CFA FCA

CANADIAN FEDERATION OF AGRICULTURE

FÉDÉRATION CANADIENNE DE L'AGRICULTURE

Agriculture: Canada's Economic Recovery Engine

2021 Federal Pre-Budget Submission

February 2021

Who we are:

The Canadian Federation of Agriculture (CFA) acts as the unified voice of Canadian farmers, representing 200,000 farm families from coast to coast. CFA was formed in 1935 to answer the need for a unified voice to speak on behalf of Canadian farmers. It continues today as a farmer-funded, national umbrella organization representing provincial general farm organizations and national commodity groups. CFA works to coordinate the efforts of agricultural producer organizations throughout Canada for the purpose of forming and promoting national agricultural policies to ensure Canadian agriculture remains profitable, competitive, and has the stability needed to innovate and adapt to meet changing domestic and international conditions.

List of Key Recommendations:

The following summary outlines CFA's targeted recommendations to spur economy recovery, leverage the agri-food sector's environmental contributions, and build greater resilience throughout Canada's food system. However, CFA wishes to highlight the importance of an applying an agricultural lens to all governmental policy development, as cumulative regulatory burden and unintended consequences continue to challenge the sector's potential.

1. Kick-starting Canada's economic recovery:

a) **Enhance risk management support:** That the government continue to support the proposed enhancements to the AgriStability program and implement programming to respond to depopulation events that arise due to processing plant shut downs.

b) **Secure critical food infrastructure:** That the government invest in the development of more Canadian food processing facilities, including the advent of a temporary refundable tax credit for food and beverage manufacturers to maintain operations and encourage continued investment.

c) **Buy Canadian Campaign launch:** That the government reallocate underutilized AgriMarketing program dollars to implement a Buy Canadian campaign for Canadian retail channels, and engage exporters to identify and address key export opportunities. Continue working with Canada's supply management producers on programs that will mitigate losses from recent trade agreements, and commence discussions on assessing the impacts of CUSMA.

2. Leveraging agriculture's environmental contributions:

a) **Establish additional environmental revenue streams:** Government must provide support to ensure that credit programs under the Clean Fuel Standard and Greenhous Gas Pollution Offset Program roll-out as soon as possible. Support includes funding programs to help farms make the investment needed to participate in these programs the moment they start. Funding is also needed to incentivize the provision of additional ecological goods and services such as soil erosion control and flood management.

b) **Provide relief for grain drying and livestock barn heating:** That the government expand the list of qualifying farming fuels under the Greenhouse Gas Pollution Pricing Act (GGPPA) to explicitly include marketable natural gas, propane or a prescribed type of fuel, while revising the definition of eligible farming machinery to extend this exemption to grain drying and livestock barn heating.

c) **Support regulatory efficiency and competitiveness:** That the government provides support to ensure that the upcoming Canada Water Agency has a designated agriculture unit to coordinate with the necessary departments and agency on matters of runoff prevention and monitoring of water data for pest control products.

3. Building greater resilience in Canada's food system:

a) **Invest in an agri-food workforce and automation strategy:** That the government invests in priority areas to reduce job vacancies through career promotion, improve skills training opportunities for workers, support human resource management training/certification, and support commercialization of labour-saving technologies.

b) **Develop a rural digital infrastructure strategy:** That the government convene key stakeholders around clear, short-term connectivity and affordability targets for digital infrastructure, to build a foundation for long-term vibrancy in rural Canada.

c) **Facilitate the smooth and efficient transfer of family farms:** That the government amend Section 84.1 of the Income Tax Act to remove disincentives facing small family businesses and family farms when looking to transfer their businesses to the next generation.

1) *Kick-starting Canada's Economic Recovery*

a) Enhance risk management support

The unprecedented costs and revenue losses arising due to COVID-19, alongside multiple years of disruptions in key international markets, transportation, and reduced net incomes for many Canadian farm businesses, will have long-term consequences on the economics of Canada's entire agri-food sector. As the COVID pandemic continues to disrupt supply chains and reduce retail and food service markets for the foreseeable future, the end result is reduced confidence to invest in future growth and, subsequently, missed opportunities for Canadian agri-food as a whole.

The Economic Advisory Council on Economic Growth recognized the potential that the sector has as a driver of inclusive economic growth in regions across Canada, but the sector is urgently in need of long-term stability and tools to reduce uncertainty throughout the value chain.

Canada's AgriStability program was seriously weakened in 2013. Originally designed to protect farmers against large declines in farming income for reasons such as production loss, increased costs and market conditions, the weakening of the program has left farmers unduly exposed to risks beyond their control.

CFA was pleased to see the Minister of Agriculture and Agri-food table a concrete set of proposals in November 2020 to ensure adequate support is available through the AgriStability program, providing a means through which confidence in this program can be restored. The proposed changes hold the potential to increase the level of support available to those producers most in need, facing severe income losses, while addressing long-standing program inequities that limit program utility for many producers

As FPT deliberations continue, CFA strongly recommends the funding envelope approved to support these proposals remains accessible until FPT Ministers of Agriculture can come to agreement on the appropriate AgriStability enhancements.

In light of the ongoing supply chain disruptions arising as a result of COVID 19, many Canadian livestock producers face continued uncertainty regarding access to critical processing markets. While a measure of absolute last resort, decisions around depopulation are a difficult reality for producers facing processing plant shutdowns, where animals can not be kept for extended periods. Recognizing this reality, CFA recommends the establishment of targeted programming that would cover the value of depopulated animals in response to a processing plant closure or significant reduction in capacity.

b) *Secure critical food infrastructure*

The continued threat of disruption in food processing remains a great concern to producers as harvest approaches and the possibility of a third wave of COVID occurrences looms. Canada's food processors and grower-packers continue to take on prohibitive costs to establish safe workplaces, through retrofits, PPE, and related infrastructure. While food processors welcomed the $77 million dollars invested in the emergency food processing fund, early industry estimates suggested the total costs associated with adjusting to COVID-19 were $817 million and the overwhelming demand for existing dollars highlights the continued need for financial support.

Without access to additional support, critical links in Canada's food supply chain are facing costs that threaten the viability of their businesses, while exposing the broader supply chain to immense uncertainty. To secure these critical food infrastructure links in advance of a third wave and the peak harvest season for many Canadian commodities, CFA recommends the next federal budget introduce a temporary refundable tax credit for food and beverage manufacturers to maintain operations and encourage continued investment.

In addition to this support for existing food processors, CFA also recommends that the next federal budget invest in programming to support the development of more food processing facilities across Canada, including programming tailored to on-farm value addition. Such investments would diversify markets for producers at a time where global supply chains face great uncertainty, while providing Canadian jobs and contributing directly to Canada's food security.

c) Launch a Buy Canadian Campaign

With the loss of the vast majority of sales to Canada's food services industry, Canadian producers are increasingly reliant on retail channels for domestic sales, while continuing to explore export diversification given the continued uncertainty in global agri-food supply chains. The increased volume of retail food expenditures will be a critical source of revenue and certainty during the long recovery process.

Additionally, significant market access was granted in the dairy, poultry and egg sectors due to the recent trade agreements signed by Canada. With food imports set to increase, it is essential that appropriate programming be available to mitigate these losses and assess the impacts of the CUSMA agreement. The certainty afforded by an increased volume of domestic sales can play a key role in positioning Canada's agri-food sector a leading driver of Canada's economic recovery.

Given the uncertainty with respect to international market development practices, government should also convene leaders from key exporting sectors to determine actions that can help strengthen Canada's reputation as a reliable producer of safe, quality agri-food products. The government must also exclude supply management from future trade negotiations in order to comprehensively support Canadian produced food.

To ensure these measures are implemented to the benefit of Canada's economic recovery, CFA recommends the following measures be introduced in the next federal budget:

a) Leverage the existing $25 million set aside under the Food Policy for Canada, as a Buy Canadian promotional campaign, while reallocating underutilized AgriMarketing program dollars to immediately implement an expansive Buy Canadian campaign focused on Canadian retail channels, while working with exporters to identify and address key export opportunities.

b) Continue working with Canada's supply management farmers on programs that will mitigate losses from recent trade agreements, and commence discussions on assessing the impacts of CUSMA

2) Leveraging agriculture's environmental contributions

a) Establish additional environmental revenue streams:

In the near future, ECCC will allow farmers to generate credits under the Federal Greenhouse Gas (GHG) Offset System and the Clean Fuel Standard (CFS). Under the Offset System, priority project types already include enhanced soil organic carbon, livestock manure management, afforestation/reforestation and aerobic composting. The CFS will offer credits for biogas production and adoption of electric vehicles. CFA recommends that a considerable portion of the associated budget is allocated to ensure efficient rollout of the programs as soon as possible.

In the interim, support is required to help farms make the investments necessary to participate in these protocols. This includes government programming to share the initial costs of implementing GHG reduction activities, such as cover cropping, rotational grazing, improved nitrogen management, and clean energy adoption. This will ensure rapid uptake of CFS and carbon offset protocols when these initiatives rollout, and attain the rapid emissions reduction needed to help Canada meet its 2030 goals.

It is also critical that the budget fund programming that incentivizes the provision of ecological goods and services (EG&S) other than carbon sequestration. Soil erosion control, floodplain mitigation and contaminant filtration are all examples of EG&S provided by natural infrastructure such as wetlands. The key to valuing them is to consider the price of building man-made structures to deliver similar services such as run-off retaining channels and water treatment facilities. As such, incentivising preservation of wetlands on private land is an under utilize option in preventing infrastructure funding in the future. CFA recommends that government consider national roll-out for regional programs such as the Alternative Land Use Service program and leverage research already conducted by the Insurance Bureau of Canada and Canadian Wetlands Roundtable.

b) Provide relief for grain drying and livestock barn heating

The *Greenhouse Gas Pollution Pricing Act* (GGPPA) currently allows for an exemption of qualifying farming fuels for eligible farming machinery used in agricultural production. However, the definition of qualifying farming fuels is narrow, only allowing for gasoline and light fuel, ignoring other important sources of energy used by farmers to produce a wide range of agricultural commodities. Furthermore, the definition of eligible farming machinery explicitly excludes machinery that is used for the purpose of providing heating or cooling to a building or similar structure. The combination of these two narrow definitions has resulted in dramatic cost increases and financial burden for grain drying and heating for livestock; two essential activities for producing food in Canada. These added costs have little to no effect on farmers' demand for fuels and can only rarely be transferred to the consumer.

CFA recommends that:

a) the government expand the list of qualifying farming fuels under the Greenhouse Gas Pollution Pricing Act (GGPPA) to explicitly include marketable natural gas, propane or a prescribed type of fuel; and
b) the government revise the definition of eligible farming machinery to include "machinery used for the purpose of providing heating or cooling to a building or similar structure" so that grain drying and the heating of livestock barns can be exempted from the fuel charge under the Greenhouse Gas Pollution Pricing Act (GGPPA).

c) Support regulatory efficiency and competitiveness

Sufficient funding must be provided to the upcoming Canada Water Agency (CWA) for development of specialized unit to engage with farmers after incidents of runoff caused by extreme weather events. This engagement should coordinate ECCC and DFO focus on efforts to help farms mitigate environmental impacts caused by climate change. Increased funding for support is required to ensure that farms can pay for the necessary infrastructure upgrades to prevent runoff.

Further funding should also be allocated the upcoming CWA to ensure that this specialized unit can act as a centralized repository of regionally specific water data that is collected, managed and disseminated in a consistent manner across Canada. This would immensely help to ensure that national decisions on pest management are guided by large datasets that capture the geographic variations of different provinces. It is critical that funding for this aspect of operations has direct connection to the Pest Management Regulatory Agency, as the data produced would have direct bearing on the quality of re-evaluation decisions. A pilot could be a pragmatic starting point build momentum and generate data to inform decisions moving forward.

3) Build greater resilience in Canada's food system

a) Invest in an agri-food workforce and automation strategy

Between Canada's abundance of land, fresh water, strong regulatory regime, and innovative business owners, Canada's agri-food sector is primed to drive Canada's economic recovery. But without the workforce and investments in labour-saving technologies to support this growth, this economic activity will not be possible.

Labour is a chronic, systemic issue and requires an equally systematic response. CFA recommends the next Federal Budget invest $3 million in food system resilience and growth through development of a workforce and automation strategy.

Building on lessons learned through COVID-19, this strategy must devise short, medium and long-term workplans to mobilize action in support of Canada's economic recovery. This would include investments in priority areas to reduce job vacancies through career promotion, improved skills training opportunities for workers, human resource management training and certification, and strategic investments to support commercialization of labour-saving technologies. Through these investments, Canada's agri-food industry will position itself for the future with the skills, workforce and technologies required, while reducing uncertainty and spurring growth during this critical economic recovery period.

CFA believes this requires an immediate, corresponding investment of $100 million per year for an agriculture and agri-food skills development and training program for in-demand upskilling and career opportunities. This investment should incorporate an awareness raising campaign regarding for students in STEM fields of study, articulating the high-skilled, well-paying careers that exist across the agri-food sector.

b) Strategically expedite investments into rural broadband

Agriculture in the 21st century has evolved into a sophisticated, innovation-driven, and technology-intensive industry that must increasingly anticipate and respond to changing consumer demands both at home and abroad. Broadband has the power to transform Rural Canada. Connectivity is now as important as roads and bridges to the sustainability of rural and remote communities, and to the success of rural institutions and organizations. The digital divide remains a reality throughout Rural Canada, with lower average speeds compared to urban centres, higher prices, and limited connectivity still the case in many regions. Access to broadband internet has become an essential pillar of a vibrant Canadian agriculture industry and of rural communities across Canada.

The CFA supports the continued efforts to expedite connectivity for all Canadians. With the government now on track to connect 98% of Canadians by 2026, there is a unique opportunity to spur further innovation in Canada's agri-food industry by strategically targeting investments in the next 2 to 3 years and focusing on more than just basic connectivity. The CFA recommends the government of Canada urgently convene key telecommunications providers, rural communities and agricultural stakeholders to lay out a strategy with clear targets relating to connectivity and affordability to ensure that digital infrastructure, including internet and cell phone services, contribute to a sustainable rural economy and vibrant rural communities for decades to come.

c) Facilitate the smooth and efficient transfer of family farms

98% of Canadian farms are proudly owned and operated by farm families. Canadian farms continue to expand, often supporting multiple households, with more and more farms incorporating for tax and estate planning purposes. Meanwhile the cost of land and farm assets continues to rise and those looking to purchase a farm face unprecedented capital costs. Effective tax planning is essential in this new environment, but Canada needs to ensure farm families have the flexibility they need to maintain financially viable family farms for future generations.

However, Section 84.1 of the *Income Tax Act* continues to pose barriers to the smooth and effective transfer of family farms to the next generation, by adding red tape and limiting the options available to farmers when succession planning. With the average age of Canadian farmers now exceeding 55 years old, tens of billions of dollars in farm assets expected to change hands over the next decade, this red tape imposes significant undue transaction costs on the transfer of farms between generations. Through these added costs, Section 84.1 disadvantages those looking to keep farms within the family, incenting sales to non-family members by, in many instances, making it markedly less costly to sell their farms to outside buyers.

CFA recommends that the *Income Tax Act* be amended to address this imbalance by treating the difference between the sale price and the price originally paid for the business as a capital gain, rather than a dividend, where a small business or family farm is transferred between family members. Private member's bill C-208 provides the legislative changes required to address this imbalance, alongside the safeguards necessary to maintain the intent of these provisions and prevent tax avoidance.