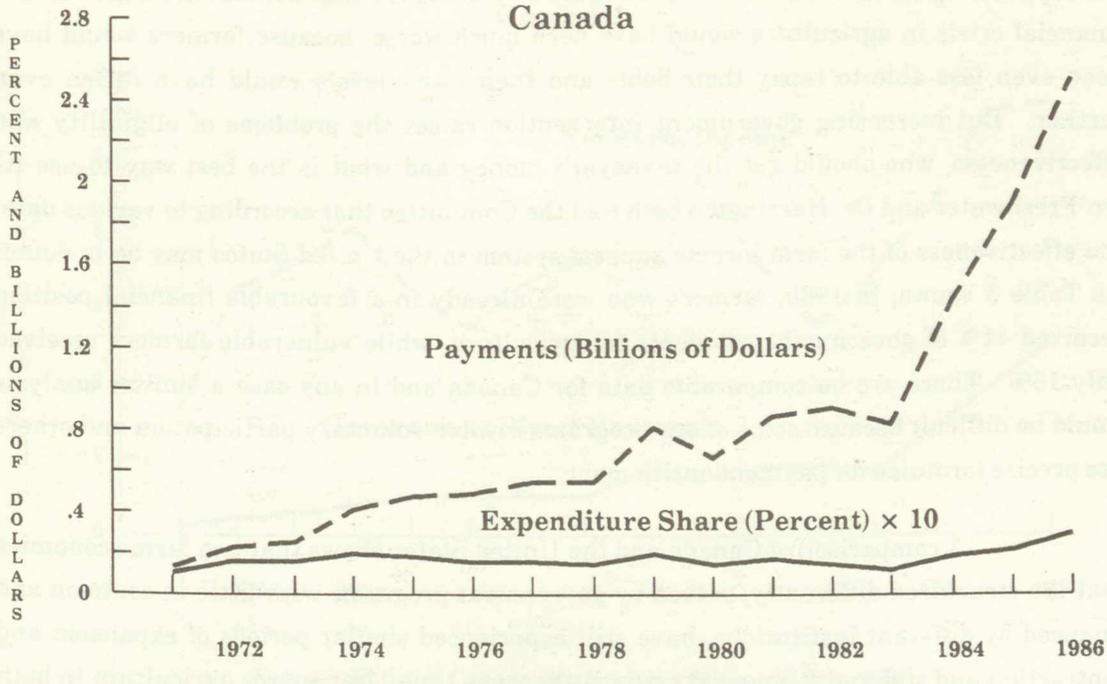
Canada, 1959 - 1986



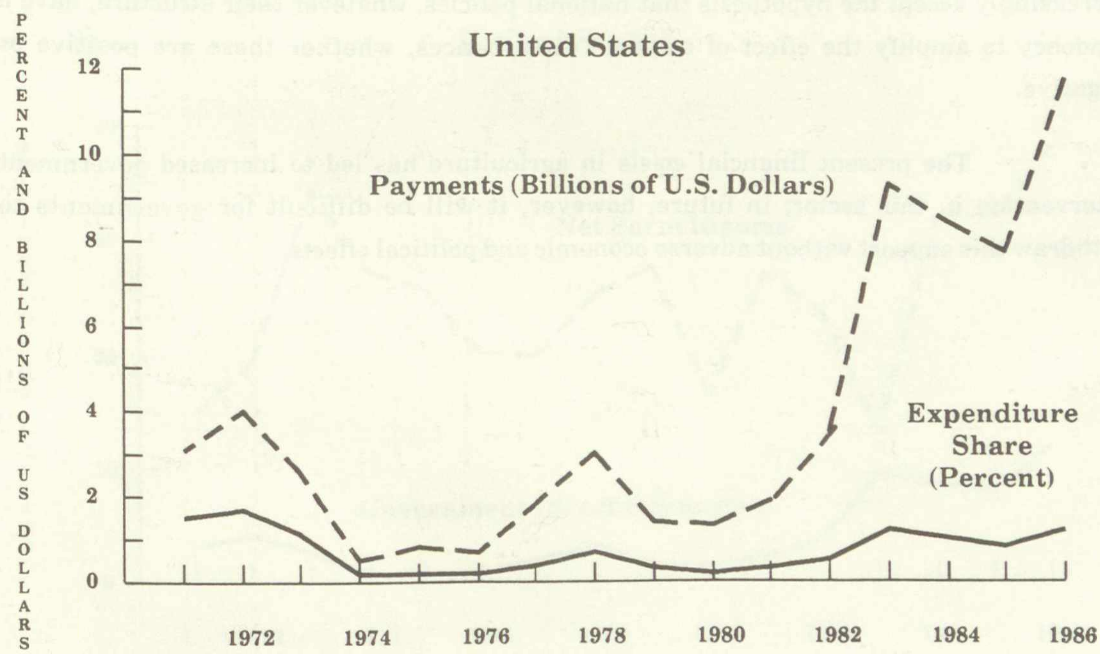
Source: Statistics Canada, Cansim Division and Library of Parliament

FIGURE 8

DIRECT PAYMENTS: PERCENT OF FEDERAL EXPENDITURES



Source: Statistics Canada, "Agriculture Economic Statistics"



Source: Dr. David Freshwater, data taken from his presentation to the Committee in Washington, D.C., October 1987.

payments represented about 3% of total federal expenditures. It is clear, however, that in both Canada and the United States government expenditures have played a major role in the support of farm income, as shown in Figure 9. Most agree that without them the current financial crisis in agriculture would have been much worse, because farmers would have been even less able to repay their debts and their asset levels would have fallen even further. But increasing government intervention raises the problems of eligibility and effectiveness: who should get the taxpayer's money and what is the best way to use it? Dr. Freshwater and Dr. Harrington both told the Committee that according to various data, the effectiveness of the farm income support system in the United States may be in doubt. As Table 5 shows, in 1985, farmers who were already in a favourable financial position received 41% of government payments to agriculture, while vulnerable farmers received only 16%. There are no comparable data for Canada and in any case a similar analysis would be difficult because some of our programs involve voluntary participation and others use precise formulae for payment entitlement.

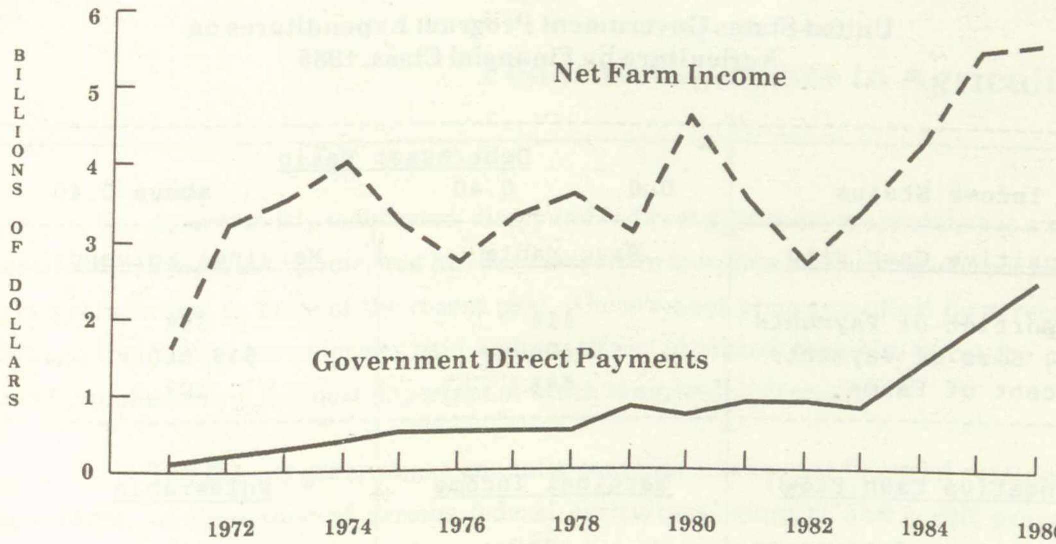
A comparison of Canada and the United States shows that two farm economies that are structured differently, served by government programs with little in common and financed by different institutions, have still experienced similar periods of expansion and contraction and suffered a financial crisis at the same time. Not only is agriculture in both countries dominated by government intervention, but agricultural analysts in each country increasingly accept the hypothesis that national policies, whatever their structure, have a tendency to amplify the effect of external disturbances, whether these are positive or negative.

The present financial crisis in agriculture has led to increased government intervention in this sector; in future, however, it will be difficult for governments to withdraw this support without adverse economic and political effects.

FIGURE 9

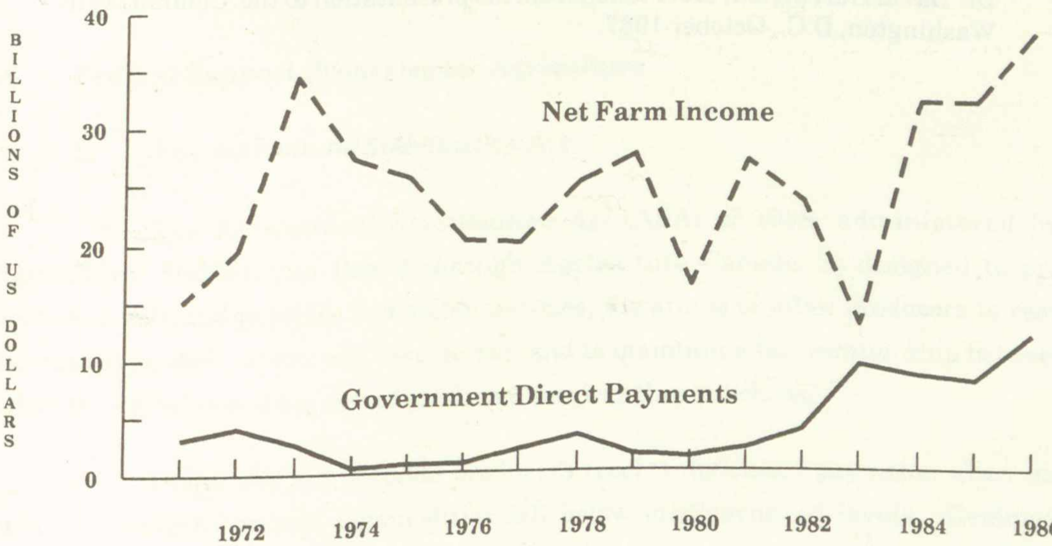
NET FARM INCOME AND GOVERNMENT PAYMENTS

Canada



Source: Statistics Canada, "Agriculture Economic Statistics"

United States



Source: Dr. David Freshwater, data taken from his presentation to the Committee in Washington, D.C., October 1987.

TABLE 5

United States Government Program Expenditures on Agriculture by Financial Class, 1985

Income Status	Debt/Asset Ratio 0.0 – 0.40	above 0.40
Positive Cash Flow	Favourable	Marginal Solvency
Proportion of Payments	41%	35%
Ave. Size of Payments	$17,948	$49,860
Percent of Farms	44%	10%
Negative Cash Flow	Marginal Income	Vulnerable
Proportion of Payments	8%	16%
Ave. Size of Payments	$10,066	$22,223
Percent of Farms	35%	11%

Source: Dr. David Harrington, table taken from his presentation to the Committee in Washington, D.C., October 1987.

Chapter II

Federal Assistance to Agriculture

As previously mentioned, direct and indirect government assistance is a major contributor to net farm income, and has been largely responsible for keeping current income levels comparable to those of the recent past. Government programs affect farm receipts, through their influence on prices paid and quantities produced; they also affect the prices paid for inputs, one of the most important of which is agricultural credit.

The federal government annually commits substantial financial resources to agriculture. A discussion of various federal agricultural support and credit programs designed to alleviate the adverse effects of low prices, depressed markets and production and income fluctuations will be presented. Appendix A shows direct government payments and rebates, both federal and provincial, to farmers under various major support programs for the 1971-1986 period. Appendix B lists the credit programs currently available provincially.

A. Federal Support Programs for Agriculture

1. The *Agricultural Stabilization Act*

The *Agricultural Stabilization Act* (ASA) of 1958, administered by the Agricultural Stabilization Board through Agriculture Canada, is designed to provide producers with stable prices and stable incomes; the aim is to allow producers to realize a fair return on their labour and investment, and to maintain a fair relationship between the prices they receive and the cost of goods and services they purchase.

Under the Act, eligible producers receive deficiency payments when market prices for certain "named" commodities fall below predetermined levels. Commodities currently "named" in the Act are: slaughter cattle, hogs and sheep; wool; industrial milk and cream; corn and soybeans. Oats, spring and winter wheat, and barley grown outside the areas designated in the *Canadian Wheat Board Act* are also included. As well, payments may be made for commodities "designated" from time to time by the Governor in Council.

Each year, the Agricultural Stabilization Board establishes a base price for each commodity. The prescribed price for "named" commodities in a given year is a minimum of 90% of the average price of the immediately preceding five years, or another percentage prescribed by the Governor in Council, adjusted for changes in cash production costs. Although there is no minimum price for "designated" commodities, the principle for calculating the prescribed price is similar, with the percentage determined by the Governor in Council; "designated" commodities are generally supported at the 90% level.

Support for "named" or "designated" commodities may also be given through bipartite or tripartite stabilization plans, where support levels are based on prices or costs. All provinces except Newfoundland are currently included in cost-shared National Tripartite Stabilization Programs (NTSP). Agreements covering apples have been signed in British Columbia, Ontario, Quebec, New Brunswick and Nova Scotia, while beans are covered in Alberta and Ontario; agreements for sugar beets have been signed in Alberta and Manitoba. Alberta, Saskatchewan, Ontario, Prince Edward Island and Nova Scotia have signed agreements for lambs, while Alberta, Saskatchewan, Manitoba and Ontario have reached agreements for hogs. Finally, agreements for beef, including cow-calf, slaughter cattle and feeder cattle, have been signed in Alberta, Ontario and Prince Edward Island; Saskatchewan has announced its intention to enter into beef arrangements. Negotiations for the establishment of other tripartite stabilization plans are ongoing.

2. The *Western Grain Stabilization Act*

Under the *Western Grain Stabilization Act*, proclaimed in 1976, eligible grain producers in Western Canada are protected against extreme fluctuations in returns from year to year. The program eases the impact of disruptive price, market and cost factors and helps stabilize cash income from grain sales by providing a minimum assured cash flow level. The Act covers producers of the seven main grains -- wheat, oats, barley, rye, flax, canola and mustard seed -- grown in the Canadian Wheat Board areas of Alberta, Manitoba, Saskatchewan and British Columbia. The program does not cover grain fed to a producer's own livestock or poultry, or non-pedigreed seed grain sold to other producers; generally, farm-to-farm grain sales are also excluded from coverage. A proposed amendment to the Act would expand coverage to all crops grown under the *Canada Grains Act*, as well as canary seed. Edible beans, corn and soybeans, currently covered under the ASA, would be excluded.

Participation in the program is voluntary, and participants may include qualified farming companies, cooperatives and partnerships, if individual members are actual producers and the farming business is more than 50% Canadian-owned. Participants must be Canadian citizens or landed immigrants.

Under the jointly-funded program, producers and the federal government each pay a yearly levy into the stabilization fund to an agreed maximum. The levy changes in response to the relationship between the interest earned or paid on the fund and the levy contributions of producers. The levy rate of producers ranges from a minimum of 1% to a maximum of 2.5%, with the federal government's contribution being the same plus an additional 2% on all eligible producer proceeds. Currently, the levy rates for producers and the federal government are 1% and 3%, respectively. The federal government also pays all program administration costs.

Producers receive payments from the fund when either of two measures, eligible net cash flow or eligible net cash flow per unit (tonne), is below the immediately preceding five-year average. Net cash flow, calculated for each crop year, is defined to be the difference between overall cash receipts from western grain sales and the cash costs of producing the grain for market. The measure yielding the larger payout for a given year is used to calculate a stabilization payment, which will equal the difference between the measure and the previous five-year average, adjusted for eligibility and participation. The Act, which permits coverage on grain receipts to a maximum of $60,000, provides for an interim payment to be made in the spring of a prospective payout year in order that farmers have cash available prior to spring seeding; these payments are subject to Cabinet approval. The $60,000 maximum was expected to cover approximately 88% of eligible grain sales for the 1986-87 crop year; target coverage for the program is 90%. Levies paid into the fund are tax deductible, and payments received from the fund are taxable income. The maximum grain receipts subject to levy entitlement may be changed by the Governor in Council.

Producers may voluntarily withdraw from the program prior to 31 July of the third crop year of their participation or exercise their ten-year program anniversary withdrawal option. Producers who withdraw have one opportunity to rejoin in each ten-year period; should they do so, they become conditional participants for a three-year period and receive only 90% of any payment issued during that time. An amendment to the Act will be introduced to remove the 10% penalty for producers who have opted out of the program and wish to rejoin.

In the 1986-87 crop year, $1.398 billion in total stabilization payments was paid out, the largest payout issued since the program's inception; it represented a 62.7% increase over that of the year before, and left the stabilization fund with a $1.5 billion deficit, down from a surplus of about $1 billion in 1984. In December 1987, the federal government announced that $750 million of that deficit would be written down. For future payments, the fund will borrow money from the federal government, as provided for under the provisions of the Act, and will repay the funds and assessed interest according to agreed-upon terms. The 1986-87 payout yielded $13.55 in benefits for each $1 levy a farmer had paid into the fund during the past three crop years; in the long run, the program is designed to return $3 to producers for each dollar paid into the program. At present, over 85% of Prairie grain farmers participate in the program.

3. The *Crop Insurance Act*

Under the authority of the *Crop Insurance Act*, administered by Agriculture Canada, a federal-provincial cost-shared program has provided all-risk crop insurance since 1959. The program's objective is to stabilize farm income by minimizing the losses from crop failures due to unavoidable natural hazards. The Act currently covers 87 crops.

Agriculture Canada contributes financially to the federally-approved, provincially-administered crop insurance plans operating in all ten provinces. The Act allows either for federal loans to be made to provinces in years in which indemnities exceed the reserves available, or for the federal government to enter into a reinsurance agreement with a province to cover a portion of that province's liabilities for indemnity payments under a crop insurance scheme.

Two cost-sharing options exist:

- the federal government may contribute 25% of the total premiums and 50% of the provincial administrative costs, with the provincial government doing the same; or
- the federal government may contribute 50% of the total premiums, with the province absorbing all of its administrative costs.

Quebec and Newfoundland have crop insurance agreements based on the first cost-sharing option, while agreements with all of the remaining provinces are based on the second option. A producer pays no more than 50% of the total premiums. Agreements with Manitoba, Saskatchewan, Alberta, Nova Scotia and New Brunswick include reinsurance provisions, while agreements with Prince Edward Island and British Columbia have loan provisions.

4. The *Western Grain Transportation Act*

In 1983, legislation on grain transportation was enacted to provide expanded and improved rail transportation for grain and grain products, oilseeds and oilseed products, and other agricultural commodities to both domestic and foreign markets.

Under the Act, the government pays the annual Crow Benefit directly to railways and, through a cost-sharing arrangement with shippers of eligible commodities, shippers pay the first 6% of grain rail costs. The Committee recognizes both the complexity and the controversial nature of this program, but did not dwell on this Act in its hearings, feeling that such an analysis would exceed the parameters of the current study.

5. The *Agricultural Products Board Act*

The Agricultural Products Board, established under the *Agricultural Products Board Act* of 1952 and administered by Agriculture Canada, has the authority to:

- buy, sell or import agricultural products;
- store, transport and process agricultural products;
- sell agricultural products to any country and make arrangements for their purchase and delivery; and
- purchase agricultural products on behalf of any government or agency.

In short, the Board has these powers in order to stabilize agricultural commodity prices when markets are depressed. Although programs may be undertaken to resolve specific marketing concerns, market stabilization is generally taken in lieu of action under the *Agricultural Stabilization Act*.

Eligible agricultural commodities include: livestock and livestock products, poultry and poultry products, milk and milk products, vegetable and vegetable products, fruit and fruit products, honey, maple syrup, tobacco, fibre and fodder crops, as well as any agricultural product designated by the Governor in Council.

6. The *Advance Payments for Crops Act*

The *Advance Payments for Crops Act* of 1977, administered by Agriculture Canada, facilitates the marketing of storable crops by providing eligible producer groups with guaranteed, interest-free loans to make advance payments to their members between harvest and sale of the product. All crops that can be stored in their natural, unprocessed state, except wheat, oats and barley grown in Canadian Wheat Board areas, are eligible; thus, for eligible areas, crops include grains, oilseeds, root crops, field-grown crops as prescribed, honey and maple syrup.

The Act, in addition to providing interest-free loans, also guarantees repayment of 98% of the amount borrowed by a producer organization from a bank, credit union, caisse populaire, trust company or a Province of Alberta Treasury Branch. It also allows government payment of the interest on money borrowed if advances are made according to the Act, designates the rate of advance per unit of crop, determines the maximum guarantee, and allows for the audit of the producer organizations' records and the approval of their monthly interest and default claims.

The amount of an advance payment cannot exceed 50% of the expected per unit market price for the crop in that crop year. Individual producers may each receive a maximum advance of $30,000 for all crops each year, while the maximum for two partners or shareholders is $60,000; three or more partners or shareholders may receive an advance of up to $90,000.

7. The *Prairie Grain Advance Payments Act*

Under the *Prairie Grain Advance Payments Act*, administered by the Canadian Wheat Board, eligible holders of Canadian Wheat Board permit books who have wheat, oats or barley in farm storage can receive cash advance payments to ease the effects of the quota delivery system and local elevator congestion. The Board may provide interest-free advances to a producer for deliverable grain prior to its delivery to the Board in order that he may meet his short-term monetary commitments when sales opportunities are limited.

Maximum total advance payments are $30,000 for individual producers, and up to $90,000 for farm corporations or partnerships. Eligible producers receive advance payments from elevator agents, based on the amount of grain stored in their facilities; the payments are repaid through deductions from the sales receipts for subsequent grain deliveries. Special provisions under the Act

- permit rye, flaxseed and canola coverage; and
- allow emergency advance payments to enable producers of grain to better finance the drying of damp or tough grain, or for threshed grain in storage because of unusual weather conditions.

8. The Dairy Support Program

Under the Dairy Support Program, administered by the Canadian Dairy Commission established in 1966, efficient producers of industrial milk and cream that are shipping within their market sharing quota can earn a fair return on their investment and labour; the Program is also designed to ensure a sufficient supply of high quality dairy products. It comprises an offer-to-purchase program for butter and skim milk powder, and a federal subsidy program funded through the ASA.

Under the Program, the Commission establishes a Target Return for industrial milk and cream. The Target Return is based on assumed market returns, which reflect the federal market price support program for butter and skim milk powder, and direct payments made to producers by the federal government. A formula which measures the changes in production costs experienced by the most efficient farms adjusts the level of Target Returns for industrial milk during the year. The Target Return level is currently $46.92 per hectolitre of milk containing 3.6 kilograms of butterfat; $6.03 of this amount is represented by the federal government's direct payments to industrial milk and cream producers who meet domestic market requirements and milk produced under the export quota, and represents 13% of the Target Return level for industrial milk.

9. The Feed Freight Assistance Program

The Feed Freight Assistance (FFA) Program, administered by the Livestock Feed Board of Canada, is designed to help equalize the cost of feed grain transportation. The Program subsidizes a portion of the transportation costs for moving Canadian feed grains to livestock feeders in some parts of Canada.

Specifically, livestock feeders, feed manufacturers and small mill operators who ship feed grain and are located in

- British Columbia, except the regions of the Peace River and Creston-Wynndel;
- the Yukon and Northwest Territories;
- Northern Ontario;
- Eastern Quebec; and
- the Atlantic provinces

are eligible for assistance. Since August 1984, the Program has included all Canadian feed grains sold commercially within the eligible regions, including locally-produced grains. Under the Program, shippers of the feed grains receive a subsidy and livestock producers benefit from lower feed grain costs.

10. The Special Canadian Grains Program

The Special Canadian Grains Program provides cash assistance to eligible producers to help ease the impact of the international subsidy war between the United States and the European Economic Community. For the 1987 crop year, eligible crops include: wheat, barley, oats, rye, mixed grains, corn, soybeans, canola, flax and sunflower seeds; also covered are dry peas, mustard, lentils, canary seed, safflower, buckwheat, field beans, faba beans, honey, and alfalfa for processing, as well as pedigreed seed, popcorn, triticale, and farm-fed grain. Excluded are grains seeded for silage or green feed, forage seed and hay. The assistance rate for each eligible crop is proportional to its price decline as a result of the international trade war.

Payments to an individual farmer are calculated on the basis of his seeded acreage of these commodities and on representative regional yields derived from crop insurance data. Provision has been made to pay on summerfallow in the West. Payments to honey producers will be made on the basis of the number of hives in excess of 25. As well, irrigated land is eligible for higher payments, reflecting higher yields. The maximum payment to any one producer is $25,000.

The Program was first announced in December 1986 for implementation in 1987 on the 1986 crop. A $300 million disbursement was made to producers in January 1987 with the remaining $700 million of the $1 billion national scheme paid in June 1987. The Program has been extended for an additional year: a $1.1 billion payment will be made in 1988 on the 1987 crop, with $800 million to be paid by 31 March 1988 and the remaining $300 million by 30 June 1988.

Witnesses appearing before the Committee focused on two aspects of the Special Canadian Grains Program: the nature of the Program with regard to such factors as the total funds allocated and the degree to which the Program will be on-going; and the manner in which funds are allocated to individual farmers.

Only one witness advocated establishing a specific time frame for such a program, while the Canadian Federation of Agriculture stated that:

> ... this type of program, although expensive, is important in maintaining Canadian industry. If we look ahead in the short run, I think we would be less than honest if we did not recognize that this may well not be the last year in which we will have to deal with this type of program. The type of investment that we made to try to maintain our grains and oilseeds sector will have to be protected by some additional payments. (Mr. Don Knoerr, Canadian Federation of Agriculture, Issue 18:17, December 15, 1987.)

The National Farmers Union had a criticism of the program in that it felt that:

> ... the Canadian government was wrong last year in terms of just basically pulling a billion dollars out of the air and not backing it up, as the Auditor General said, with substantial documentation. We would prefer to go the route of what our injury in Canada is as Canadian farmers and establish target prices at cost of production. We think that on that basis we can justify to Canadian consumers why that kind of a deficiency program should be put in place. (Mr. Wayne Easter, National Farmers Union, Issue 13:19, November 17, 1987.)

With regard to the manner in which funds are allocated under the Program, the Western Canadian Wheat Growers Association said that:

> I can tell you that farmers do not much care for special grains programs based on productivity, amount of crop insurance, amount of land and regions because they are based on averages and they do not address individual farmers. In basing programs on averaging, we have to ask who is average, whose production does the average apply to? Some crops are included in the program and some are not. (Mr. William Duke, Western Canadian Wheat Growers Association, Issue 11:38, October 10, 1987.)

The Committee believes that the $1.1 billion in Special Canadian Grains payments should be allocated to producers as fairly and equitably as possible. Furthermore, the Committee recognizes that the Program was implemented as a temporary measure to alleviate the income problems of grain producers who were suffering because of subsidy-inspired grain surpluses and the resulting international price war between the United States and the European Economic Community.

I. Recognizing that aid will be necessary until the grain surplus and the price wars have ended, the Committee recommends that programs like the Special Canadian Grains Program be continued to enable producers to maintain both the Canadian share of the grain export market and a viable grain growing industry in Canada.

11. Farm Debt Review Boards

Under the *Farm Debt Review Act*, proclaimed 5 August 1986, Farm Debt Review Boards (FDRBs) have been established in each province to ensure that farm operations in financial difficulty or facing foreclosure have access to an impartial third-party review and possible financing or refinancing. Each province has one Board, except for Saskatchewan, Alberta and Ontario which each have two. Each Board, consisting of a Chairman and not more than ten other members, is responsible for preparing a list of persons available to serve on Farm Debt Review Panels; these individuals must have knowledge and experience of agriculture or financial matters.

A Farm Debt Review Panel is established by the Chairman of the FDRB for each farm debt review; its purpose is to consider the financial affairs of the farmer and to facilitate an arrangement between him and his creditor(s). Each Panel consists of three persons appointed by the Chairman of the Board, two from the aforementioned list and a third, from among the Board members themselves, who acts as Chairman. The Panel is provided with an in-depth report of farm operations and financial status by field staff with knowledge of the type of farm operation being reviewed and experience in handling farm financial problems.

Two types of applications can be made: one for an insolvent farmer, the other for a farmer in financial difficulty; priority is given to the former. In either case, the FDRB does not have the legal authority to force an agreement on either the farmer or the creditor(s); the process is voluntary.

In the case of an insolvent farmer, the Act provides that a secured creditor(s) must give the farmer at least 15 business days' notice of action being taken against him, and must advise him of his right to make an application under the *Farm Debt Review Act*. The farmer can then apply to the FDRB, including with the application a list of all assets and the names and addresses of all creditors. The Board will then notify all creditors and issue a 30-day stay of proceedings against foreclosure; should the Board feel that an extension of this period is essential to the formulation of an agreement between a farmer and his creditor(s), it may extend the stay of proceedings at 30-day intervals for a total of 120 days. When the notice of seizure is obtained, the Board appoints a guardian for the farmer's assets; the guardian may be the farmer himself, any other qualified person chosen by the Board, or any other qualified person nominated by any secured creditor(s). A Farm Debt Review Panel will meet with field staff, the farmer and his creditor(s), to assess the situation and attempt to achieve a mutually satisfactory agreement. If this attempt fails, the creditor(s) can proceed with foreclosure and the farmer will be referred to the Canadian Rural Transition Program (CRTP). Administrators of the CRTP will accept the farmer's application based on the Farm Debt Review Panel's referral, thereby expediting the process for the farmer. An insolvent farmer who does not enter into an agreement with any creditor within the stay-of-proceedings period is not entitled to make a new application for a two-year period after the previous application date without the written consent of the Board. If an agreement is reached and signed by both parties, it is a legal contract. Where the farmer does enter into an arrangement with a creditor within the stay-of-proceedings period, a new application under the Act cannot be made for a two-year period after the agreement's termination without the written consent of the Board.

A farmer in financial difficulty may apply to the FDRB for a review of his financial affairs or for assistance in reaching an agreement with his creditor(s). A Farm Debt Review Panel is established, and field staff are assigned to evaluate the situation with the farmer and, if requested by him, with his creditor(s); preliminary suggestions for improving the farm's prospects are made. The Panel, after a review of the final report, meets with the farmer and, if he so requests, his creditor(s), to discuss the report and attempt to enter into an agreement. If an agreement is signed by the parties, it becomes a legal contract.

In the August 1986 to December 1987 period, 4,978 applications were received by Farm Debt Review Boards, 45.0% from insolvent farmers and the remaining 55.0% from farmers in financial difficulty. Of the applications received, 57.0% or 2,835 were completed, of which 974 or 34.4% led to a signed arrangement. Saskatchewan accounted for the highest proportion of total applications received, with 33.3%, followed by Ontario with 22.3%, Alberta with 16.3% and Manitoba with 15.0%.

Funding for Farm Debt Review Boards has been extended to 1991, with an additional federal commitment of almost $40 million. The FCC has also been given additional funding of up to $330 million to allow it to participate on an equal basis with other lenders in the debt review process until 1991.

In appearances before the Committee, several witnesses expressed concern about the debt review process, focusing on its length and the lack of power granted to the Boards to impose settlements.

The Canadian Cattlemen's Association, in reference to the process, stated that:

> I think it is unfortunate that it got off to a very rocky start. I believe it was implemented too quickly; perhaps there was not enough time to set it up properly ... now, it is operating more smoothly, ... [O]ne of the major criticisms was that the panel did not take enough time to evaluate a situation, in that they would hold one meeting and then make a decision. (Mr. Ron Oswald, Canadian Cattlemen's Association, Issue 15:18, December 1, 1987.)

Several witnesses felt that Debt Review Boards should be given powers to impose settlements. The Christian Farmers Federation of Ontario, referring to a survey on the process, said that:

> The survey, ..., points out that about 80% of the respondents want the board to have more power to impose settlements. (Mr. William Jongejan, Christian Farmers Federation of Ontario, Issue 13:25, November 17, 1987.)

The Committee, however, feels that Farm Debt Review Panels should not have the power to impose arrangements; that is, the Panels should not have the ability to force creditors to write-down or set-aside debt.

II. The Committee thus recommends that Farm Debt Review Panels maintain their role as mediators, but recommends that their mandate be enhanced, so that

1. Panels have the authority to refer farmers to the Farm Credit Corporation for assistance under the interest-relief scheme, with their recommendation being given some weight (see recommendation VI. on p. 69);

2. Panels make the final determination of eligibility for benefits under the Canadian Rural Transition Program; and

3. The recommendations of Panels be given some weight in the determination of eligibility for social programs (see recommendation IV. on p. 49).

12. The Canadian Rural Transition Program

The Canadian Rural Transition Program (CRTP), implemented in September 1986, is designed to assist people whose financial difficulties force them to leave farming to make the transition into alternative employment and another way of life. The Program, developed by Agriculture Canada and Employment and Immigration Canada after discussions with provincial governments and farm organizations, is available to farmers

- who, for financial reasons such as foreclosure, seizure of assets or inability to obtain credit to maintain a viable farming business, left farming as of 1 January 1985 or are about to do so;
- who have no permanent full-time employment;
- who are legally entitled to work in Canada;
- who are seeking employment; and
- who are not receiving unemployment insurance benefits.

Farmers may apply up to three months before they cease farming.

The CRTP offers various types of counselling and assistance: personal and job counselling; financial assistance for transition, training, travel, job search, relocation and the establishment of a new non-farm business; and partial wage reimbursement for employers as an incentive to hire farm family members who have difficulty in obtaining employment.

Under the Transition Grant, financial assistance in the amount of $1,600 per applicant may be provided in a lump sum for the first four weeks after approval of the application. This grant, to be used to cover the cost of living, shelter or moving to interim accommodation, is given only if the applicant is not receiving welfare assistance. No family may benefit from more than one Transition Grant. Additional grants may be paid every two weeks for a period of up to 22 weeks while applicants are seeking employment or waiting to start training. Applicants are eligible to receive the supplement even if their spouse is receiving unemployment insurance benefits or social assistance, or is employed, with the determining factor in these cases being gross weekly taxable income. Supplementary transition assistance is harmonized with the Canadian Jobs Strategy (CJS) training allowances and includes care for dependants.

In order to help applicants obtain training, fees may be paid for career-related training courses, and supplementary allowances for living, care for dependants, trainee travel, living away from home and commuting may be provided; the rates are standardized with those available under the CJS program. The Program may provide up to $100 a day for training, for a maximum of 104 weeks to a total maximum of $26,000. Payments are made either to the trainee, upon proof of registration, or directly to the organization offering the training.

An applicant who must relocate to start a new job, travel to look for a job, or travel to undertake training may receive assistance at CJS rates; job search travel assistance is provided only if the applicant has a good chance of finding a job. Relocation assistance may be paid to a maximum of $5,000 per applicant, with payments made in two installments; the first installment is for a maximum of 50% of the total approved assistance, paid prior to departure, and the second installment is for the balance, paid after the completion of travel. To qualify for job search assistance, the applicant must travel at least 100 kilometres, round trip; to be eligible for trainee travel assistance, the distance must be more than 24 kilometres, one way, and the training must be 20 or more hours per week. The amount payable for travel assistance is calculated on the distance to be travelled and the designated rate per kilometre established by the Treasury Board Travel Directive. In certain circumstances, an accommodation allowance may be paid for up to five nights while the recipient is travelling between the place of residence and the area of the job search or the location of the course, and for the first night he or she spends in that place. Furthermore, under select conditions a commuting allowance may be paid.

Assistance is also available for applicants wanting to establish a new, non-farming business, provided that the proposed business can be demonstrated to be economically viable. A maximum grant of $180 per week for a maximum of 52 weeks, or up to $9,360, may be paid, provided applicants make an investment matching at least 25% of the grant. The investment, of up to $2,340, may be in the form of cash, materials or equipment, excluding government grants, contributions or subsidized loans under other government programs. Only one grant is payable per new business established.

Employers, other than provincial or federal government departments, are given incentives to hire farm family members who have difficulty finding employment. A wage or salary subsidy of 50% of gross weekly wages paid, to a maximum of $3.50 per hour for up to 40 hours per week, for a maximum of 26 weeks, may be reimbursed to employers for each individual employed. Payments are made upon receipt of valid claims for actual expenditures.

Finally, participants are eligible for a full range of career and job counselling services available at Canada Employment Centres to prepare them to enter the labour market. There is also personal, legal and financial counselling to help people adjust to a new work environment and the loss of their farm. Total counselling costs of up to $1,500 are covered.

Since the Program's inception, more than $5 million has been spent to assist more than 1,200 farmers. In the September 1986 to December 1987 period, a total of 1,824 applications were received, of which 1,352 were approved. Ontario, with 33.1%, and Alberta, with 23.1%, had the highest proportions of total approved applications; Manitoba and Saskatchewan accounted for 13.0% and 13.6%, respectively Each of the eastern provinces accounted for not more than 2.3% of the total approved applications. Funding for the Program has been extended to 1991 at an additional federal cost of $28 million; it was initially funded until September 1988.

Strong support for the CRTP was expressed by many witnesses in their appearance before the Committee, including Prairie Pools Inc. which said that:

> Although with much regret, the (P)rairie (P)ools' producer members have recognized the reality that some heavily indebted farmers will be unable to continue their farming operations. In this respect, Prairie

Pools Inc. supports the assistance provided through programs such as the Rural Transition Program. (Mr. William Strath, Prairie Pools Inc., Issue 16:10, December 8, 1987.)

The Committee recognizes the benefits that farmers have received under Farm Debt Review Boards and the Canadian Rural Transition Program and believes that these programs should continue.

The Committee feels, however, that these programs should be monitored to ensure their continued effectiveness. The Committee is strongly of the opinion that the review by a House of Commons Committee of the overall effectiveness of the *Farm Debt Review Act*, which was to have begun by December 1986, should be completed before December 1988, and annually thereafter.

III. The Committee recommends that the operations of the Farm Debt Review Boards and the Canadian Rural Transition Program receive annual reviews by Agriculture Canada to ensure their effectiveness. Further, the Committee recommends that the results of these reviews be referred to the appropriate Standing Committees of the House of Commons and the Senate.

In sum, the evolution of agriculture has been marked by cycles which have required varying degrees of adjustment in the industry. The farm crisis of the early 1980s exposed some of the shortcomings of this structure, which is now undergoing profound change, not just minor adjustment. The fragile nature of farm financing in Canada has been revealed, highlighting the importance of agricultural support programs. The changes taking place within the industry are inevitable, but the Committee feels that measures should be implemented to help family farms adapt quickly.

One of the most dramatic aspects of the present farm financing crisis is its impact on the rural community. The transition has been quite difficult for certain once-prosperous farming regions; declining populations in some rural communities have generated both a feeling of isolation among the farm families who have remained there and an erosion of local services. Symptoms of this "disinvestment" in rural communities include a higher incidence of poverty, a lack of interest in farming among the younger generation and relatively little confidence in the future.

The Committee is deeply concerned about the many farmers who face serious financial problems that could put an end to their farm operations but who want to continue living in a rural environment. It is the Committee's hope that such agencies and programs as Farm Debt Review Boards and the Canadian Rural Transition Program, with well-established infrastructures, will make available to farmers adequate counselling and information on social programs that could alleviate their stress. Ownership of assets sometimes restricts farmers' access to such programs and the Committee feels that this should not be the case.

> **IV. The Committee recommends that farmers be allowed to benefit on a short-term basis, in a manner similar to non-farmers, from the broad range of income support measures now available.**

B. Federal Agricultural Credit Programs

The Farm Credit Corporation (FCC), established in 1959 under the *Farm Credit Act* (FCA) as the successor to the Canadian Farm Loan Board, is a federal Crown corporation reporting to Parliament through the Minister of Agriculture. The Corporation's main objective is to provide the necessary financial services for Canadian farmers to establish, develop and maintain viable farm businesses; its focus is farmers who have the resources and the ability to survive in agriculture but who are unable to secure satisfactory financing from commercial lending institutions. Thus, the FCC is thought to serve that segment of the long-term farm credit market that entails higher risk. The Corporation's role goes beyond the provision of credit, since it also makes counselling and assistance in the planning, organization and development of farm businesses available to all applicants and borrowers.

Until an amendment to the FCA in April 1982, FCC funding was from two sources: borrowings and capital advances from the Consolidated Revenue Fund (CRF); and farmers' repayment and prepayment of loans. Since that time, the FCC has had the authority to borrow from sources other than the CRF, such as capital and money markets, subject to the approval of the Minister of Finance. In 1986-87 the FCC borrowed the equivalent of $580 million on these markets.

The FCC makes and administers farm loans under the FCA and the *Farm Syndicates Credit Act* (FSCA); it also administers the Shared Risk Mortgage and Commodity Based Loan programs. In 1986-87, the FCC made the following loans under programs within its jurisdiction: 4,311 loans totalling $336.4 million under the FCA, 44 loans worth $1.2 million under the FSCA, 398 Shared Risk Mortgage arrangements having a net value of $46.1 million, and 1,459 Commodity Based Loans with a value of $298.7 million.

1. The *Farm Credit Act*

The *Farm Credit Act* offers farmers two types of loans:

- standard farm loans to applicants primarily occupied in farming after the loan is made; and

- loans to beginning farmers who may retain off-farm employment during the development of an economic farm business that is to become their principal occupation within five years.

Loans are made available for a variety of purposes:

- the purchase of land;

- permanent improvements to farm land or farm buildings;
- the purchase of breeding stock and farm equipment;
- debt refinancing; and
- any purpose that will facilitate the efficient operation of the farm unit.

Loan applicants must: be of legal age, be Canadian citizens or permanent residents, offer adequate security for the loan, possess sound management skills, and be able to demonstrate repayment ability. Individual farmers, corporations or cooperative farm associations may apply.

Since 9 April 1984, farmers have been able to obtain long-term, fixed-interest rate loans amortized for up to 30 years; these 5-, 10-, and 15-and-over- year renewable-term loans currently have interest rates of 12.0%, 12.25% and 12.25%, respectively. FCC lending rates, reviewed at least monthly, are based on its cost of funds plus an allowance to cover all operating costs and loan losses and provide a satisfactory return on capital. Loan maximums are $350,000 for one applicant and $600,000 for two or more applicants. Loans are secured by a mortgage on farm lands and, at the discretion of the FCC, any other security required.

2. The *Farm Syndicates Credit Act*

The *Farm Syndicates Credit Act* is an intermediate-term credit program under which fixed-rate loans are provided to groups of farmers acting cooperatively to surmount the high cost of individual purchase and ownership of machinery, buildings and installed equipment that can be used to mutual advantage.

To be eligible for a loan, three or more farmers, the majority of whom have farming as their principal occupation, must officially form a syndicate, by written agreement, collectively to

- purchase and use farm machinery;
- purchase, erect or improve farm buildings; and
- purchase or improve the building site.

The repair and maintenance of farm machinery are not covered under the Act. Cooperative farm associations and certain farming corporations may qualify as syndicates without their members having to enter into a formal syndicate agreement. Applicants must be of legal age, offer adequate security and demonstrate management ability.

The maximum loan amount is 80% of the cost of the items being financed, to a maximum of $100,000 or $15,000 per syndicate member, whichever is less. Loans made for permanently installed equipment, buildings, land or other improvements must be repaid within 15 years; loans made for mobile farm machinery carry a term of seven years. Syndicate members sign promissory notes to secure the loans; other security may be required at the option of the FCC. The interest rate is prescribed by the FCC at a level sufficient to cover its cost of funds and expenses in servicing loans; the current interest rate is 12.0%.

3. Shared Risk Mortgages

The Shared Risk Mortgage program, implemented 1 April 1985, enables farmers and the FCC to share equally the costs and benefits of annual interest rate fluctuations to establish viable farm units. To be eligibile the individual must: be of legal age, be able to demonstrate Canadian citizenship or permanent residency status, have adequate security and repayment ability, possess sound management skills, and have farming as a principal occupation. Loans are secured by a first or subsequent mortgage as long as security is adequate.

Under the scheme, farmers are offered a six-year renewable- term mortgage, amortized for a period up to 30 years, with some base rate of interest established at the beginning of the term; currently, this base rate is 11.75%. The interest rate paid by the borrower is adjusted annually to reflect market trends, with any upward or downward change in the current market interest rate shared equally between the borrower and the FCC; one-half of the difference between the current market interest rate and the base rate is absorbed by the borrower and the other one-half by the FCC. Any interest rate increase is limited to 2½% over the six-year term of the mortgage.

Borrowers are given a choice of two payment schedules:

- variable payments, where payments are adjusted each year to reflect interest rate changes; or

- fixed payments, where payments remain fixed for the term of the mortgage and interest rate changes are reflected in changes to the principal outstanding at the end of the term.

Loan limits are $350,000 for one qualifying applicant, and $600,000 for two or more applicants.

4. Commodity Based Loans

The Commodity Based Loan (CBL) program, in effect since 1 April 1986, gives those producers who are in low equity positions and who are experiencing financial difficulty an opportunity to restore the viability of their operations through a reduction in their debt-servicing burden. The program is available to FCC clients who are full-time, efficient producers with not more than 55% equity and who had loans with the FCC before 27 February 1986. In the February 1986 Budget, $700 million was committed to the FCC to institute the program; up to $300 million was to be disbursed in 1986-87, with the remaining $400 million in funds distributed in 1987-88. In December 1987, the program received additional funding; loans will be made until 31 March 1991, totalling $450 million.

The scheme offers fully-indexed loans with an interest rate of 6% to eligible farmers with 40% or less equity. Eligible farmers with not more than 55% equity can receive partially-indexed loans with an interest rate midway between a 6% base rate and the going FCC rate for a ten-year, fixed-rate mortgage, currently 12.25%; the current rate of interest for such a loan is 9.125%. The loans, which are offered for a ten-year term with payments based on a 20-year amortization period, have the applicable fixed interest rate for their term. Up to 80% of the market value of the security may be borrowed, with a loan limit of $350,000 for one applicant and $600,000 for more than one.

Loan payments and the amount of principal outstanding are linked to the farmer's ability to pay, which varies with commodity price fluctuations. The farmer may select up to two commodity prices or indices to be applied to the loan payment; if two commodities are selected, then the price or index of each will be given a 50% weight. The commodity prices or indices chosen must reflect the main enterprises of the farm. Payments are recalculated before the payment date to reflect commodity price changes from the previous year's average. A cap of 2% above the FCC's ten-year lending rate limits the amount borrowers will have to pay if commodity prices rise sharply during the term of the loan.

5. The *Farm Improvement and Marketing Co-operatives Loans Act*

On 30 June 1987, the *Farm Improvement and Marketing Co-operatives Loans Act* (FIMCLA) was proclaimed for implementation 1 February 1988; the Act replaces the *Farm Improvement Loans Act* (FILA), which expired 31 January 1988. FILA had been in existence since 1945 to encourage the provision of short- and intermediate-term credit to agriculture for the development and improvement of farms and farm living conditions. The new Act made substantial changes to the FILA to expand its role and broaden its scope.

The Act authorizes the Minister of Agriculture to guarantee up to 95% of term loans obtained by borrowers from chartered banks, Alberta Treasury branches, credit unions, and other designated lenders; this partial government guarantee against losses reduces lender risk, thereby increasing the availability of short- and intermediate-term agricultural credit. Loans can be made to

- purchase fencing, drainage and additional farm land;
- construct new buildings;
- purchase machinery and livestock;

- repair barns and equipment, where the cost is greater than $400;
- refinance or consolidate existing loans, to a maximum of 80% of the current asset value of the property; and
- allow farmer co-operatives to process, market and distribute agricultural commodities.

Loans may be made to finance up to 80% of costs; co-operatives may receive a guaranteed loan of up to $3 million. Maximum loan repayment terms are 15 years for land and ten years for other purposes. The maximum interest rate on loans is the chartered banks' prime rate plus 1% applied to both new and outstanding loans; the maximum amount of outstanding loans is $250,000 for individual producers. Farmers who have off-farm employment are entitled to such loans.

6. The Federal Business Development Bank

The Federal Business Development Bank (FBDB) is a federal Crown corporation that promotes the establishment and development of business enterprises in Canada, particularly small- and medium-sized businesses. The FBDB fulfills its role through the provision of financial services, including loans, guarantees and venture capital, and management services, including counselling, information, training and planning.

Two FBDB credit programs might be of particular interest to the agricultural industry -- the loan guarantees program and term loans. Under the former program, the FBDB may act as a guarantor for a borrower seeking funds from a chartered bank or another financial institution. The security required for this guarantee is generally the same as that for a term loan.

The FBDB offers term loans for such business purposes as:

- the purchase of an existing business;
- the acquisition of fixed assets, including land, buildings, machinery and equipment; and
- in some cases, the replenishment or increase in working capital which has been depleted by recent capital expenditures.

Loan repayment terms are structured according to the borrower's ability to pay. Payment methods include equal or graduated payments of principal, either straight line or stepped, or seasonal payments for borrowers whose revenues vary greatly with the seasons. The loans are offered at floating interest rates, which can be switched to fixed rates at the borrower's request; the amortization period may depend on such factors as the nature of the financing, available security and payment ability.

7. The Small Business Bond Program

The Small Business Bond (SBB) program, administered by Revenue Canada, is designed to provide debt restructuring assistance to small businesses, including farms, in financial difficulty; the program is a tax initiative that reduces the cost of borrowing for eligible small businesses and farms, and replaces the Small Business Development Bond program.

Small businesses and farms that

- are either in default or expect to be in default;
- are unable to obtain financing from other sources; or
- lack available internal assets which could ease the situation

are eligible to receive commercial loans with a value of at least $10,000 but not greater than $500,000, and with a reduced interest rate. The interest rate, negotiated between the borrower and the lender, is generally one-half of the chartered bank prime rate plus 2 or 3%. Commercial lenders are not subject to a tax liability on the interest received, since interest paid on an SBB is treated as a dividend, and interest paid by the small business or farm is not tax deductible. Although the loan is available for a term greater than one year and up to five years, it may be amortized over a longer period.

In conclusion, witnesses were generally in favour of the continuation of the various federal support and credit programs. These programs may involve certain inequities, in that they are not always well-targeted, but the current financial crisis in agriculture would have been worse in their absence.

In order that the programs become more effective and able to adapt to continually changing agricultural markets, the Committee believes that a renewed effort should be made to coordinate federal and provincial agricultural lending. The Committee recognizes the difficulties in developing a national agricultural policy, since initiatives that meet the needs of some may conflict with those that meet the needs of others; nevertheless, it is of the opinion that the agricultural industry must have the benefit of a comprehensive, long-term commitment by the federal government.

Chapter III

The Family Farm in the Year 2000

All forecasting, especially for the long term, is subject to a high degree of error. The Committee, however, recognizes the importance of the expectations held by various parties with an interest in agriculture, and will therefore present, in two scenarios, the visions of the family farm in the year 2000 presented by witnesses.

A. Scenario 1: Current Trends

The current crisis in farm financing is having a major impact on the agricultural industry, and will continue to do so. It is not surprising, then, that most Canadian farmers see this crisis as a phenomenon that will characterize farming for many years to come.

After the rapid expansion in the industry in the 1970s, changing agricultural markets in the early 1980s triggered a process of transition that has affected all Canadian farmers, and primarily grain producers. The history of farming in Canada shows other transitional periods, but the severity of the current situation has increased uncertainty about the future of the family farm.

The most recent farm census shows that there were 293,089 farms in Canada in 1986, a decline of 8% from 1981. In fact, the number of farms has been steadily decreasing since 1941, when it stood at 732,832. The number of farms decreased by 16% between 1956 and 1961, by 10% between 1961 and 1966, and by 15% from 1966 to 1971. However, for the three five-year periods from 1971 to 1986, the rates of decline were less: 8%, 6% and 8%, respectively. Farm attrition is not uniform across Canada; the East has been losing farms at a faster rate than the West, with Nova Scotia showing the largest loss in 1986, down 15% from 1981. For the same period Alberta had a loss of only 0.5%.

By contrast, average farm acreage has been increasing in inverse proportion to the number of farms. In fact, it climbed steadily after 1921, and by 1986 it had reached 572 acres per farm, with Saskatchewan having the largest farms in Canada, at 1,036 acres on average.

The Census of Agriculture also reveals that the proportion of farmers under age 35 rose from 15% of the total in 1971 to 21% in 1981, declining to 19% in 1986. Farmers aged 55 and over made up 34% of the total in 1986; this was, strikingly, the highest proportion in over 30 years.

It should be noted that 99% of all farming operations in Canada have a family structure; that is, both equity and operational decisions are controlled by members of one family. Such farms were responsible for 94.6% of gross farm sales in 1986. Coincident with the declining number of farms and the increasing average age of farmers are more specialized farming operations that depend largely on borrowed capital.

The census data show that Canadian farming, and consequently the Canadian family farm, is a dynamic sector that must adjust to continual change. In this regard, the current financial crisis in farming has already put increased pressure on many farmers and has demanded rapid adaptation; for example, farmers and their families have decreased their expenditures and increased the proportion of their incomes from non-farm sources. Although these measures may be only transitional, they have transformed the socio-economic environment of the family farm. Important consequences of the present crisis are being felt where people are entering or leaving farming. Financial difficulties are forcing non-viable farmers into early retirement; among these, analysts have identified some farmers who started production in the 1970s but whose efforts to establish themselves have been hampered by economic conditions. Some older farmers who have not experienced any major problems but who have seen the value of their farm assets continue to decline for more than five years have been prompted to postpone their retirement. Paradoxically, although the value of farm assets has depreciated dramatically and interest rates have remained relatively low, the current uncertain agricultural markets discourage people from becoming farmers. The combined impact of these factors suggests that the farm financing crisis of the 1980s may accelerate change and accentuate the need for adjustment which characterized past cycles within the industry. The farm population will tend to be older; entry into agriculture will be more difficult; the transfer of farms will be accompanied by a lack of confidence on the part of the younger generation; and the size of farms will continue to increase.

The family farm has already experienced similar transitions and, given its ability to adapt, will likely maintain its dominant position in the farming sector in Canada.

Not only do family farms represent the largest number of farming operations, but there is also a strong desire in the farming community to preserve this institution. The family farm will be better able to adapt if it applies principles of management and production efficiency.

The financing crisis will lead to a further concentration in the number of farms. Those on solid financial ground, and which in principle are therefore operating efficiently, will survive. Those that are less financially secure will disappear, among them farms with excellent potential whose operators did not, however, take advantage of favourable conditions when making development decisions. This category of farms is the target of government policies which, however, are not always well-directed. Government policies aimed at specific groups with financial problems remain second-best choices. Case-by-case analysis would be more appropriate.

According to several analysts, the grain sector will not recover until at least the early 1990s, although a very poor crop in other producing countries could alter this outlook considerably. The prices of farmland in Canada have likely fallen to their lowest levels and, following a period of stability that should restore the confidence of potential buyers, could now rise slightly.

Agriculture Canada anticipates that the farm financing crisis will have long-term repercussions on farm revenues in this country. Payments made under long-term programs, such as the price stabilization programs, will be decreased as a result of a downward adjustment in the formulae used to calculate the shifting five-year average. Thus, current low grain prices could have an indirect impact on farm revenues for a relatively long period. Agriculture Canada expects that direct government subsidies to producers will gradually be reduced between 1988 and 1991. Hypothetically, if no new program is introduced and farm expenditures increase at a moderate pace, net farm revenues in current dollars could decline from $5.5 billion in 1987 to about $3.7 billion in 1989 and increase to $4.1 billion by 1991. While the overall situation is not encouraging, it is even more distressing for Western producers who, in the short-term, cannot be certain of a reversal in world grain prices. An Agriculture Canada study shows that net farm revenues in Western Canada, in current dollars, will decline from $2.6 billion in 1987 to an estimated $848 million in 1989 and $976 million in 1991.

The beginning of the 1990s will probably mark the end of the period of transition arising out of the farm financial crisis of the 1980s. If present trends continue, family farms will remain the cornerstone of the agriculture sector, although the industry will have to become more concentrated and more competitive. Non-farm revenues and the level of net assets will be higher and leasing and diversification will be more widespread. Research and development, and the introduction of new technology, will force farmers to manage their operations more efficiently, and financial management techniques will be more sophisticated. In short, the farm financing crisis of the 1980s will force family farms to become agro-businesses that are more closely integrated with the domestic and international economies.

The free trade agreement between Canada and the United States is likely to have an impact on the agricultural sector. It is difficult to anticipate the effects of the removal of certain tariffs, although one such effect is likely to be enhanced competition on agricultural markets. The current farm financing crisis has forced the agricultural sector to take immediate steps to improve its competitive position, thus, as an unexpected benefit, possibly facilitating the transition to free trade with the U.S. The Committee, however, did not dwell on the likely impacts of the free trade agreement on the agricultural industry, feeling that such an analysis would exceed the parameters of this study.

B. Scenario 2: Desirable Trends

Although the farm organizations that appeared before the Committee held differing views on both the precise definition of a "family farm" and the most appropriate measures to enhance its development, the majority agreed that in the year 2000 the family farm would still be the basic unit of production in the agricultural sector. The definition of "family farm" is rather elastic, there being no strict limits on the size, the form or production levels. The term generally implies a farm where the assets are owned and decisions made by family members. A "management unit" can still be considered as a family farm if employees are hired or if off-farm income is injected into the operation.

Many of the witnesses appearing before the Committee mentioned that family farms have in the past demonstrated their ability to keep pace with change and maintain high efficiency. Prairie Pools Inc., however, believes that family farms have reached a critical minimum level which jeopardizes the infrastructure of the rural community in some areas. Because the agricultural sector is now so capital-intensive, various financial instruments must be put in place to respond to the needs of farmers who support the rural farm community.

The Christian Farmers Federation of Ontario proposes that a "Farm Credit Association" be implemented at the regional level to respond to financial needs and to give advice to farmers. Such a system would help to keep the profits from agriculture within the community, and would also allow policies to be tailored specifically to meet unique regional needs.

The United Grain Growers Association (UGGA) maintains that Canadian producers are not only the most efficient producers of food in the world but that, over a long period, they have also developed high quality products and a good international reputation. Farmers, however, now have the new challenge of adjusting to a sector that is in transition. To do this they require financial instruments that will facilitate the adjustment without distorting long-term planning decisions. The UGGA feels that general measures affecting all producers, such as improved trade policies and an agribond program, are probably the best approach to improving further the efficiency of Canadian farmers and the family farm.

The Canadian Cattlemen's Association believes that two different types of farm operations will emerge from the current adjustments in the agricultural sector: medium-to-large sized operations with a number of diversified activities, each large enough to allow considerable sophistication; and a growing number of small-to-medium sized operations, often managed by part-time operators with off-farm employment. The latter group will make up most of the rural population across Canada, but will farm a smaller percentage of the land than the large operators and produce a considerably smaller percentage of total agricultural output. The emergence of these two very different groups of farmers will make it more difficult to develop policies addressing their distinct challenges and problems. It is also imperative that short-term measures complement the long-term objective of movement toward greater diversity in production and trade.

Two themes have recurred: efficiency and long-term financing. In the past the agricultural sector has met the challenges of mechanization and increased productivity; it now faces those of technological improvement and farm management. A stable long-term financing plan that is able to accommodate the cyclical needs of agriculture will not only strengthen the family farm but will also enhance the agricultural sector as a whole.

Chapter IV

Farm Lending and Government Policy

As aptly illustrated in Chapter II, the federal government is a key provider of agricultural credit, frequently through the Farm Credit Corporation. The FCC has found many of its clients unable to service their debt and, in an effort to alleviate this debt crisis, has developed an equity financing scheme. This proposal has been referred to Agriculture Canada for further consideration. As well, the government is reviewing the role and mandate of the FCC. Finally, other initiatives will be examined, including farm management information systems, a secondary market for agricultural loans and, with regard to government policy on support programs, the decoupling concept.

A. The Equity Financing Proposal

The Farm Credit Corporation (FCC) has developed an equity financing scheme to help resolve the structural problem of excessive farm debt. It would provide outside equity capital, flexible profit-sharing leases and purchase options, and supporting management services. This proposal would provide specific farmers with the ability to reduce their ownership and absorb financial risk. It is thought to be most attractive to a specific set of farmers, who would have access to a financing mechanism which would substitute equity for their debt, and to government and private financial institutions, who could better manage recovered properties and problem accounts.

Equity financing as a financial instrument has been used in the past in agriculture in the form of farm partnerships, farm incorporation, leasing and the intergenerational transfer of farm assets. However, the FCC proposes that farmers' access to equity should be more institutionalized. It proposes that a company should be established to perform such functions as:

- purchasing farm assets from farmers and from lenders holding recovered properties;

- leasing and administering purchased farm assets; and
- supplying managerial support and counselling to farmers.

Under the proposal, provincial or regional investment trust subsidiaries would be developed with the assistance of a federal holding company; provincial participation would be optional. This holding company would provide the provincial trusts with investment, on a matched basis, and with merchant banking facilities. The trusts would then be able to restructure the financial position of continuing farmers, expedite producer entry into and exit from the agricultural industry, and give lenders a mechanism for managing recovered properties. The federal government, in addition to supplying the political and legislative environment for such provincial or regional investment trust subsidiaries, would provide initial capital and financial support in the form of land or cash or some combination of the two. Subsequent capitalization would come from the private sector, including retiring farmers, agricultural institutions and other investors.

The trusts would buy either part of or all farm assets from farmers and lenders holding recovered properties, in exchange for some combination of cash and shares in the provincial trust. Farmers would be given the option to lease back assets; the lease agreements would provide for flexible profit sharing and purchase options, a right of first refusal and access to a range of management services. Leases would be long-term, and lease payments and the buy-back option would be determined at the time of purchase of the farm assets. Farmers would be able to buy additional shares in the trust at any time, and could apply these shares to a downpayment on the purchase of leased assets.

Privatization of the federal holding company within a specified time would both allow the federal government to recover its initial contribution and enable private investors to become involved in the trusts; shares would be prevented from losing value through convertibility features attached to the initial share issues.

Certified agents would serve as intermediaries between farmers and the provincial or regional trusts, and would be involved in acquiring assets, managing leases, and monitoring financial services. Agents would assist farmers in determining a restructuring and leasing proposal to be submitted to the trust for approval and funding; they would also provide management support, expertise and counselling. Periodic financial reports from farmers would help the agents to monitor performance. Farmers would retain control of operations and management decision-making, but would forfeit some or all ownership.

The scheme is thought to be most attractive to those producers who have debt-to-asset ratios between 0.3 and 0.8 and who have cash flow difficulties. The assumption is that farmers with a lower debt-to-asset ratio are not experiencing cash flow distress or would not benefit from such debt restructuring, since they have insufficient debt for the recapitalization to be productive. Farmers with debt-to-asset ratios in excess of 0.8 would require greater concessions than those provided in the proposal; the scheme would, however, provide this group, should they meet the requirements, with means to dispose of their assets and to lease assets.

The equity financing proposal might also appeal to both beginning farmers and retiring farmers. It would allow beginning farmers to enter the industry more gradually; they would lease assets and purchase shares to be applied against a downpayment while they acquired experience and expertise in the farm business. As well, older farmers wishing to retire could gradually liquidate their assets, thus acquiring cash and shares. Cash would meet their immediate income needs, and they could retain shares in the hope of future capital appreciation in share values.

Despite the perceived advantages of the proposal for select groups of farmers, the Committee and the witnesses have several reservations with respect to the scheme as currently proposed. These concern the lack of adequate information upon which to evaluate the proposal; the degree of investor support for trusts without government guarantees; and the degree of support for the proposal among the farming community, particularly as the scheme entails loss in farm ownership.

Specifically, the lack of adequate information upon which to evaluate the merits of the proposal was mentioned by the Canadian Federation of Agriculture (CFA), Prairie Pools Inc. and the Ontario Federation of Agriculture (OFA). The CFA stated that:

> [a]lthough we had some significant reservations about it, we said sometime ago that there was some merit in at least exploring the idea to see if it could be useful. We have never seen a well enough defined proposal to be able to sit down and say that it would work for the farming community as is or if certain changes were made. Our view is that someone should adequately examine the process so that we can determine if there is merit in it. (Mr. Don Knoerr, Canadian Federation of Agriculture, Issue 18:10, December 15, 1987.)

There is also some scepticism as to the amount of investor support for such a proposal, given the current depressed state of the industry, and the magnitude of government involvement that would be required to gain support. In its appearance before the Committee, Prairie Pools Inc. expressed its concern as:

> The predominant question ... that our members asked was: Who is going to invest in farmland at the present time if the only incentive is the return from that particular farm without any hope of a capital gain? You will not get outside capital coming in if the major hope is capital gain. (Mr. William Strath, Prairie Pools Inc., Issue 16:13, December 8, 1987.)

A related concern is government guarantees for potential investors. The OFA expressed its concern as:

> Our concerns lie along the line of what type of concessions would have to be made to get outside investors into it. We are also concerned with the flexibility of a corporation that deals predominantly in agricultural assets. When the business is down, it is down. (Mrs. Brigid Pyke, Ontario Federation of Agriculture, Issue 17:37, December 14, 1987.)

Further, the United Grain Growers Association stated:

> ...we anticipate real problems arising if governments start to provide artificial incentives to investors to buy farm land. Government guaranteed rates of return, tax credits or other indirect subsidies should not be necessary if agriculture is a viable industry in the long-term. (Mr. Roy Cusitar, United Grain Growers Association, Issue 17:12, December 14, 1987.)

Broad-based farm community support for such a proposal is also not assured, given that the loss of ownership is a key issue. In its appearance before the Committee, the *Union des producteurs agricoles* stated that:

> We have some very serious reservations about the value of this concept as a solution to the problem of farmers in financial difficulty, because in an effort to resolve the problem, farmers are dispossessed of their lands and rendered mere tenant farmers. In order to become a property owner again, the farmer will have to buy back his land for more money than the original sale price. (Mr. Jacques Proulx, Union des producteurs agricoles, Issue 17:81, December 14, 1987.)

The Committee, although recognizing that the Farm Credit Corporation's equity financing proposal may have merit, shares the concerns of several witnesses about the loss of personal farm ownership it involves and the extent to which the scarce financial resources of the government would have to be used to make such a proposal work.

V. **The Committee recommends that no commitment of federal government funding be made to an equity financing scheme at this time.**

B. The Farm Credit Corporation

Given the current insolvent state of the Farm Credit Corporation (FCC), there was also significant witness concern about the preferred future role of the FCC. One witness, the Canadian Federation of Agriculture, gave its view on why the FCC is currently in its bankrupt state:

> To be fair to the (C)orporation, these losses have been created by policy rather than management -- at least from what we can see... If you have a commercial institution or a lending institution whose portfolio is composed of only high-risk borrowers, then when you get into an extremely difficult time, as we are in now, you will have losses in that portfolio that are not compatible with normal commercial operations. You just do not have enough of the good accounts to pick up your losses and cover you until times improve... The solution ... is recognition of its role as a policy instrument of government in giving it a financial mandate that is consistent with that role ... (Mr. Don Knoerr, Canadian Federation of Agriculture, Issue 18:7-8, December 15, 1987.)

This gives rise, then, to the question of what future role the FCC should play. Should the Corporation and its policies and mandate be used as an instrument of social policy? And if so, should it also be expected to be a profit-making institution?

Some witnesses felt that the FCC should continue in its role as a lender of last resort, providing long-term, low-rate credit to farmers unable to obtain financing from other sources. Others felt that the FCC should be a provider of long-term, low-rate credit to all farmers, as stated by Prairie Pools Inc, which:

> ... recognize(s) and support(s) the FCC as a federal agency through which stable long-term credit arrangements should be provided to Canadian agriculture. The government review of the mandate of the FCC must be completed and the FCC should be returned to the role of primary provider of credit at a reasonable rate of interest to all farmers who wish to use it. (Mr. William Strath, Prairie Pools Inc., Issue 16:9, December 8, 1987.)

As well, many witnesses felt that the FCC should become more comprehensive in its support of the agricultural industry, providing a "package" of credit to farmers, management extension services, and leadership, in terms of credit, to other agricultural lenders.

In providing a total credit service to borrowers, the Canadian Federation of Agriculture stated that:

> ... the FCC needs to have some ability to deal with short and intermediate-term credit, so that when they are lending long-term credit to a customer they can ensure that he has a workable credit package and that his operation will be viable. (Mr. Don Knoerr, Canadian Federation of Agriculture, Issue 18:9, December 15, 1987.)

This view was reiterated by the Ontario Federation of Agriculture in its appearance before the Committee:

> [t]he FCC should supply short-term money for operating in cases where commercial lenders will not. An accommodation for settlement is futile without a complete financial package for restructuring. We run into situations constantly where something can be done to refinance the farmer, when it looks as if the situation will pan out with some concessions, but they are in no-man's land in terms of where to go to get operating credit or short-term money. Of course, one without the other is useless. (Mrs. Brigid Pyke, Ontario Federation of Agriculture, Issue 17:36, December 14, 1987.).

Management services are also increasingly recognized as an integral part of profitable farming operations. In many cases reviewed by Farm Debt Review Boards, weak management has been identified as contributing to farmers' difficulties.

The FCC might also be viewed as providing leadership to other lenders. In particular, the Canadian Federation of Agriculture feels that the FCC

> ... has to play a leadership role in ensuring that the right type of credit instruments are out there. I think it should and must ... set a standard of performance. (Mr. Don Knoerr, Canadian Federation of Agriculture, Issue 18:8-9, December 15, 1987.)

It must be recognized that the FCC's current position reflects both its mandate and the current crisis in the agricultural industry. Although losses have been experienced by most, if not all, agricultural lenders, the FCC has suffered more extreme losses because it serves higher-risk clients who are unable to obtain adequate financing from conventional lending sources.

In an attempt to alleviate the financial stress being experienced by the FCC, the federal government announced several initiatives in December 1987. A loan payment of $103 million due to be paid to the Consolidated Revenue Fund in January 1988 was deferred and, as well, $100 million in additional funding was provided to enable the FCC to complete its 1987-88 lending program; corporate losses of $100 million were also granted.

In response to criticisms that the FCC is not able to participate in the debt review process on an equal basis with other creditors, funding was provided for this purpose: $30 million in the February 1986 Budget, an additional $30 million for the remainder of the 1987-88 fiscal year and up to $100 million in each of the next three fiscal years.

Additional financing for the long-term viability of the FCC will be based on the new business plan currently being developed for it.

The Committee recognizes the urgency of assisting distressed farmers who have a heavy debt-servicing burden, and feels that, in the short term, the government should provide aid to some of these farmers. The Committee recognizes that most lenders already selectively restructure farm loans through the write-down and set-aside of debt. Government aid should take the form of an interest-relief scheme which would allow reduced interest charges; the federal government would pay all or part of these charges for a farmer for a fixed period of time, out of a special fund. Such aid would be generally available to all farmers with the understanding that lenders, whether private or public, would restructure the debt on more favourable terms, such as an extension of the repayment period. The Committee believes that the FCC is the appropriate agency to disburse these funds, and that Farm Debt Review Panel recommendations on a farmer's eligibility for access to them should be given some weight, as recommended earlier (see recommendation on p. 49).

VI. The Committee recommends that the Government complete its review of the role and mandate of the Farm Credit Corporation and recommends that, for now, the Corporation retain its role as a direct lender. Further, the Committee recommends that the role of the Farm Credit Corporation be expanded to allow it to become the agency responsible for disbursing the funds committed to the proposed interest-relief scheme described above.

C. Farm Management Information

The family farm has become an increasingly complex business, particularly since the 1970s, and has had to adapt to the increased capital-intensive nature of operations and to rapidly changing technology. Canadian farmers have generally met this challenge very well, but increasingly have to make decisions on relatively little information. These decisions concern what commodities to produce, financing, investment, participation in insurance and stabilization programs, retirement and taxation. Decision-makers in other sectors of the economy have access to such resource people as accountants and management consultants; the operator of a family farm would also benefit from good management information.

The Committee believes that agriculture in Canada will be improved if all farmers have access to good management advice. Such services should be made available locally so as to help with problems being experienced by farmers operating in a specific locality. Most provinces make management advice available through their extension services. As well, some lenders and suppliers to the agricultural sector offer farm management advice to their clients. Greater availability of such services would facilitate more responsible lending practices, allowing the lender and the borrower to determine the borrower's ability to service the debt. The Government of Canada should renew its efforts to give priority to developing ways of ensuring that farmers take full advantage of good record keeping and the resulting good management information. Programs to assist agriculture should continue to be directed at maintaining family farms rather than at industrializing agricultural production.

One of the main benefits of industrialization in any sector, however, is the promotion of management information systems. Where there is a large volume of production, such information is generally available at a relatively low per unit cost. Unfortunately, smaller production units do not readily lend themselves to the development of these systems at a reasonable cost. As a result, special programs are required to assist farmers to acquire such information. The recent availability of low cost micro-computers and software designed to provide this assistance has the potential to make these programs more successful than they have been in the past.

Joint federal-provincial initiatives toward the development of improved farm management skills will be facilitated by the December 1987 federal government commitment of up to $13 million for cost-shared arrangements with the provinces. The funding will be used to study ways of improving farmers' management skills and to provide farm management training. The focus will be on farm financial management and decision-making. It should be asked whether this is a sufficient allocation of resources to this important initiative, and whether the program should involve direct assistance with the cost of developing a good management information system.

The Committee recognizes that farmers generally keep accurate accounts for tax and day-to-day management purposes. Many farmers go farther, preparing one-to-five year budgets and maintaining sophisticated records which show year-to-year results on an accrual basis. Their results often allow them to forecast the profitability of producing various combinations of commodities, thereby enabling them to compare their current situation with future possibilities and to make operating decisions accordingly. The Committee feels that more farmers should undertake such exercises to enable them to cope adequately in the increasingly complicated world of unstable commodity prices, interest rates, exchange rates and government programs.

VII. The Committee recommends that the Government ensure that programs be implemented to provide farmers with direct and indirect assistance in developing the management information systems necessary to make well-informed decisions. The Committee considers that it is important for borrowers to maintain adequate records for use in a management information system compatible with farm operations. The Committee therefore recommends that federal lending agencies consider such records in determining farmers' access to federal government lending programs, whether direct or by guarantee.

D. Secondary Agricultural Mortgage Markets

A secondary market is a financial mechanism that enables lenders to sell loans originated by them to other institutions and thus spread their risk of borrower default. The original lender typically receives a fee for continuing to service the mortgage, with the loss in the event of borrower default limited to the portion of the mortgage still owned.

Secondary mortgage markets often involve a government-sponsored agency that sells bonds that have an implicit government guarantee; these bonds are sold on national capital markets, generally at relatively low rates. The proceeds of bond sales are used to purchase lender loans, with the pooling of large numbers of mortgages reducing risk and achieving certain economies of scale.

In the United States, a secondary market for farm real estate loans is a key component of Bill HR3030 cleared by the House of Representatives and the Senate on 19 December 1987; HR3030 provides for a $1. 5 billion federal line of credit for the secondary market, called "Farmer Mac". The legislation enables many private investors, including commercial banks and insurance companies, to compete for borrowers in the agricultural loan market.

The advantages to farmers of such a scheme are thought to include: increased availability of credit funds for agricultural lending, particularly for long-term, fixed-rate mortgages; less risk for the institution that originally made the loan; a generally improved flow of funds from lenders to farmers; lower transaction costs as a result of pooling numerous small loans; and an increased number of lenders in the agricultural loan market.

Mortgage-backed securities (MBSs) give investors an interest in pooled mortgages assembled by lenders, including banks, insurance and trust companies, caisses populaires and credit unions. Since January 1987, the Canada Mortgage and Housing Corporation (CMHC) has guaranteed residential mortgages, which have then been pooled and issued as MBSs known as "Cannie Maes"; these mortgages are insured, for a fee, by the government under the *National Housing Act* through the CMHC, which guarantees timely interest and principal payments to investors. Financial institutions, through MBSs, should be able to attract more money to the mortgage market and offer longer-term mortgages at lower rates.

In the future, as the agricultural industry recovers, the demand for agricultural credit will likely expand and long-term, fixed-rate credit will be essential for the sustained health of the industry. A secondary market for agricultural mortgages which functions in a manner similar to that of MBSs would encourage the private sector to participate in agricultural lending.

The Committee believes that the FCC in the agricultural mortgage market should play an analogous role to that of the CMHC in the residential mortgage market; that is, the FCC should function as the insurer of agricultural mortgages. However, the Committee also feels that such guarantees should only be given on the mortgages of lenders who can satisfy the FCC that they have responsible lending practices, including properly-staffed agricultural lending departments. Mortgages associated with the intergenerational transfer of farm assets would be eligible for such insurance, but different criteria would have to be met. A secondary market for agricultural mortgages would provide lenders with an explicit guarantee which would lower and diversify their risk. Finally, because credit is an increasingly important input, the development of a national secondary market that would provide long-term credit at low interest rates would facilitate the establishment of a national agricultural policy.

VIII. The Committee recommends that the Government create a secondary agricultural mortgage market and expand the mandate of the Farm Credit Corporation to allow it to function as the insurer of agricultural mortgages.

E. Decoupling

A number of witnesses appearing before the Committee expressed concern that, since existing programs are based primarily on production criteria, there have been surpluses in many sectors, with the productive capacity of farmland used to its limit. As a result, some attention has recently been focused on the development of new criteria, so that farm program objectives would be based on variables other than production. This concept, known as "decoupling", originated in the Organisation for Economic Co-operation and Development (OECD). The aim of "decoupling" is to support the farmer, rather than a particular commodity. At a February 1988 symposium on "decoupling", Dr. Peter Finkle of the University of Ottawa and Dr. W. Hartley Furtan of the University of Saskatchewan stated that decoupling is a situation where "... government support provided to farmers is unrelated to specific farm commodities and their levels of production". More specifically, a program is decoupled if government payments do not influence a farmer's production decisions. Since, historically, government payments have generally been linked to production, the transition to a decoupled system would probably not be easy and would require an adjustment in the farmers' approach as well as modifications to existing agricultural programs.

It has been suggested that domestic programs which are not decoupled are harming international trade, largely because they result in overproduction and because of the incidence of countervailing duties. The decoupling of domestic programs is likely to be an issue of increasing concern as the General Agreement on Tariffs and Trade (GATT) negotiations continue.

Decoupling could be an important concept from both a domestic and an international perspective, and the ideas underlying this principle warrant further consideration.

IX. The Committee recommends that the concept of decoupling be thoroughly analyzed and commends Agriculture Canada for having undertaken a study of this concept. The Committee acknowledges that decoupling could radically change the use of programs forming the

basis of Canadian farm policy. The Committee therefore recommends that any reform tied to the concept of decoupling take place only after in-depth consultations with all those involved in farming.

TOTAL DIRECT PAYMENTS AND REBATES TO PRODUCERS NET OF PRODUCER PREMIUMS CANADA 1971-86 ($000s)

	Western Grain Stabilization	Provincial Stabilization Programs	Agricultural Stabilization Act	Crop Insurance	Dairy Subsidy	Other Payments	Rebates Reducing Expenses	Total
1971	-	-	1,239	886	100,336	18,746	17,582	138,789
1972*	-	-	23,234	6,974	101,410	14,848	20,105	229,536
1973*	-	2,088	133	3,915	131,022	13,345	42,286	253,153
1974*	-	57,974	12,288	10,863	221,059	46,811	50,998	409,338
1975*	-	77,123	21,647	40,413	259,770	9,155	74,760	483,855
1976*	-24,550	117,537	24,395	8,796	261,713	22,380	86,011	496,678
1977	-28,004	58,156	48,691	29,485	280,125	38,730	112,985	540,168
1978	86,439	20,432	42,625	3,473	253,117	16,429	115,567	538,082
1979	212,529	15,006	56,630	123,571	246,116	13,706	139,748	807,306
1980	-48,788	29,945	36,713	163,924	255,113	45,391	182,136	664,434
1981	-57,000	78,601	132,227	50,580	281,132	169,712	213,238	868,490
1982	-55,100	103,975	24,993	89,959	274,438	183,375	274,778	896,418
1983	-65,275	120,518	26,669	191,204	265,595	13,590	271,775	824,076
1984	174,115	183,473	137,686	288,387	280,790	55,446	302,055	1,421,952
1985	484,324	192,176	15,806	401,163	282,073	153,567	355,956	1,885,065
1986	832,439	220,947	11,075	298,177	276,644	366,948	501,464	2,507,694

*	In 1972, payments under Two-Price Wheat totalled	$ 62,965,000
	1973	60,364,000
	1974	9,345,000
	1975	987,000
	1976	396,000

Source: Statistics Canada, Agriculture Economic Statistics, Cat. 21-603.

Appendix B

Provincial Farm Credit Programs

A. NEWFOUNDLAND

Farm Development Loan Board

Loan Program	: To assist farmers to establish viable farms through loans for livestock, equipment, land development and buildings.

B. PRINCE EDWARD ISLAND

Prince Edward Island Lending Authority

Short Term Loans	: To provide revolving operating credit to farmers.
Intermediate Term Loans	: To provide intermediate term loans for farm equipment, farm trucks and livestock.
Long Term Loans	: To provide capital for the purchase of farm land and buildings and for construction of buildings. Also for debt consolidation (on a first mortgage basis only).

Land Development Corporation

Buying, Selling and Leasing of Farm Lands Program	: To purchase land and to lease or resell to beginning and small expanding farmers. To provide credit to those who find it difficult to obtain funds for land consolidation.
Lease Back to Vendor Program	: To assist farmers in implementing a debt reorganization, consolidation, reduction or restructuring plan by purchasing all or a portion of their farm land and buildings and leasing such land and buildings back to farmers.

C. NOVA SCOTIA

Nova Scotia Farm Loan Board

Loans to Commercial Farms	:	To provide loans to both established and beginning farmers.
Loans to Part-Time Farmers	:	To assist part-time farmers to produce agricultural products.
Farm Land Purchase & Leasing Program	:	To provide assistance to farmers by acquiring land of high agricultural potential for development and leasing or selling to farmers.
Interest Subsidy Program	:	To subsidize interest rates for borrowers from FCC, VLA or the Nova Scotia Farm Loan Board.
Interest Forgiveness Program	:	To subsidize interest costs for borrowers from FCC, or the N.S. Farm Loan Board who are young first-time farmers.

D. NEW BRUNSWICK

New Brunswick Agriculture Development Board

Loans to Full-Time Farmers (Part I)	:	To provide loans for the purchase of farms and additional land, buildings, equipment and consolidating short-term debts. Leases are also available to assist farmers to establish an economic farm unit.
Loans to Part-Time Farmers (Part II)	:	To provide loans to qualified part-time farmers for the purchase of land at low interest rates and to assist in establishing a viable economic unit.

Loans to Commercial Farmers and Agricultural Linkage Operations (Part III)	:	To provide loans to commercial and agricultural linkage operations to maximize returns to the producer.
Interest Subsidy Program	:	To provide interest rebate to encourage farmers to borrow from the Farm Credit Corporation.
Land Lease-Purchase Program	:	To enable existing full or part-time farmers to purchase additional land required to make a more viable farm unit.
Operating Capital Guarantee Program	:	To aid new farm entrants to establish themselves with chartered banks.
Livestock Incentive Program	:	To guarantee loans and provide grants to farmers to establish, improve and expand livestock enterprises.
Farm Machinery Loans Act	:	To guarantee loans for purchasing farm machinery and equipment.

E. QUEBEC

Quebec Farm Credit Bureau
(l'Office du crédit agricole du Québec)

Act to promote long term farm credit by private institutions	:	To assist in the purchase of farm land, livestock and farm equipment, the erection of buildings, improvement of land, consolidation of debts, etc.
Farm Credit Act (R.S.Q., c. C-75)	:	The same as under the Act to promote long term farm credit by private institutions, except that the loans are granted by the *Office du crédit agricole du Québec* out of its own funds.

Act to promote the establishment of young farmers	: To reduce the cost of long term financing of investments for young farmers or group operations that establish themselves on a farm.
Farm Improvement Act	: To authorize loans by chartered banks and savings and credit unions, particularly for improvement of land, purchase of farm implements, breeding stock or quotas, purchase, erection or improvement of farm buildings, and purchase of additional land.
Act to promote credit to farm producers	: To authorize loans by chartered banks and savings and credit unions, particularly for the purchase of livestock intended exclusively to produce meat or eggs, paying expenses relating to the raising of livestock, the production of crops, and wages or living expenses, and the purchase of standing crops.
Act to promote special credit to agricultural producers during critical periods	: To enable the producer to pay expenses which are necessary for covering losses resulting from a natural disaster, considered essential to make up the difference between the price received for designated products and production costs or, inherent in the conversion of agricultural operations form one commodity to another, including essential living expenses.
Act respecting farm-loan insurance	: To guarantee losses sustained by the authorized lenders on the loans granted since August 1, 1978, under the credit legislation administered by *l'Office du crédit agricole du Québec*.

Note: Bill 46- An Act respecting farm financing - will replace all current Quebec farm credit Acts. The provisions of Bill 46 have not been included in this summary as the Bill, although passed, has not been proclaimed. The farm-loan insurance program mentioned above is administered by *le Fonds d'assurance-prêts agricoles et forestiers*, a government body set up under the Act respecting farm-loan insurance and forestry-loan insurance.

F. ONTARIO

Ontario Ministry of Agriculture and Food

Ontario Young Farmers Credit Program	: To help establish young farmers with intermediate credit for farm development purposes such as livestock, equipment, buildings or consolidation of debts.
Operating Loan Guarantee Program	: To provide access to operating credit for farmers in financial difficulty but possessing potentially viable farming operations.
Ontario Family Farm Interest Rate Reduction (OFFIRR) Plus Program	: To ease the debt servicing costs of farmers with high debt loads and who would have viable farming operations under normal circumstances.
Ontario Farm-Start	: To assist in the establishment of new producers.
Installation of Agricultural Tile Drainage	: To provide loans through township councils for tile drainage.

G. MANITOBA

Manitoba Agricultural Credit Corporation (M.A.C.C.)

Direct Loans -- Long Term	: To provide direct long term loans for land, livestock and machinery, permanent improvement and debt consolidation.
Young Farmer Interest Rebate	: To provide interest rebate to assist young farmers to expand or re-organize their farming activities.
Direct Loans -- Intermediate Term	: To provide direct intermediate term loans for machinery, livestock and permanent improvements.

Direct Loans -- Corporate, Co-operative and Partnership	: To establish and develop multiple-owner farm enterprises for all conventional farming operations, feedlots and vegetable storage facilities.
Specific Comprehensive Guaranteed Loans	: To guarantee loans for land, livestock, machinery, permanent improvements, debt consolidation and operating capital by lending institutions.
Co-operative, Corporate and Partnership Guaranteed Loans	: To provide operating capital by a bank or credit union without the borrower having to provide security.
Stocker Program	: To retain stocker calves in Manitoba.
Guarantee Operating Loan	: To guarantee new lines of credit made to farmers by lending institutions for operating expenses.
MACC Loans to Farmers Enrolled on the Manitoba Beef Stabilization and Marketing Plan	
Plan 1 - Cash Advance	: To provide financing for Manitoba beef producers who desire to raise their calves on the farm to a feeder or slaughter weight.
Plan 2 - Custom Feeding Loans	: To provide financing for Manitoba beef producers who desire to finish their calves in a custom feedlot.
Plan 3 - Facility and Production Improvement Loans	: To erect permanent improvements or make improvements to buildings or land. To purchase necessary equipment.

Comprehensive Refinancing Program	: To provide a comprehensive refinancing program for farmers, including younger producers and those in financial distress.
Farmstart	: To ease the transfer of farms from one generation to the next by providing beginning farmers with low-cost mortgages and retiring farmers with secure incomes.
Loans for Part-Time Farmers	: To provide loan assistance to part-time farmers who intend to become principally occupied in farming.

H. SASKATCHEWAN

Agricultural Credit Corporation of Saskatchewan (ACS)

Capital Loan Program	: To provide credit for those establishing or expanding in livestock including improvement of grazing land, purchasing breeding stock, buildings and facilities and related essential machinery and all items associated with irrigating land and greenhouse production.
Guaranteed Operating Loan	: To guarantee short or intermediate term loans for operating purposes.
Production Loan Program	: To provide low interest loans for planting the 1986 crop.

Saskatchewan Department of Agriculture

Livestock Cash Advance Program	: To provide livestock producers with repayable cash advances.
Counselling and Assistance for Farmers Program	: To provide counselling assistance and operating loan guarantees to farmers in financial difficulty.

Feeder Association Loan Guarantee	: To assist in the formulation of feeder associations by providing loan guarantees to purchase feeder cattle.

I. ALBERTA

Alberta Agricultural Development Corporation

Beginning Farmer Program (Direct Loan)	: To assist individuals to establish farms on an owned land base. Financing for many purposes including land purchase, permanent improvements, breeding livestock, machinery, financial restructuring and/or debt consolidation.
Developing Farmer Program (Direct Loan)	: To assist primary producers to develop or maintain viable units.
Disaster Assistance Loan Program	: To provide loan assistance required to maintain or regain reasonable viability by repairing and replacing buildings and livestock. Does not provide compensation.
Alberta Farm Development Loans (A.F.D.L.)	: To provide guarantee on loans for land purchase, farm development and loan consolidation including refinancing of trade credit. Designed to complement programs offered by other lenders.
Specific Guarantee Loans	: To provide short or intermediate term guarantee on loans for any agricultural asset, operating capital and debt consolidation. Designed to complement programs offered by other lenders.
Vegetable & Potato Storage Program (Guaranteed Loan Incentive)	: To assist vegetable and potato producers to improve or construct storage for vegetables and potatoes.

Range and Soil Improvement Program (Guaranteed Loan Incentive Program)	:	To increase farm and ranch income by improving land productivity. Brushing and breaking previously uncultivated land, seeding pasture and hay, liming or marl, deep plowing, brush control, fencing, animal access trails, poisonous plant and range weed control, drainage.
Sheep Producers' Incentive Program (Guaranteed Loan Incentive Program)	:	To improve the sheep industry by helping farmers to purchase equipment, facilities and breeding stock.
Farm Development Guarantee Program	:	To provide special assistance operating loan guarantees of up to $100,000 of new operating funds to farmers who cannot obtain financing elsewhere.

Alberta Department of Agriculture

Alberta Farm Credit Stability Program	:	To provide long-term fixed rate financing for the purchase of farm assets or to refinance and restructure existing debt incurred in farming before August 5, 1986.

J. BRITISH COLUMBIA

B.C. Ministry of Agriculture and Fisheries

Agricultural Land Development Program	:	To provide loans for land improvements to include clearing and breaking to seedbed stage; water sources in the form of wells or reservoirs; properly designed irrigation systems; land improvements to prevent soil erosion in the Peace River District.

Guaranteed Loan Program	:	To provide security by way of guarantee to chartered banks or credit unions on loans to farm operators who are unable to qualify for the financing required to operate a viable farming enterprise.

Source: Agriculture Canada, Summary of Farm Credit Programs of the Federal and Provincial Departments of Agriculture, internal document, March 1988.

Appendix C

List of Witnesses

Tuesday, May 26, 1987: (Issue no. 6)

From the Department of Agriculture:
Mr. Wayne Jones, Chief of Farm Income and Finance.

Tuesday, June 2, 1987: (Issue no. 7)

From the University of Guelph:
Professor George Brinkman.

Tuesday, June 9, 1987: (Issue no. 8)

From the University of Manitoba, Department of Agricultural Economics and Farm Management:
Professor Daryl Kraft.

From the University of Laval, Department of Rural Economics:
Professor Robert St-Louis.

Tuesday, June 23, 1987: (Issue no. 9)

From the Farm Credit Corporation:
Mr. Eiliv (Sunny) Anderson, Chairman;
Mr. Ralph Ashmead, Manager, Research and Development.

Tuesday, October 20, 1987: (Issue no. 11)

From Agriculture Canada:
Dr. Brian Perkins.

From the Western Canada Wheat Growers Association:
Mr. Bill Duke, President;
Ms. Barb Isman, Executive Director.

Tuesday, November 3, 1987: (Issue no. 12)

From Agriculture Canada:
Mr. Frank Claydon, Assistant Deputy Minister, Policy Branch.

Tuesday, November 17, 1987: (Issue no. 13)

From the National Farmers Union:
Mr. Wayne Easter, President.

From the Christian Farmers' Federation of Ontario:
Mr. Bill Jongejan, President;
Mr. Garry Sytsma, Director;
Mr. Hans Schuler, Member;
Mr. Peter Biemond, Member.

Tuesday, November 24, 1987: (Issue no. 14)

From the Canadian Bankers' Association:
Mr. Al Caldwell, Manager, Agriculture/AgriBusiness Canada;
Mr. Brian Farlinger, Chief of Commercial Affairs, The Canadian Bankers Association;
Mr. W.G. Fulton, Agriculture Division, Canadian Imperial Bank of Commerce;
Mr. Cyrille Parent, Manager, Farm Services Department, National Bank of Canada.

Tuesday, December 1, 1987: (Issue no. 15)

From the Canadian Cattlemen's Association:
Mr. Ron Oswald, Past President;
Mr. Gil Barrows, Director, Government Affairs.

Tuesday, December 8, 1987: (Issue no. 16)

From Prairie Pools Inc:
Mr. Bill Strath, President, Manitoba Pool Elevators;
Mr. Doug Livingstone, President, Alberta Wheat Pool;
Mr. Garf Stevenson, President, Saskatchewan Wheat Pool;
Mr. Ted E. Turner, Executive Director.

Monday, December 14, 1987: (Issue no. 17)

From the United Grain Growers' Association:
Mr. Roy Cusitar, First Vice-President;
Mr. Russel Jeffrey, Research Associate.

From the Ontario Federation of Agriculture:
Mrs. Brigid Pyke, President;
Mr. Roger George, First Vice-President.

From the Economic Council of Canada:
Mrs. Judith Maxwell, Chairman;
Mrs. Carolyne Pestieau, Director;
Dr. Ludwig Auer, Deputy Director of the Future of the Prairie Grain Economy.

From the "Union des producteurs agricoles":
Mr. Jacques Proulx, President;
Mr. François Côté, Director, Services and Research.

Tuesday, December 15, 1987: (Issue no. 18)

From the Canadian Federation of Agriculture:
Mr. Don Knoerr, President;
Ms. Sally Rutherford.

Monday, January 25, 1988: (Issue no. 19)

From the Christian Farmers' Federation of Ontario:
Mr. Bill Jongejan, President;
Mr. Garry Sytsma, Director;
Mr. Hans Schuler, Member;
Mr. Peter Biemond, Member.

From the Department of Agriculture, Province of Saskatchewan:
Mr. Sherwin Peterson, MLA, Legislative Secretary to the Minister of Agriculture;
Mr. John Weir, Assistant to the Premier;
Mr. Terrence Scott, Manager, Research Section, Economics Branch.

Tuesday, February 2, 1988: (Issue no. 20)

From Agriculture Canada:
Mr. Bob Ray, Director, Special Programs;
Mr. Ken Ash, Chief of Program Development and Coordination.

Wednesday, March 9, 1988: (Issue no. 21)

From the Farm Credit Corporation:
Mr. J. Hewitt, Chairman;
Mr. C.G. Penney, Vice Chairman;
Mr. Lloyd Galenzoski, Manager of Operations.

Tuesday, March 15, 1988: (Issue no. 21)

Mr. Ralph Ashmead, Private Citizen.