Farm Financial Health Report

2023-2024

Canadian Federation of Agriculture
Fédération canadienne de l'agriculture

2023


CFA FCA
Canadian Federation of Agriculture
Fédération canadienne de l'agriculture

Executive Summary

Taking Stock of Farm Financial Health Amid Rising Costs of Production and a Rapidly Changing Climate

Farmers across Canada have demonstrated tremendous resilience in the face of several domestic and global events including the COVID-19 pandemic, the war in Ukraine, and extreme climate events at home and abroad. In 2022, primary agriculture contributed **$36.3 billion (1.8%)** of Canada's GDP and supported **249,900 jobs** across the country.

However, through this time, the cost of critical farm inputs such as fuel, fertilizer, feed, machinery, pesticides, land and labour increased dramatically. When coupled with high inflation, interest rates and a price on carbon for essential farming activities, for which farmers have no viable alternatives, Canadian producers are facing tremendous pressure on their farm financial and mental health.

While most Canadian farmers have managed to stay afloat, largely due to high commodity prices and farm cash receipts that increased **14.6% over 2021 levels,** the ongoing impact of high inflation, matched with increasing interest rates, is beginning to take a serious toll on the operating margins of Canadian producers. Recent numbers from Statistics Canada have shown that the net income for Canadian farmers fell **5.9% in 2022**, because the growth in expenses outpaced the rise in farm income; and total farm operating expenses (after rebates) increased by **19.9% in 2022,** the largest gain since 1979 **(+21.1%).**

Meanwhile, while the full weight of the Bank of Canada's string of interest rate hikes has yet to sink in, farmers across Canada are experiencing an increasing series of extreme weather events that are testing the limits and effectiveness of Canada's suite of risk management programs.

To help address many of these challenges, the Canadian Federation of Agriculture (CFA) has put forward recommendations in several areas aimed at not only helping farmers manage the increasing cost of production and navigate challenging regulatory barriers, but also to help them mitigate the effects of climate change and support the next generation of farmers.

Canadian farmers play a crucial role in sustaining our rural communities, as stewards of our natural environment and in meeting our national and international food security needs. The following recommendations are aimed at ensuring Canada's farmers have the flexibility and tools they need to weather the current financial climate and support the transition to a low emissions economy.

Recommendations for Action

Help manage the increased cost of production.

Recommendation #1: Extend the on-farm carbon pricing exemption for qualifying farming fuel to marketable natural gas and propane.

Recommendation #2: Consult on and develop a Critical Farm Input Strategy to ensure that Canadian producers have a long-term, stable source of supply for critical farm inputs, including fertilizer, needed to produce high quality agriculture and agri-food products.

Recommendation #3: Make the interest-free limit for advances under the Advance Payments Program (APP) permanent beyond the 2023 program, alongside other administrative program adjustments, to make the APP more accessible and responsive to higher production costs.

Recommendation #4: Make Accelerated Capital Cost Allowance permanent across all classes of farm equipment, allowing producers to depreciate 100% of their capital allocated to purchases of farm equipment in the first year.

Improve risk management programs and reduce regulatory and tax burdens that restrict competitiveness.

Recommendation #5: Implement a new national grant program modelled after the Canada Digital Adoption Program, that would support on-farm risk management planning and mitigation.

Recommendation #6: Improve resilience against extreme weather events for all agricultural commodities, including aquaculture, by ensuring business risk management programs are responsive, predictable, and accessible. An immediate example would be using Agriculture and Agri-Food Canada's Drought Monitor to trigger an AgriRecovery assessment.

Recommendation #7: Increase AgriStability program coverage to 85% of the reference margin to improve participation, predictability, and levels of support for producers.

Recommendation #8: Ensure that the Pest Management Regulatory Agency (PMRA) is appropriately resourced and improves internal processes in support of timely, transparent, and science-based decisions that will help Canadian producers remain competitive in a global market.

Recommendation #9: Exempt farms from filing the Underused Housing Tax (UHT) return which requires private corporations and partnerships (including farms) that own residential property to file a UHT return, adding an unnecessary financial burden, even if they do not have to pay the tax.

Recommendation #10: Implement measures to support a farmer's right to repair their farm machinery.

Recommendation #11: Build on the Budget 2023 extended interswitching pilot by further expanding the distance beyond 160km and extending the pilot past the current 18-month period.

Recommendation #12: Provide financial support for the creation of a Grocery Code Adjudication Office, which will be critical to advance the training, education, dispute resolution services, and oversight necessary to implement an industry-led Grocery Industry Code of Conduct.

Recommendations for Action

Promote stable and sustainable growth.

Recommendation #13: Ensure the launch of the Sustainable Agriculture Strategy is inclusive of all agricultural commodities and is accompanied with an ambitious funding envelope commensurate with the incentives, research, and knowledge transfer activities required to address the inter-related demands of environmental, economic and social sustainability.

Recommendation #14: Strengthen Canada's international presence in advocating for the elimination of non-tariff barriers to trade in international trade agreements which are limiting market access for Canadian products.

Recommendation #15: Underpinned by supporting legislation, ensure no additional access to supply-managed sectors in future trade agreements to support a resilient domestic agricultural sector that is vital to national food security and long-term sustainable growth.

Supporting new entrants and young farmers.

Recommendation #16: Provide financial support to establish a Secretariat that will support implementation of the National Workforce Strategy for Agriculture and Food and Beverage Manufacturing.

Recommendation #17: Increase the capital gains exemption threshold above $1M to be more in line with current market farmland values.

Recommendation #18: Build on the Budget 2023 legislative amendments to the Income Tax Act which expanded the definition of a "child" to also allow sibling shareholders to pass a non-controlling share of their ownership to the next generation.

FARM FINANCIAL LANDSCAPE

In 2022, Canadian farmers saw their total farm cash receipts increase by **14.6%** compared to 2021, because of higher prices for both crops **(+$7.1 billion)** and livestock (+$3.6 billion) (Statistics Canada, 2023). However, this increase is overshadowed by a **18.6%** increase in total expenses, pushing realized net income lower to **$11.8 billion** in 2022 from **$12.8 billion**, a **5.9%** decrease from 2021 levels (Statistics Canada, 2023).

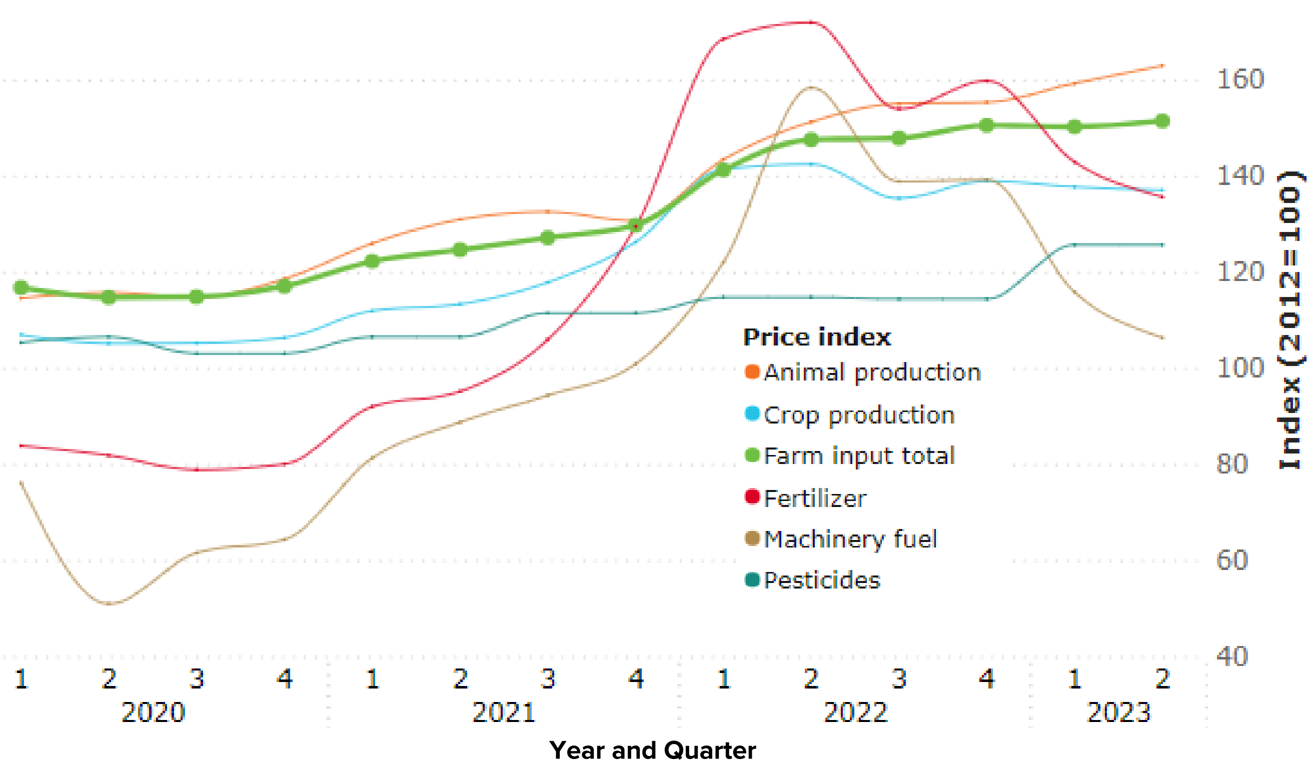
One of the most significant input costs for Canadian producers through 2021 and 2022 was fertilizer. According to Statistics Canada, fertilizer prices began rising rapidly in early 2021 due predominantly to high natural gas prices and Russia's invasion of Ukraine, resulting in a **54.4%** increase in 2022 (Statistics Canada, 2023).

In addition, successive droughts in Western Canada, beginning in 2021, limited the supply of hay and grain feed contributing to a **20.7%** increase in commercial feed expenses for livestock producers. Further, fuel expenses increased by **52.5% in 2022** as demand increased with economies opening post-COVID-19 and supply decreased because of sanctions on large fuel exporters such as Russia.

The cost of production is higher than it has ever been.

Figure 1: Total Farm Input Price Index

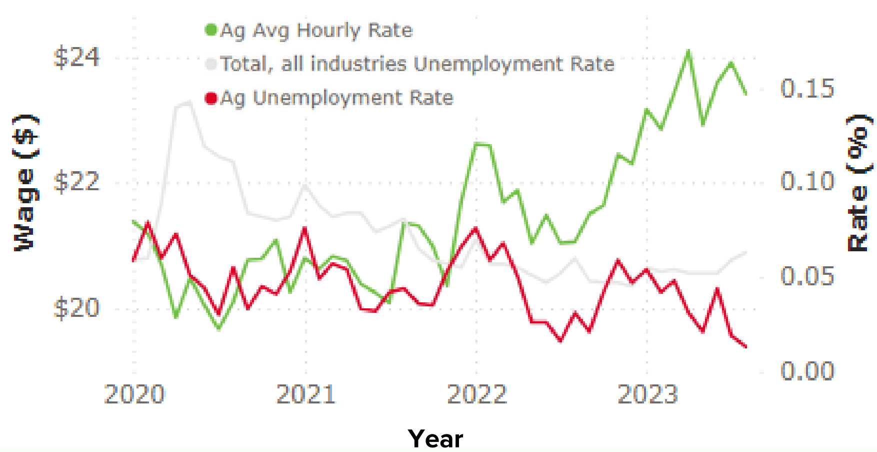
Source: Statistics Canada.
Table 18-10-0258-01 | Farm
input price index, quarterly



Farmers are grappling with rising labor costs as a result of inflation and a scarcity of available workers.

Figure 2: Average Hourly Wage Rate and Unemployment

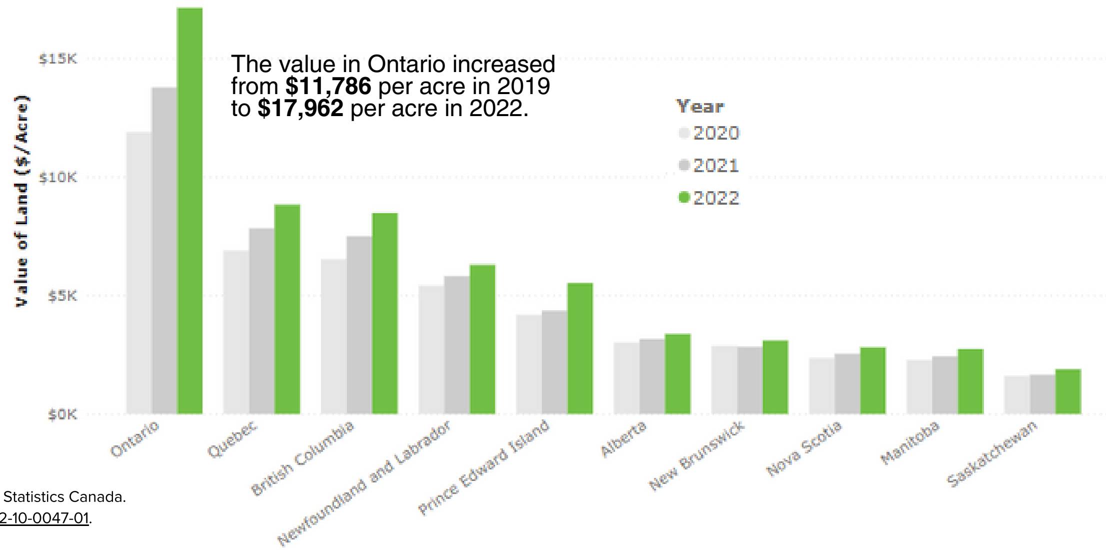
Source: Statistics Canada.
Table 14-10-0063-01;
14-10-0022-01.



Furthermore, a lack of available workers, and rising inflation rates, are resulting in an increasingly tight labour market, placing upward pressure on labour costs. Since the beginning of 2019 to August 2023, wages also increased from $20.29 to $23.42, further indicating a tight labour market (Statistics Canada, 2023).

Canadian Farmland values have increased by an average of 10% annually over the last 10 years.

Figure 3: Farm Land Value ($/Acre)



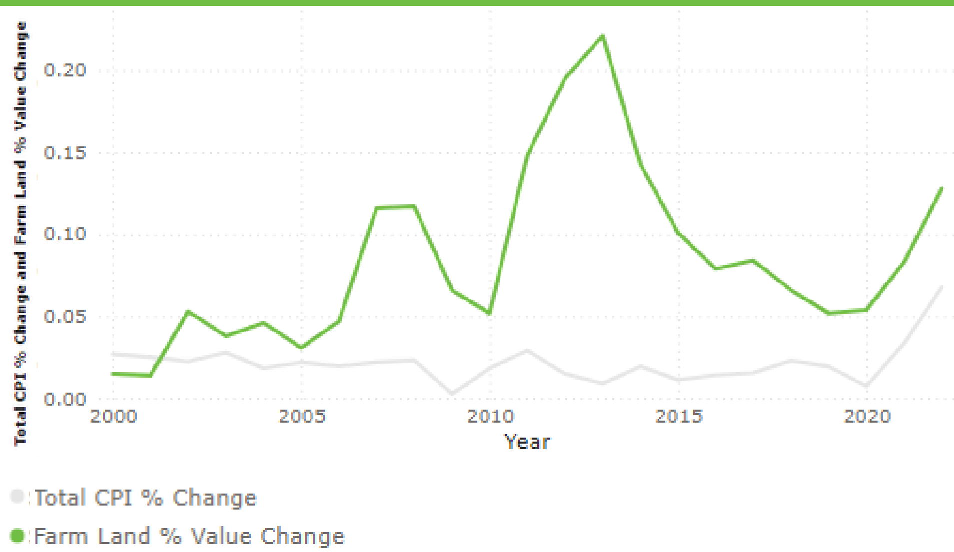
Source: Statistics Canada. Table 32-10-0047-01.

The value of farmland also saw a significant increase in 2022. The most prominent increase in land value were observed in Ontario, where the average value skyrocketed from **$11,786 per acre in 2019** to **$17,962 per acre in 2022** (Statistics Canada, 2023).

According to Farm Credit Canada (FCC), Canadian farmland values have increased on average **10% annually over the last 10 years.** In 2022, values rose 12.8%, the highest jump since 2013 (FCC, 2023). In addition, average annual mortgage payments increased 9.7% per year in the last decade, but 2022 recorded the large jump of 41% due to rising interest rates (FCC, 2023).

Figure 4: CPI and Farm Land Value

Source: FCC Calculations; Statistics Canada. Table 18-10-0004-03

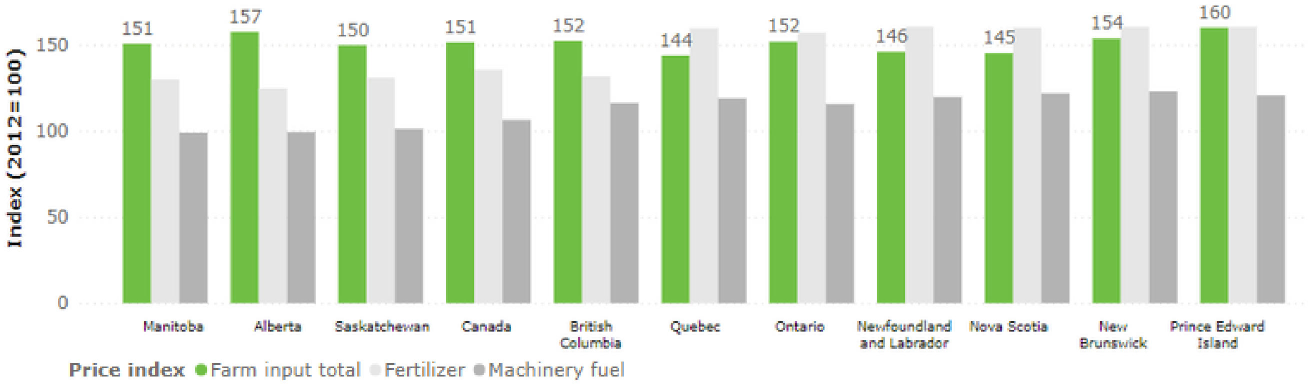


Production costs are impacting sectors and regions differently across Canada.

While expenses increased to record levels throughout Canada in 2022 (21.2% increase), the Farm Input Price Index (FIPI) revealed distinct regional variations. The FIPI is a measure of change in input costs faced by Canadian farmers and provides insights into the financial pressures on agricultural operations. For example, Western Canada **(MB, SK, AB, BC)** experienced a slightly higher increase in total farm input price rises from Q1 2019 to Q4 2022 (38%) vs. Eastern Canada **(NL, PEI, NS, NB, QC, ON)** (34%).[1] Furthermore, while the cost of fuel was higher in Eastern Canada (72% vs 43%), Western Canada experienced higher feed prices (63% vs 49%).

Figure 5: Regional Variance in Farm Input Price Index in Q2 2023 (Index, 2012=100)

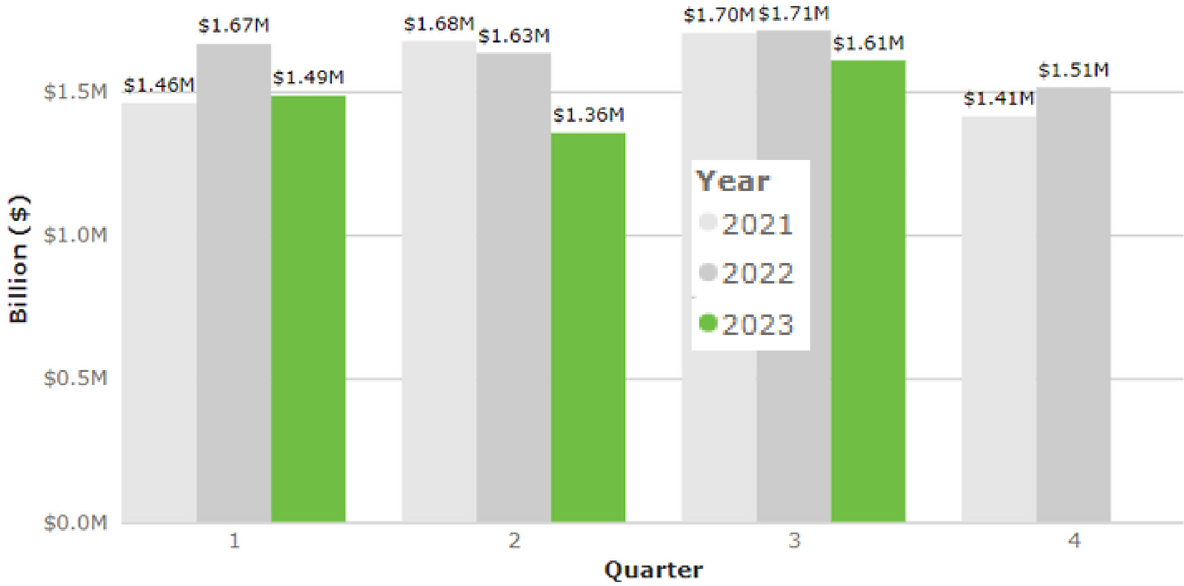
Source: Statistics Canada. Table 18-10-0258-01 | Farm input price index, quarterly



[1] "The indexes are available for 13 geographic areas: each of the 10 provinces, Eastern Canada (Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Quebec and Ontario), Western Canada (Manitoba, Saskatchewan, Alberta and British Columbia), and Canada as a whole (**excluding the territories**)."

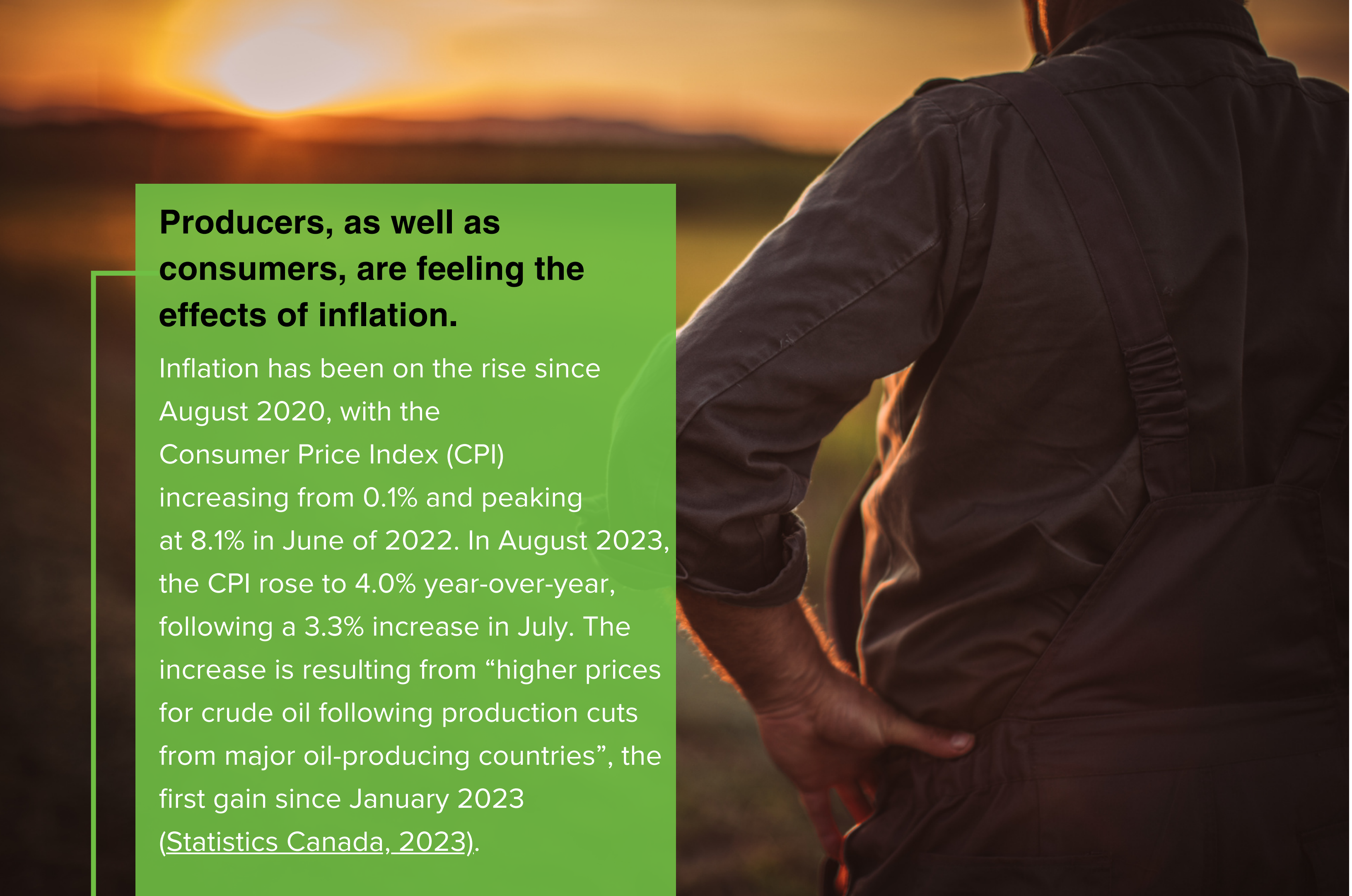
Figure 6: Canadian Quarterly Hog Cash Receipts

Source: Statistics Canada. 32-10-0046-01 | Farm cash receipts, quarterly



Even within the agriculture sector, certain commodities are being disproportionately impacted by financial pressures. For example, Canada's fruit and vegetable sector reported a 40% increase in input costs with fertilizer leading the way (72% increase since 2020).

Labour costs have also increased by 20% and shipping by 42%. As a result, as of January 2023, 44% of fruit and vegetable producers reported that they were selling at a loss (Farmers Forum). In addition, Canada's pork industry is constrained by decreasing processor capacity and increasing non-tariff barriers to trade which means many producers are currently absorbing losses of $40 to $50 a head (RealAgriculture).



Producers, as well as consumers, are feeling the effects of inflation.

Inflation has been on the rise since August 2020, with the Consumer Price Index (CPI) increasing from 0.1% and peaking at 8.1% in June of 2022. In August 2023, the CPI rose to 4.0% year-over-year, following a 3.3% increase in July. The increase is resulting from "higher prices for crude oil following production cuts from major oil-producing countries", the first gain since January 2023 (Statistics Canada, 2023).

In response to high inflation, the Bank of Canada has implemented several interest rate hikes. Most recently, on September 6, 2023, the Bank of Canada held interest rates at 5%. The effective business interest rate also increased, standing at 6.76% (as of August 15, 2023). These changing interest rates impact agriculture by affecting the level of general economic activity, such as output and employment, exchange rates, and international trade (Bank of Canada, 2023; USDA, 2021).

The Bank of Canada has noted that changes in policy interest rates do not yield immediate results, and typically take 18 to 24 months for the full effects to be seen. As such, the aggressive monetary tightening that occurred during the summer and fall of 2022 is expected to be felt in late 2023 and 2024.

Taken together, high input costs, inflation and interest rates are placing upward pressure on the cost of food production in Canada. High commodity prices also contribute to raising food prices for consumers. In August (2023), total food inflation grew 6.8% year over year from August 2022. Figure 8 shows how food prices have remained higher than total inflation (Statistics Canada, Table 18-10-0004-03).

Inflation, interest rates and debt levels are having an impact on the overall farm financial health of farmers.

Figure 7: Food Consumer Price Index from 2020 to 2023

Source: Statistics Canada.
Table 18-10-0004-01

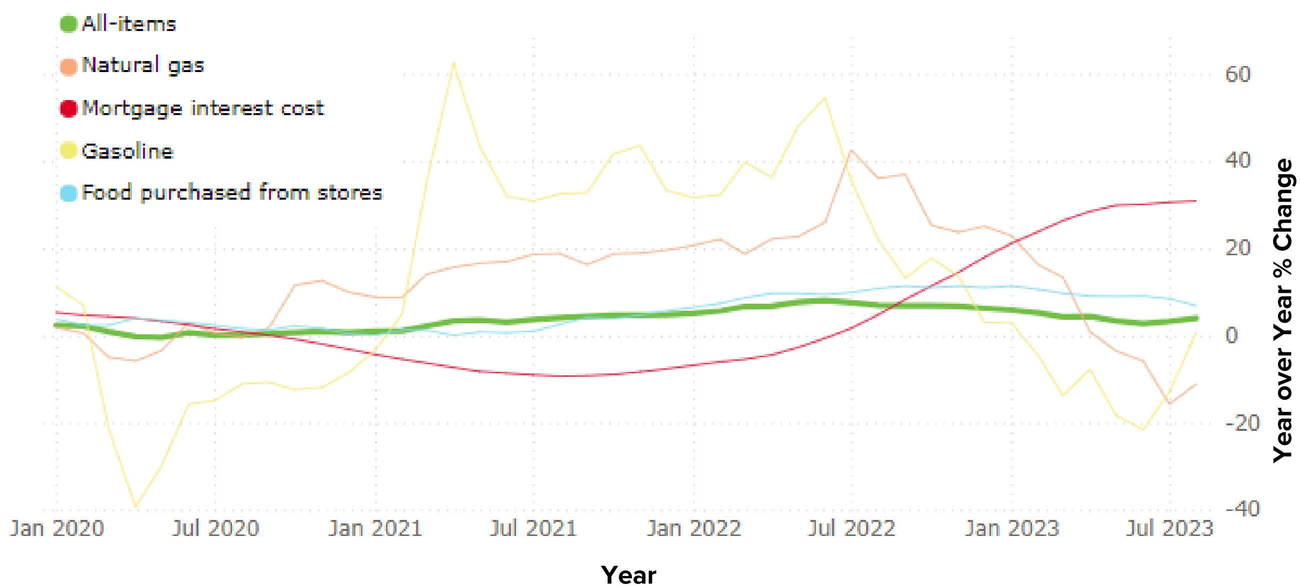
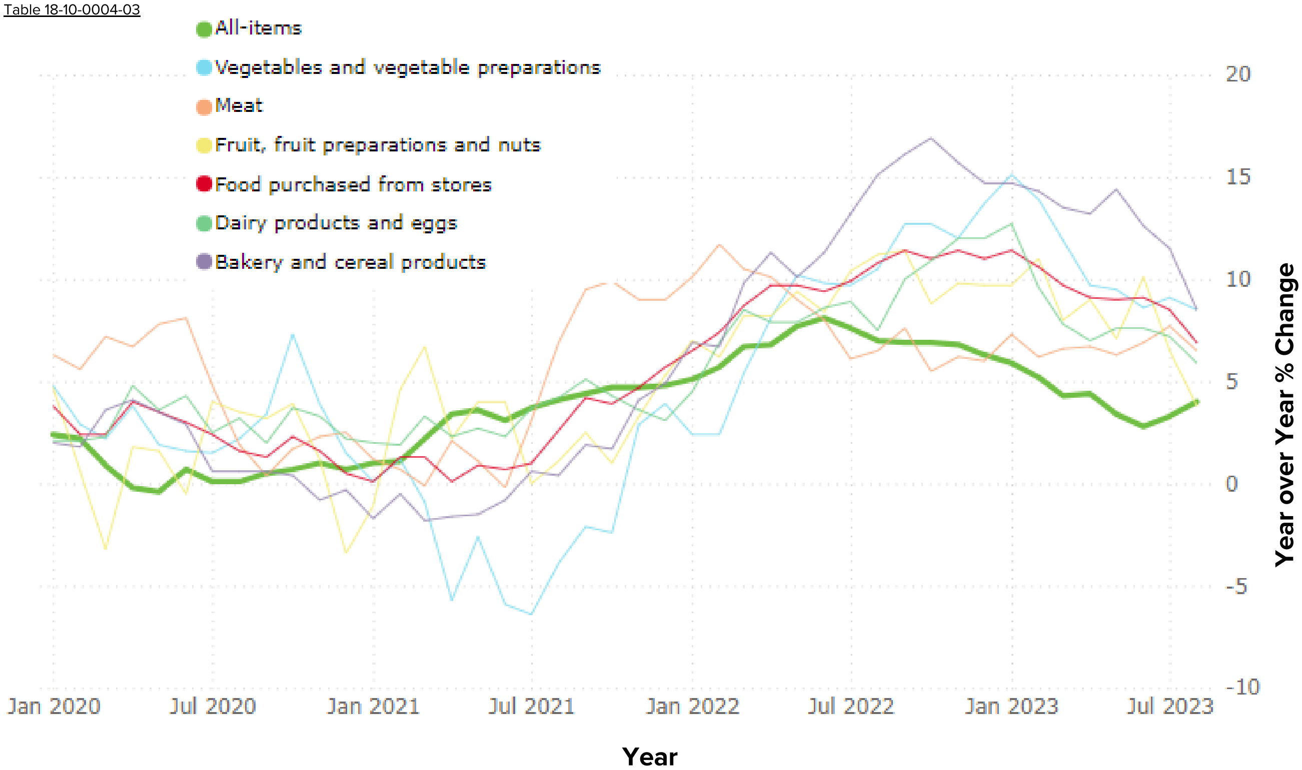


Figure 8: Food Consumer Price Index

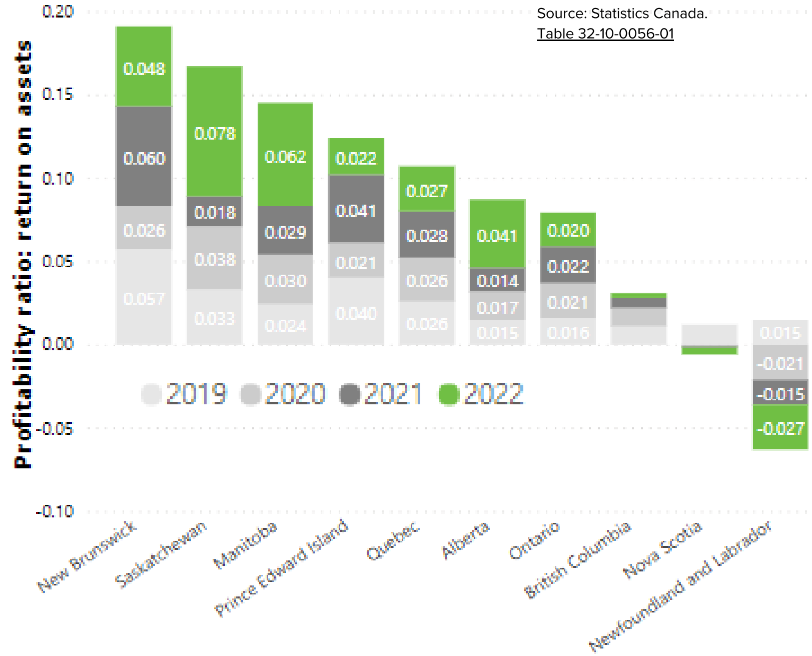
Source: Statistics Canada.
Table 18-10-0004-03



The agricultural sector, being capital-intensive, is particularly sensitive to changes in interest rates, which influence borrowing, spending, and investment decisions. In 2022, the total farm debt in Canada rose to a record $138 billion, with Ontario, Alberta, and Quebec bearing the highest level of debt, with Ontario leading at $35.7 billion, followed by Alberta at $29.8 billion, and Quebec at $27.2 billion (Statistics Canada, 2023).

An in-depth look at farm financial ratios presents a more nuanced picture. Farm financial ratios, such as liquidity, solvency, and profitability ratios, are crucial to evaluate Canadian producers financial health (FCC, 2023). These ratios provide insights into a farm's ability to meet financial obligations, the extent to which assets are funded by debt, and how efficiently assets are being used to generate earnings. These ratios help farmers make informed decisions to manage their obligations, manage cash flow, identify risks, and find opportunities for improvement (FCC, 2023).

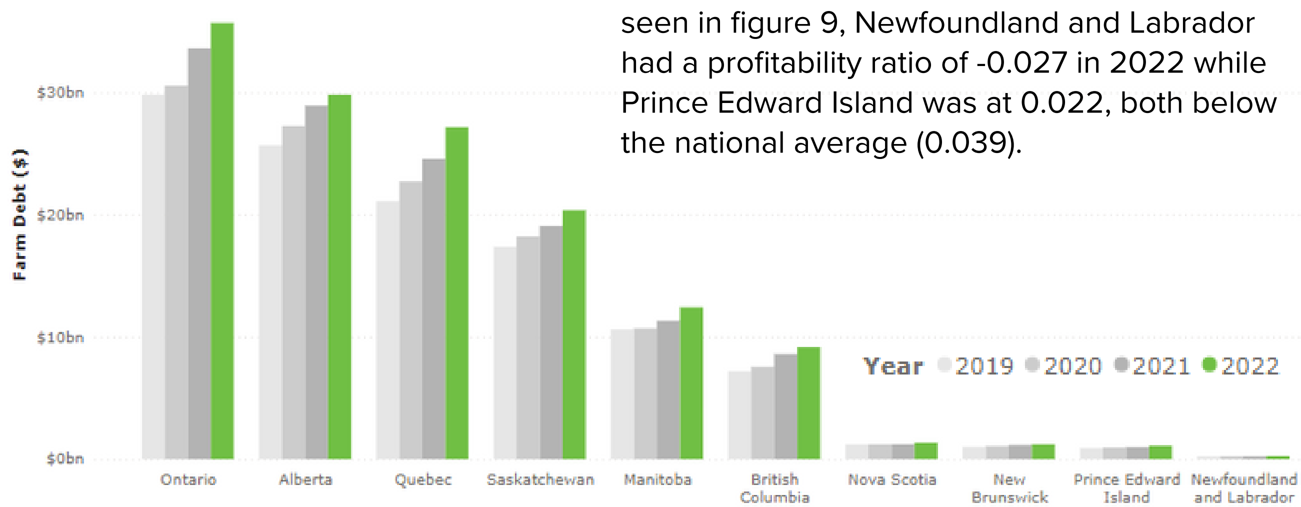
Figure 9: Provincial Profitability Ratios



In 2022, Canadian farms, in general, showed improvement in liquidity, which means they had more cash on hand to pay off debts. However, a closer examination of liquidity, solvency and profit ratios reveals that while larger farms, particularly those involved in crop production, tend to have stronger financial ratios compared to smaller farms, this was not consistent across the country. For example, Prince Edward Island's high liquidity ratio (4.24) indicates a strong ability to cover short-term debts, while producers in Newfoundland and Labrador were also in a range considered healthy, but lower (1.56) (Statistics Canada, 2023). However, as seen in figure 9, Newfoundland and Labrador had a profitability ratio of -0.027 in 2022 while Prince Edward Island was at 0.022, both below the national average (0.039).

Figure 10: Farm Debt Outstanding, Total

Source: Statistics Canada. Table 32-10-0051-01 | Farm Debt Outstanding by lender



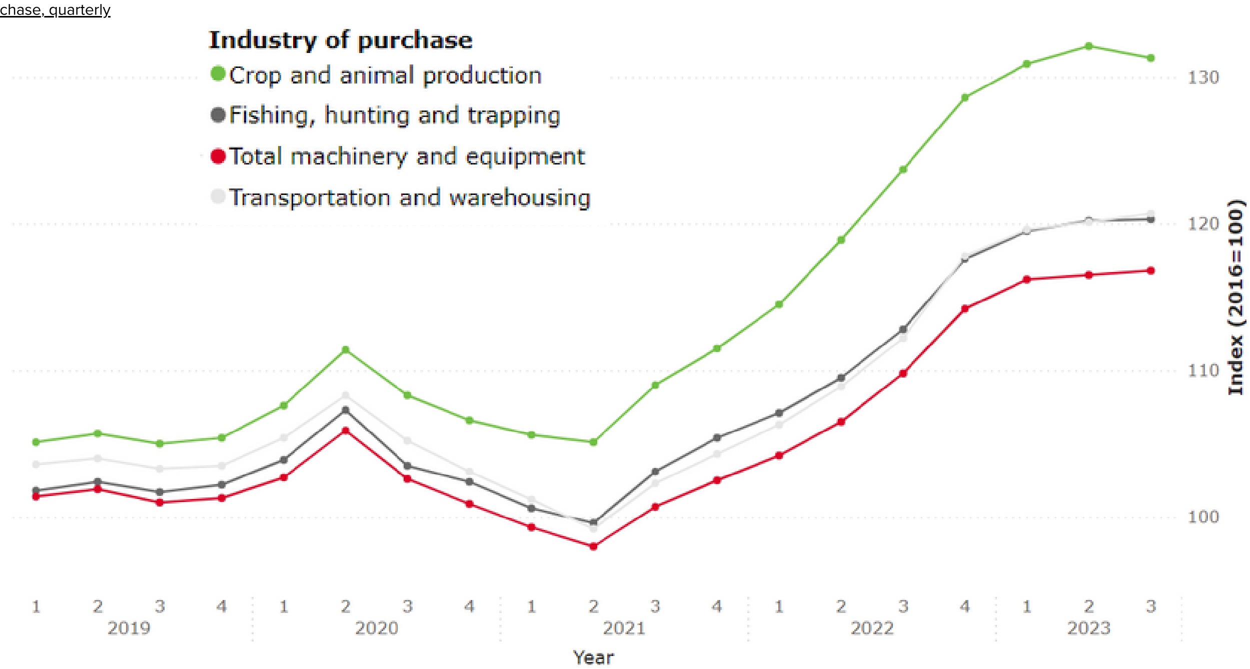
Higher borrowing costs are impacting investment decisions which will have long-term consequences for productivity.

The high cost of production, influenced by high inflation, interest rates and input costs, is occurring in an environment where global demand for agricultural products is increasing due to lower stock-to-use ratios (global demand and supply of crops) (FCC, 2023). These ratios measure the level of carryover stock for a commodity as a percentage of the total use of the commodity, and a critical indicator of market balance and price direction (i.e., how much stock is left compared to use). The continued global supply and demand balance for agricultural products is keeping prices stable, and farmers in business. However, if high borrowing costs prevent farmers from capitalizing on this demand, they could miss out on key opportunities, especially given the strong price signals (i.e., reduced growth of input costs and elevated demand) to invest in innovation (WASDE, 2023; FCC, 2023).

Rising interest rates are also affecting the cost of investing in equipment and machinery. The Machinery and Equipment Price Index (MEPI) (Indexed, 2016=100) shows that as borrowing becomes more costly, it becomes increasingly difficult for farmers to acquire necessary equipment. For instance, the MEPI for the crop and animal production industry of purchase increased from **105.1 in Q1 2019** to **131.3 in Q3 2023**, indicating a change of index points of **26.2**, or an increase of **25%**. Significantly higher than the total of **116.8 in Q3 2023** and the highest compared to all other industries on average, reflecting the significant investment challenges in this sector (as seen in figure 11).

Figure 11: Machinery and Equipment Price Index (MEPI) (Index, 2016=100)

Source: Statistics Canada. Table 18-10-0270-01 Machinery and equipment price index, by industry of purchase, quarterly



Farmers are less optimistic about their financial outlook than a year ago.

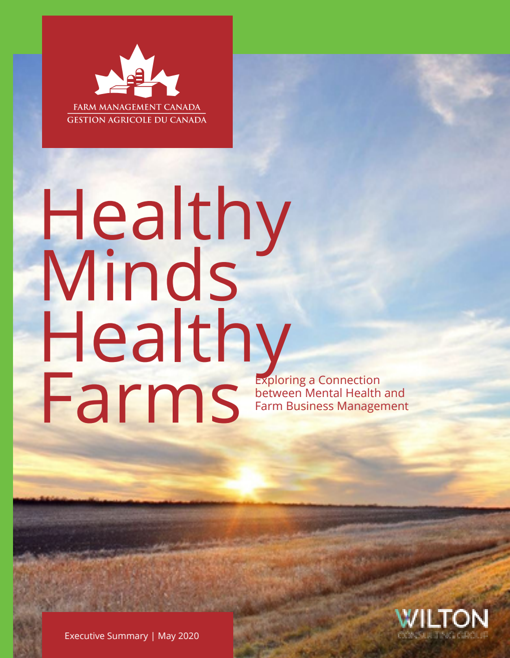
Recent surveys have shown that the combination of high input costs, inflation, interest and debt levels are weighing heavily on the overall confidence of Canadian farmers. When coupled with extreme weather-related events across the country farmers are less confident in their farm financial security now and for the future, than they were even one year ago (RealAgriculture).

A 2021 survey conducted by the University of Guelph found that 3 in 4 (76%) Canadian farmers are stressed. According to the Healthy Minds, Healthy Farms Report, the main causes of stress to Canada's farmers are the unpredictability of the agricultural sector and feeling a loss of control (77%), financial pressures (73%), workload pressures and lack of time (72%). Furthermore, suicide ideation was twice as high for farmers compared to the general population, even before the onset of high input prices and interest rates.

Effective risk management and financial planning can help mitigate some of these negative impacts on farm financial and mental health. For example, the same Healthy Minds, Healthy Farms report found that 88% of producers report following a written business plan has contributed to greater peace of mind, and 77% of producers who do not follow a written business plan believe it would contribute to greater peace of mind. However, producers are hesitant to plan because of the increasingly unpredictable natural environment, global economy, trade, and geopolitical context.

"The mental health of Canada's farmers is of critical importance to sustainable growth and prosperity for Canada's agricultural sector. Our research shows that investing in farm business management practices including financial literacy and proactive planning plays a significant role in managing the stresses of farming in a way that contributes to positive mental health and building our capacity to remain resilient in an increasingly complex business environment."

Heather Watson,
Executive Director of Farm Management Canada



MANAGING THE INCREASED COST OF PRODUCTION

Over the past few years, Canadian producers have experienced significant supply chain disruptions and inflationary pressures which have put pressure on the cost of production in Canada. In particular, the cost of critical farm inputs such as fuel, fertilizer, feed, machinery, pesticides, and labour have skyrocketed.

Farmers need relief from carbon pricing to keep working capital on their farm.

The Government of Canada has implemented a price on carbon, affecting essential farm practices which have no lower-emission alternatives to turn to for their energy usage. This is adding a financial burden for farmers by removing critical working capital from their operations without any resulting emission reductions.

Our agricultural policies and programs must be grounded in a holistic approach to sustainability that addresses environmental objectives, but also social and economic objectives as well. Without financial sustainability farmers cannot continue their operations, which would make any environmental initiatives impossible to implement.

Reducing operating costs in the context of high inflation and extreme weather volatility provides critical working capital for investments in energy-efficiencies and other sustainable technologies. There are critical to Canadian agricultural sustainability, as well as domestic and global food security. Swift passage of Bill C-234, an Act to amend the Greenhouse Gas Pollution Pricing Act will keep more dollars in farm businesses and enable farmers to make these important investments.

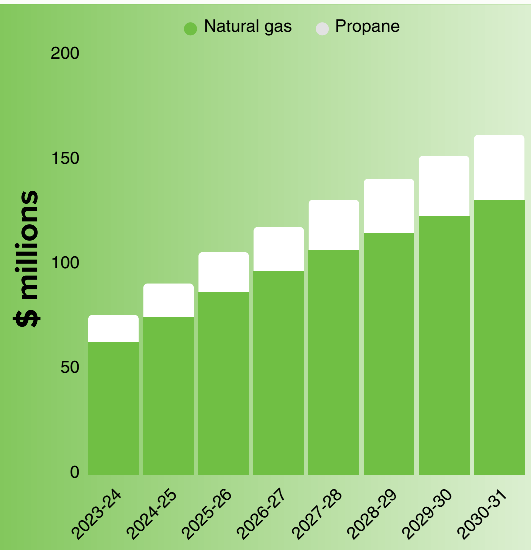
Recommendation #1: Extend the on-farm carbon pricing exemption for qualifying farming fuel to marketable natural gas and propane.

Bill C-234

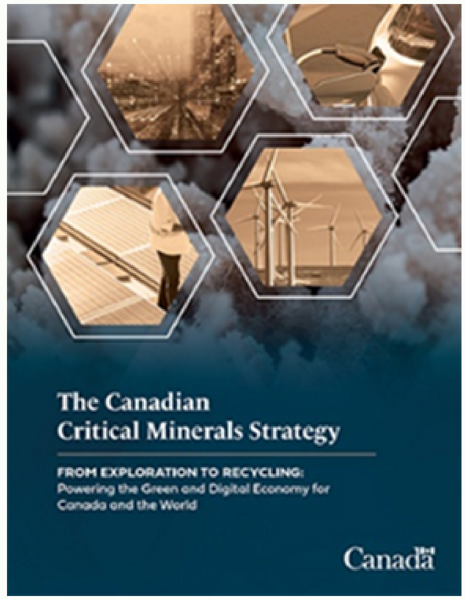
Cost Estimate: Exemption for Qualifying Farming Fuel to Marketable Natural Gas and Propane

-Office of the Parliamentary Budget Officer

$ Millions	Total	Fuel charge rate ($ per tonne)
2023-24	**76**	65
2024-25	**91**	80
2025-26	**106**	95
2026-27	**119**	110
2027-28	**131**	125
2028-29	**142**	140
2029-30	**152**	155
2030-31	**162**	170



Farmers need better predictability and stability of inputs to remain competitive.



Globally, Canada is the third largest producer of primary fertilizers in the world and is the number one producer of potash fertilizer, holding 45 per cent of the world's reserves. However, at a product-specific and regional level, Canada still relies heavily on imports from the U.S. and Russia to meet many of its needs. For example, a recent Report issued by the Grain Farmers of Ontario noted that 63% of all imported urea and 21.6% of all imported UAN to Canada in 2021 came from Russia.

Despite recent declines in fertilizer prices, due to European natural gas prices (the key feedstock in nitrogen fertilizer) returning to historical trends and the resumption of European fertilizer production capacity that had been idled over the past several months, fertilizer is projected to remain higher than the 2015-2019 average for the foreseeable future (World Bank, 2023).

The surge and volatility in fertilizer prices is part of a wider trend of rising costs across several key farm inputs, including chemical inputs such as fungicides, insecticides, and other crop protectants. However, Canada is almost entirely reliant on imports of certain chemical ingredients essential to the manufacture of fertilizers, sprays, and other products necessary for agricultural production.

Figure 12: Latest Canadian Imports of Fertilizer

Source: Statistics Canada. Canadian International Merchandise Trade Web Application

Imports (chapter 31 - Fertilizers), top trade partners					
Canada — July 2023		Canada — June 2023		Canada — May 2023	
Country	**Imports ($ million)**	**Country**	**Imports ($ million)**	**Country**	**Imports ($ million)**
United States	62,975,738	United States	84,869,761	United States	252,751,481
Algeria	10,141,133	Nigeria	13,278,858	Morocco	35,279,751
Morocco	6,376,235	Lithuania	8,183,912	Algeria	31,117,798
Norway	1,392,099	Morocco	4,059,107	Trinidad and Tobago	17,973,480
Netherlands	1,165,969	Netherlands	3,660,998	Egypt	11,291,716

This could present a serious risk to Canadian food security if future global supply chain disruptions or new regulatory barriers. As a result, the CFA recommends that the Government of Canada consult on and develop a Canadian Critical Farm Input Strategy, similar in principle to the Canadian Critical Minerals Strategy, that would examine options to stabilize and diversify the supply of critical chemical pesticide and fertilizer stocks and support the development of domestic and global value chains to maintain domestic and global food security.

Recommendation #2: Consult on and develop a Critical Farm Input Strategy to ensure that Canadian producers have a stable source of supply for critical farm inputs, including fertilizer, needed to produce high quality agriculture and agri-food products.

Government support programs must keep pace with the increased cost of production.

Producers need access to tools and programs that will help them manage costs and price fluctuations over the year. In particular, the Advance Payments Program (APP) gives producers access to credit through cash advances based on the value of their agricultural products which helps producers meet their immediate financial obligations while marketing their products when they can get higher prices for their goods.

A June 2023 Report to Parliament on the Review of the Agricultural Marketing Programs Act, noted that "the interest-free limit is a concern to some APP participants" and "40% of producers surveyed reporting that the current interest-free limit is too low to meet their needs." While the Government of Canada announced a temporary increase to the interest-free limit from $100,000 to $250,000 for the 2022 and 2023 program years, and then further increased it to $350,000 for the 2023 program year, that threshold is set to expire at the end of 2023, which will return the interest-free limit to its original $100,000 amount. Furthermore, in the Report, Government's position is that "the interest-free limit of $100,000 continues to be appropriate relative to program uptake and risk exposure to the Government of Canada."

Given that the average advance taken in 2022 amounted to approximately $190,000, and that total farm operating expenses have increased 9.6% in 2021 and 21.2% in 2022, the CFA recommends that the interest-free limit for advances under the APP need to be increased to a level commensurate with today's increased cost of production and high inflation around critical farm inputs. Not only do farmers need access to an interest-free threshold as part of the APP that is line with a much higher cost of production, but farmers need some measure of predictability and stability around that new permanent interest-free threshold to support better operational planning from year-to-year. Furthermore, while it is in the interest of farmers to identify a new permanent interest-free threshold that responds to today's financial environment, it is not in the interest of farmers to see APP administrative fees increase or above-threshold premiums skyrocket, as farmer-run APP administrators struggle to cover costs to deliver the program.

As a result, the CFA also recommends that the Government consider a more sustainable funding model that includes several administrative changes to the program, such as eliminating the proof of sale requirement (or taking a risk-based approach that would only require proof of sale in the event of failed bin inspections, defaults, etc.)

Recommendation #3: Make the interest-free limit for advances under the Advance Payments Program (APP) permanent beyond the 2023 program, alongside other administrative program adjustments, to make the APP more accessible and responsive to higher production costs.

Investment in machines and equipment can help increase productivity.

Finally, to support the increased cost of production, inflation related to farm equipment and machinery, and the adoption of new technologies needed to ramp up production, while increasing efficiency and supporting sustainable agriculture practices, the CFA is also recommending that the Government of Canada introduce a permanent accelerated capital cost allowance across all classes of farm equipment that would allow producers to depreciate 100% of their capital allocated to purchases of farm equipment in the first year.

Currently, for certain capital assets purchased after April 19, 2021, and before January 1st, 2025, incorporated farm businesses can write off 100% of the purchase, regardless of the traditional capital cost classification, up to $1.5 million per tax year. This applies to tractors, combines, trucks, pull-type implements, computers and GPS, but does not apply to longer term assets, such as buildings, bins, or quota.

Canadian farmers have six growing seasons left until 2030 – highlighting the need for incentive to spur investments in more efficient and sustainable equipment to help Canada achieve its sustainability and emissions reductions targets. Making this tax measure permanent will help farmers today who are facing high cost of production and tight operating margins – where they might otherwise delay investment in machinery and equipment.

Recommendation #4: Make Accelerated Capital Cost Allowance permanent across all classes of farm equipment, allowing producers to depreciate 100% of their capital allocated to purchases of farm equipment in the first year.

RECALIBRATING RISK MANAGEMENT WHILE REDUCING REGULATORY AND TAX BURDENS

Increased production costs and more frequent climate-related disaster events mean that Canadian farmers are carrying more risk at a time when Canada needs the support of our agricultural sector to meet its food security, sustainability and emissions reduction targets. At the same time, unnecessary tax burdens and barriers to competitiveness are making it more difficult for Canadian farmers to earn a living.

Risk management has to also include support at the farm-level.

To help farmers manage this increased level of risk, the Government and industry must also support on-farm management based solutions that promote a comprehensive approach to managing farm risk. This includes supporting the development and implementation of whole-farm risk management plans (risk identification, assessment, prioritization and mitigation) and supporting access to support resources other than the Business Risk Management (BRM) suite like skills development opportunities and advisory services from agrologists, accountants, lawyers or business experts.

This aligns with the 2020 Report of the Standing Committee on Agriculture and Agri-Food which recommended that the Government of Canada, in collaboration with the provinces and territories, promote training of producers on risk management and available tools, including agronomic planning and financial tools such as the suite of BRM programs and private insurances.

Results from a 2020 Farm Management Canada study show room to improve the adoption rate of key financial practices:

- Having a budget and plan for each enterprise within the farm that is reviewed regularly 63% (adoption rate);
- Calculating, reviewing, monitoring cost of production for benchmarking and decision-making, 33% (adoption rate);
- Having an in-depth understanding of financial statements to monitor progress 48% (adoption rate); and,
- Having a structured approach to financial planning to ensure sufficient capital to withstand changes to the business environment 43% (adoption rate).

Canadian small businesses currently have access to grants and access to expert advice to support the adoption of digital technology and services. The Canada Digital Adoption Program (CDAP), for example, provides up to $2,400 to set up e-commerce activities or up to $15,000 to get advice on the adoption of new technologies. The CFA is recommending a new national grant program modelled after the CDAP, that would help farmers access professional services and advice that would take some of the burden off Canada's BRM programs and more proactively support on-farm risk management.

Recommendation #5: Implement a new National Farm Management Grant Program modelled after the Canada Digital Adoption Program, that would support on-farm risk management planning and mitigation.

Recalibrating risk management programs to respond to increasing threats.

The environment within which farmers operate has changed dramatically over the past several years. Increasing incidences of extreme weather events such as floods in eastern Canada, drought in the prairies, wildfires, excessive rainfall, or damage from events such as Hurricane Fiona, are having a direct impact on Canadian producers on a scale not seen in generations. Canada's risk management programs must adapt to this changing risk climate.

Canada's suite of business risk management programs, including **AgriRecovery**, are not as responsive as their equivalents in the United States such as the United States Department of Agriculture's (USDA) Disaster Assistance Programs. Farmers do not know what level of compensation they can expect to receive or when they will receive it, placing them at a comparative disadvantage with their U.S. counterparts when it comes to purchasing available feed during extreme weather-related situations. For example, the 2021 drought in western Canada dramatically reduced the availability of feed. USDA drought programming was triggered months before Canadian equivalent support. This allowed US producers to purchase feed supplies faster, leading to record hay exports from Western Canada and decreasing the feed supply for Canadian producers when they needed it most.

Canada's suite of business risk management programs, in particular AgriRecovery, need to be more timely, responsive, and predictable in the face of increasing disaster-related events caused by climate change. If we want producers across Canada to become effective partners in the fight against climate change, we need to ensure we have their backs when climate-related events destroy their harvest, crop and/or livelihood.

Recommendation #6: Improve resilience and monitoring of extreme weather events for all agricultural commodities, including aquaculture, by ensuring business risk management programs are responsive, predictable, and accessible. An immediate example would be using Agriculture and Agri-Food Canada's Drought Monitor to trigger an AgriRecovery assessment.

Furthermore, **AgriStability** – a BRM protecting producers against large declines in farming income as a result of production loss, increased costs and market conditions – must do a better job of providing meaningful disaster support, including providing funding on a timely basis to ensure that the short-term impacts of significant income losses (i.e., any variation in income below 85% of a producer's historic reference margin) are mitigated.

In addition, AgriStability payments must be calculated in a transparent and straightforward fashion that allows producers to predict and bank upon impending payments. Special considerations, such as reduced fees for new entrants can also encourage participation. As a result, while the CFA supports the Government of Canada's recent commitment to raise the AgriStability compensation rate from 70% to 80%, it is apparent that further enhancements, are needed to address the increasing level of on-farm risk.

Recommendation #7: Increase AgriStability program coverage to 85% of the reference margin, to improve participation, predictability, and levels of support for producers.

More needs to be done to ensure regulatory measures are promoting and not inhibiting Canada's food production.

Increasingly complex and unpredictable regulatory requirements add to the burden on farmers, exerting pressures that undermines their profitability and competitiveness in domestic and global markets. More needs to be done to ensure that regulatory measures are promoting Canada's food production, rather than inhibiting it.

The ability of farmers to have timely access to new products for use in pest management is extremely important to farmers. If Canadian farmers are to remain competitive in the global market, we must ensure they have access to a similar range of crop protection products used by our competitors, which meet Canadian regulatory and safety requirements. The CFA has identified several longstanding issues related to the Pest Management Regulatory Agency (PMRA), including much-needed process improvements such as earlier consultation on proposed decisions, as well as the lack of harmonization of evaluation and registration processes between Canada and the US.

As a result, the CFA urges the Government of Canada to ensure that the PMRA is appropriately resourced and able to ensure efficient, transparent, evidence-based and streamlined decision-making that will ensure Canadian producers are not left at a competitive disadvantage in the global market. For example, the CFA strongly urges the PMRA to reverse its decision to ban the use lambda-cyhalothrin on crops destined for feed use in Canada, as the same ban does not apply to U.S. grain imported for feed use in Canada.

Recommendation #8: Ensure that the Pest Management Regulatory Agency (PMRA) is appropriately resourced and improves internal processes in support of timely, transparent, and science-based decisions that will help Canadian producers remain competitive in a global market.

Unnecessary tax and legislative barriers are adding another layer of administrative cost on farmers.

The Underused Housing Tax (UHT) on vacant or underused housing in Canada requires that private corporations and partnerships, including farms, are required to submit a UHT return for their residential properties, even if they don't have to pay the tax. Failure to file the UHT return can result in penalties up to $10,000 per residential property. This requirement has caused financial burdens for farmers, as they have to pay an estimated $500-$1000 fee for preparing and filing the UHT return, even when they know they are exempt from paying the tax. This adds to the already increasing expenses farmers face such as input costs, energy costs, and regulatory requirements.

Requiring farmers to submit a UHT return, even when they are exempt from paying the tax, creates an unnecessary financial and administrative burden on farmers, without effectively achieving the stated objective of the UHT. Farmers have minimal involvement in the housing market, and the majority qualify for a UHT exemption. As such, the CFA urges the government to exempt farmers from the requirement to file a UHT return without any additional application or paperwork requirements.

Recommendation #9: Exempt farms from filing the Underused Housing Tax (UHT) return which requires private corporations and partnerships (including farms) that own residential property to file a UHT return, adding an unnecessary financial burden, even if they do not have to pay the tax.

In addition, modern agriculture machinery is increasingly complex and digital, and farmers have limited options to address warnings or errors which occur in equipment's software. The challenge farmers face is that the Copyright Act prohibits anyone from bypassing Technological Protection Measures (TPMs) that must be accessed to conduct repair. Only those with access to software provided by the Original Equipment Manufacturers (OEMs) have the tools to legally be able to fully repair equipment. As a result, current legislation is being used to limit the ability of farmers and certified third parties to repair technical issues that occur with modern farming equipment. This has led to concerns from farmers who have had to face operational downtime while they wait for repair services that are solely available from the equipment manufacturer's dealerships.

The CFA recommends that the Government of Canada implement new measures to support a farmer's right to repair their own machinery, including but not limited to, passage of Bill C-244, An Act to Amend the Copyright Act (diagnosis, maintenance and repair) which would allow individuals to crack digital locks that limit access to onboard software for the purposes of diagnosis and repair, but not modification.

Recommendation #10: Implement measures to support a farmer's right to repair the electronic components in farm machinery.

Helping farmers get their product to market by creating a more competitive environment and improving supply chain dynamics.

Canada's railway network is critical to the financial health of grains and oilseeds producers across the country. However, given the vast distances often required to transport goods to market, many producers have few, if any, viable alternatives to rail transportation, which puts Canadian producers and shippers at a serious disadvantage when seeking cost-effective shipping options. Transportation costs represent one of the most significant costs for grain producers and the CFA remains concerned with the extent to which Canadian producers are held captive by Canada's national railways.

Extended interswitching is a measure which gives shippers who are physically located on a single rail line the ability to seek competing service from the next closest railway within a certain distance. Extended interswitching promotes competition among railways, fosters economic growth, and lowers costs to businesses.

Budget 2023 proposed to introduce amendments to the Canada Transportation Act for a temporary 18-month extension, on a pilot basis, of the extended interswitching limit of 160 kms in the prairie provinces to strengthen rail competition. While this was a positive announcement for the grain sector, including farmers in western Canada, many shippers book rail freight up to a year in advance. Eighteen months is simply too short of a time period for an honest assessment of extended interswitching. Shippers and farmers are not going to jeopardize their long-term commercial relationship with their main rail carrier to benefit from what could amount to a very short-term extended interswitching provision. As a result, the CFA is recommending that the Government of Canada build on the Budget 2023 extended interswitching pilot by further expanding the distance beyond 160km and extending the pilot past the current 18-month period.

Recommendation #11: Build on the Budget 2023 extended interswitching pilot by further expanding the distance beyond 160km and extending the pilot past the current 18-month period.

Finally, to improve supply chain dynamics in the retail grocery supply chain, the CFA is calling on the Government of Canada to provide financial support through the first 2 to 3 years for the creation of a Grocery Code Adjudication Office, which will provide essential services such as training, education, and dispute resolution, ensuring fairness within the grocery sector and safeguarding the interests of farmers and small suppliers, including in supply-managed industries.

By facilitating improved transparency, contractual certainty, and fair dealings in the supply chain, the Code will provide a platform for further dialogue on critical supply chain issues and pursue further collaborative solutions.

Recommendation #12: Provide financial support for the creation of a Grocery Code Adjudication Office, which will be critical to advance the training, education, dispute resolution services, and oversight necessary to implement an industry-led Grocery Industry Code of Conduct

SUPPORTING THE COST OF SUSTAINABLE GROWTH

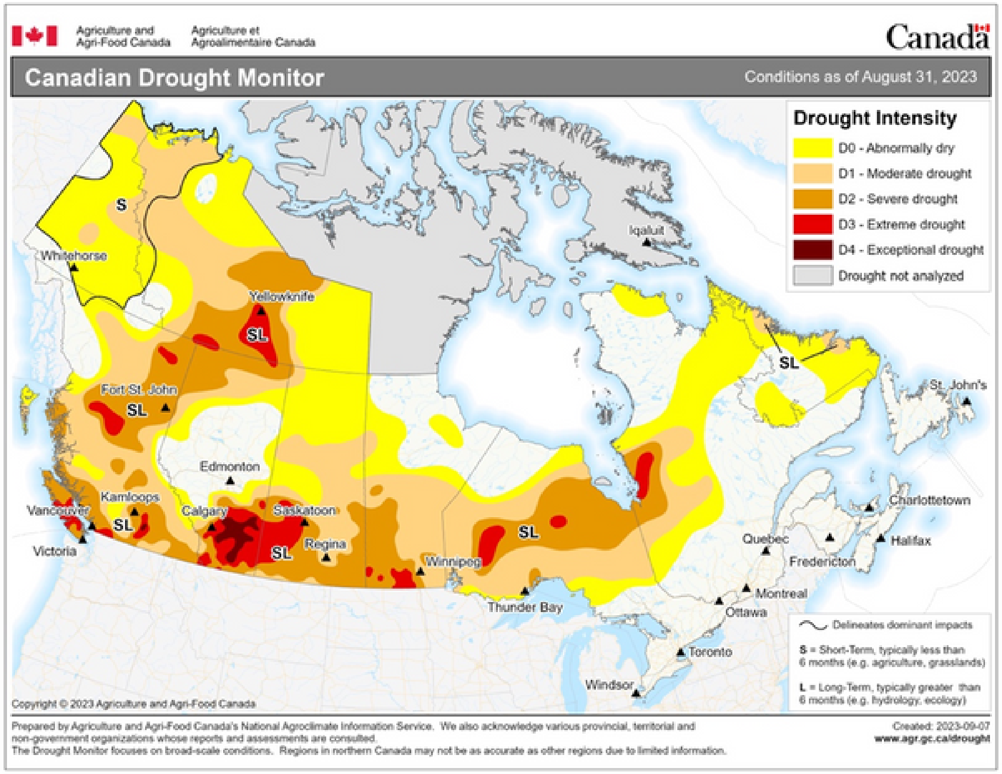
The agriculture sector in Canada is at a critical juncture.

The impacts of climate change, coupled with the increasing demand for sustainable agricultural practices, are reshaping the landscape of farming. For example, Canada's recently released National Adaptation Strategy pointed out that "disruptions in the agriculture sector can have major impacts for food production (manufacturing, imports, services) and food security."

Farmers are already playing an important part in the fight against climate change. For example, according to Agriculture and Agri-Food Canada (AAFC), agricultural soils went from being a net emitter of 1.2 megatons of CO_2 per year in 1981 to a net sink, sequestering 4.2 megatons of CO_2 per year in 2019. A good portion of this success resulted from the increased rate of conservation tillage, which rose from under 10% in 1991 to approximately 60% in 2016.[2]

Figure 13: Greater Drought Levels in Western Canada than Eastern Canada

Source: Agriculture and Agri-Food Canada



[2] https://agriculture.canada.ca/en/agricultural-production/soil-and-land/soil-organic-matter-indicator

Sustainability initiatives need to be farmer-focused and provide support to adapt to the effects of climate change.

At the same time farmers are facing rising costs due to more frequent extreme weather events and the corresponding adoption of climate-resilient measures. Investments in irrigation systems, climate-resilient crop varieties, and livestock cooling systems are becoming increasingly necessary. However, these measures come with high costs. Transitioning to sustainable farming methods, while beneficial in the long run, also involves substantial upfront costs, posing a barrier for many farmers.

Canada's Sustainable Agriculture Strategy (SAS) is intended to improve environmental performance in the sector over the long-term, support farmers livelihoods and strengthen the business vitality of the Canadian agriculture industry. A necessary condition for the successful implementation of this Strategy is the recognition and commitment to a triple-bottom line definition of sustainability that includes delivering on economic prosperity, social well-being, and climate solutions through farming practices.

It is crucial that the SAS establish robust incentives for the adoption of best management practices and that farmers continue to be involved in its development and implementation. A recent Report out of RBC's Climate Action Institute has shown that Canada's investment in climate-smart agriculture is significantly lower than the U.S., Australia and European Union. As a result, ambitious funding is needed to support implementation of the SAS. The corresponding funding envelope must be sourced across multiple departments, not just Agriculture and Agri-food Canada, in recognition of the whole-of-society benefits associated with this strategy. It must also build upon and support future agricultural policy frameworks, supported by the continuation of a producer advisory committee, to ensure the SAS fully leverages the support of provinces and private sector initiatives as key facets of a holistic, pan-Canadian strategy. Continued engagement with farmers is also critical to ensure that the strategy is farmer-focused and considers the evolving realities of farming in different regions of Canada.

Recommendation #13: Ensure the launch of the Sustainable Agriculture Strategy is inclusive of all agricultural commodities and is accompanied with an ambitious funding envelope commensurate with the incentives, research, and knowledge transfer activities required to address the inter-related demands of environmental, economic and social sustainability.

Sustainable growth means capitalizing on new export opportunities while maintaining domestic programs that promote stability.

Canada exported nearly $92.8 billion worth of agri-food products in 2022, making it the fifth-largest exporter of agri-food and seafood products in the world. In addition, Canada currently maintains 15 Free Trade Agreements with 51 countries, providing market access to roughly 1.5 billion consumers worldwide. As a trading nation, Canada supports efforts to increase market access and trade diversification opportunities for Canadian agri-food and seafood products.

Clear and effective rules governing international trade will result in better functioning international and domestic markets and contribute to the improvement of Canadian farm profitability and economic sustainability. The World Trade Organization remains the best vehicle to create a level playing field for the establishment of bilateral and regional free trade agreements. While Canada supports technical regulations to fulfil legitimate domestic policy objectives such as the protection of human health and safety, animal or plant life or health and the environment, these regulations must be based on sound science and imported products must be accorded the same treatment as domestic products. Non-tariff barriers to trade can have the effect of limiting real market access to Canadian products even where Canada has made concessions on access to sensitive markets, including supply managed goods.

Recommendation #14: Strengthen Canada's international presence in advocating for the elimination of non-tariff barriers to trade in international trade agreements which are limiting market access for Canadian products.

The Canada-European Union Comprehensive Economic and Trade Agreement (CETA), for example, is often held up as a model of free trade by reducing or eliminating a broad range of tariffs. However, while trade generally has increased since CETA came into force, that is not the case for Canada's agriculture sector. The Canadian Agri-food Trade Alliance (CAFTA) reported in 2019 that "since the entry into force of the agreement, EU exports to Canada have increased by over 10 per cent while Canadian agri-food exports have decreased by the same amount, increasing the trade deficit to $3.5 billion in favour of EU exporters."

Furthermore, Canada must approach trade negotiations with the objective of achieving positive results for Canadian farmers. Canadian farmers need stability and have consistently reiterated that supply managed sectors are not part of future trade agreements. Supply-managed producers generated almost $13 billion in farm-gate sales, deliver $30.1 billion to the GDP and support over 399,000 jobs across Canada. Supply management promotes stability through coordinated production and demand with the support of import controls. This is a system that buffers the agricultural sector against uncertainty of international markets and climate change.

Canada needs a strong and united agriculture sector, comprised of robust supply managed and export-oriented production, particularly as Canada strives to meet the global challenges of the day around food security, emissions reduction and environmental protection.

Recommendation #15: Underpinned by supporting legislation, ensure no additional access to supply-managed sectors in future trade agreements to support a resilient domestic agricultural sector that is vital to national food security and long-term sustainable growth.

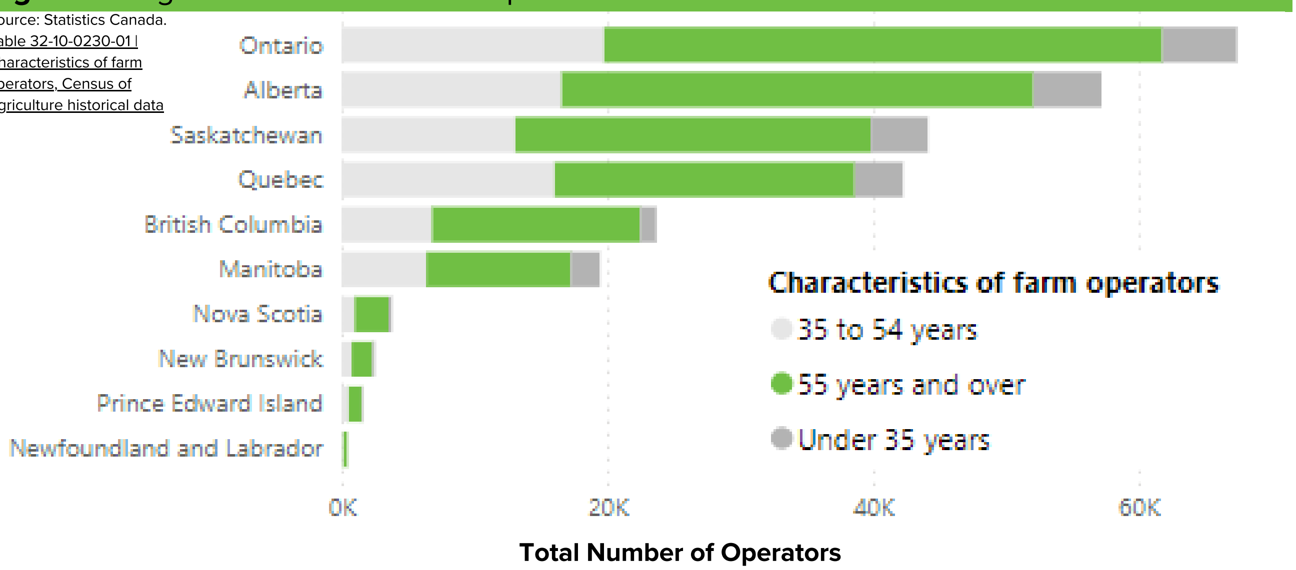
SUPPORTING NEW ENTRANTS AND YOUNG FARMERS

Canada's agricultural sector, is grappling with significant challenges stemming from an aging farm population and rising production costs, which are hindering the entry of new and younger farmers into the sector.

In 2021, the median age of farm operators in Canada rose to 58 years, a two-year increase from 2016 and significantly higher than the national median age of 41.6 years. Specifically, there are 22,640 farm operators under 35 years across the country, 81,040 operators aged 35 to 54 years and 158,790 aged 55 and over. By 2033, 40% of Canadian farm operators will retire, leaving a shortfall of 24,000 general farm, nursery, and greenhouse workers (RBC, 2023). Furthermore, since 1991, the proportion of young farmers has been declining steadily. This pattern is consistent across all provinces, underscoring the urgent need for initiatives to attract new entrants into the sector.

Figure 14: Age Distribution of Farm Operators in Canadian Provinces 2021

Source: Statistics Canada. Table 32-10-0230-01 | Characteristics of farm operators, Census of Agriculture historical data



The median age of farm operators in Canada rose to 58 years

Canada's agriculture sector is aging and facing a chronic labour shortage.

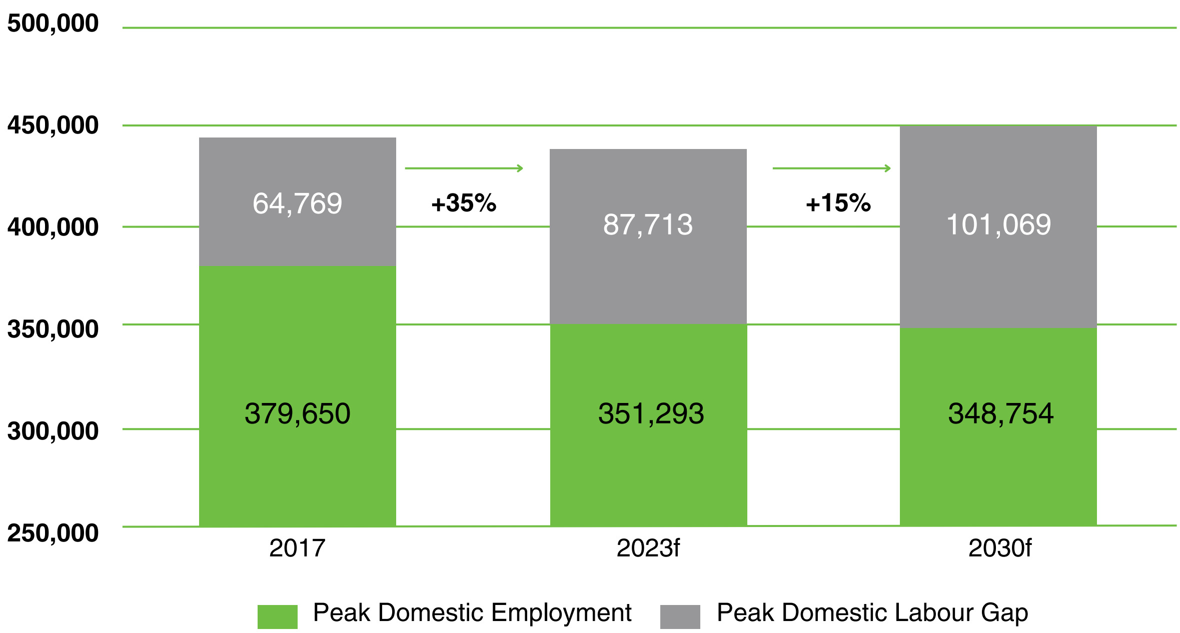
"Labour is one of the most serious issues facing Canada's agri-food sector"
-National Workforce Strategic Framework for Agriculture and Food & Beverage Manufacturing

While there is currently an Agri Labour Market Information (LMI) national survey and modelling in development, in **2022** (the most recent study), on-farm agriculture had a labour gap of **28,200 jobs,** which cost an estimated **$3.5 billion** (**3.7% decline**) in lost sales in primary agriculture alone. **CAHRC's agriculture labour market forecast estimates that the domestic labour gap in Canada's agricultural sector will increase 15% over the next 8 years from 87,700 in 2023 to 101,100 by 2030 during peak season.**

In an effort to resolve these issues in the short, medium and long-term, CFA and other industry stakeholders have been working in collaboration to develop the National Workforce Strategy for Agriculture and Food and Beverage Manufacturing. The strategy looks to increase the immediate supply of labour while generating interest in careers in Canadian agriculture through education, training and skills development. While development of the strategy is already underway and supported by the Future Skills Centre, additional resources will be required to establish and maintain a Secretariat tasked with supporting implementation of the National Workforce Strategy for Agriculture and Food and Beverage Manufacturing.

Figure 15: Peak Domestic Labour Gap Increasing

Source: Canadian Agriculture Human Resource Council



Recommendation #16: Provide financial support to establish a Secretariat that will support implementation of the National Workforce Strategy for Agriculture and Food and Beverage Manufacturing.

Additional tax amendments are needed to facilitate farm succession and support young farmers.

The 2021 Census of Agriculture reveals that only 12% of Canadian farm operators have a farm transition (succession) plan in place. In a 2023 study conducted by RealAgristudies identified barriers to transition ranked by significance as follows:

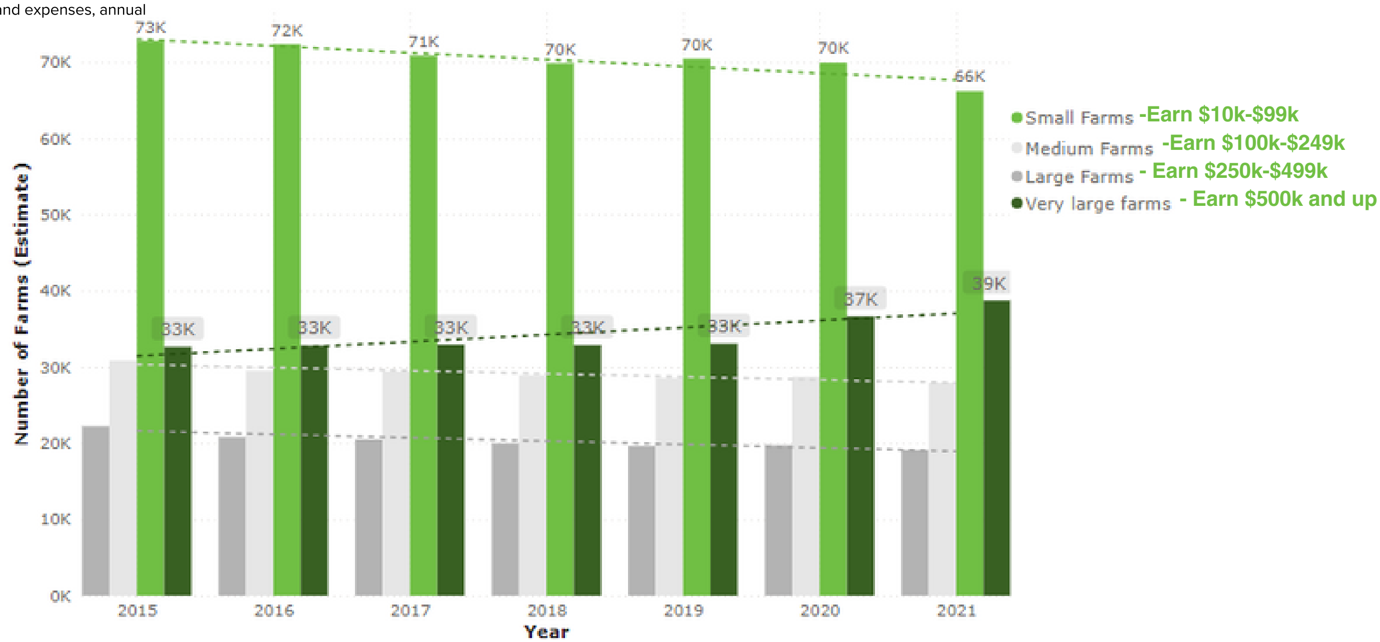
- Tax implications 75%
- Lack of communication 65%
- Financial costs 64%
- Willingness to let go of control 62%
- Competency/desire of the next generation 61%
- Differences in goals/objectives of those involved 54%
- Lack of transparency between the parties involved 52%

The high cost of land and the increasing farm debt, pose significant barriers to new entrants struggling to break into the agriculture sector in Canada. Moreover, the stratification of farms in Canada, with the decline in mid-size farms and an increase in large farms further complicates the landscape for new entrants and young farmers seeking to take over the family farm.

The shift in farm size distributions has led to an increase in average farm size, sales, and consolidation, creating highly competitive markets with tighter margins. Farmers keep needing to increase in size, workforce, and investment into new technologies to remain competitive. This is an option for larger farmers who have the equity built and cash flow, however, many farms cannot afford to reinvest in more sustainable and productive practices.

Figure 16: Total Farms Estimates in Canada, by Operating Revenues

Source: Statistics Canada. Table 32-10-0136-01 | Farm operating revenues and expenses, annual



Create a more favourable tax environment for younger generations of farmers seeking to enter the sector.

Whereas previously, the Income Tax Act taxed intergenerational transfers as a dividend rather than a capital gain, resulting in higher taxes to sell a business to a family member than to a third party. Subsequent changes ushered in through the passage and implementation of Bill C-208 allowed family businesses to access the Lifetime Capital Gains Exemption (LCGE) on intergenerational transfers (Budget 2023 extended to nieces, nephews, grandnieces, and grandnephews), thereby receiving the same tax treatment as if the business was sold to a third party.

However, the current $1,000,000 LCGE, and the Department of Finance's indexation adjustment provisions, do not reflect the appreciation of farmland values and capital demands in agriculture over recent years. To facilitate this intergenerational transition, the CFA recommends increasing the LCGE amount to an amount that is more in line with today's land values, which increased by 12.8% in 2022 (FFC, 2023), land values which far exceeded even peak inflation levels. This would provide retiring farmers more flexibility in their retirement and support better transition planning.

Recommendation #17: Increase the capital gains exemption threshold above $1M to be more in line with current market farmland values.

In addition, the new measures announced in Budget 2023 to regulate the transfer of incorporated business between family members while taking advantage of the capital gains deduction, only apply when the parent selling their share has control of the company. However, many farm family companies have multiple shareholders (e.g., siblings) with equal ownership rights. The CFA recommends that additional flexibility be introduced to these rules allowing the transfer of farm shares from one generation to the next, while remaining eligible for the capital gains exemption.

Taken together, these measures will create a more favourable tax environment for younger generations of farmers seeking to enter the sector and continue the long tradition of farming in Canada.

Recommendation #18: Build on the Budget 2023 legislative amendments to the Income Tax Act which expanded the definition of a "child" to also allow sibling shareholders to pass a non-controlling share of their ownership to the next generation.

Conclusion

Canadian agriculture has the potential to play an even bigger role in meeting many of the Government of Canada's objectives related to sustainability, emissions reduction, and sustainable growth while continuing to contribute to domestic and global food security. However, the rising cost of production, coupled with inflation and interest rates as well as a stiff regulatory environment and restrictive tax measures are undermining the sector's ability to realize its full potential in advancing its sustainability objectives. Due to these constraints, many farmers are forced to use their available capital on the immediate financial stressors affecting their operations, rather than invest in initiatives that would make their operations more efficient and sustainable over the long-term.

Furthermore, Canadian agriculture is not only needed in the global fight against climate change, but plays a critical role in meeting Canada's domestic and global food security objectives. Canada's agriculture and agri-food sector is not only a major economic driver of the Canadian economy, but also presents tremendous opportunity for investment in innovation and growth.

The recommendations outlined in this Report are aimed at ensuring farmers have the flexibility and tools they need to weather the current financial climate and support the transition to a low emissions economy. This will not only support the long-term environmental and financial health of their farms but also support Canadian farmers in providing safe and nutritious food for Canada and the world.

CFA FCA
Canadian Federation of Agriculture
Fédération canadienne de l'agriculture