



Credit Union Central of Canada

3 December 2009

Hon. Jean-Pierre Blackburn
Minister of State (Agriculture)
House of Commons
Ottawa, ON K1A 0A6

Dear Minister Blackburn:

Credit Union Central of Canada (Canadian Central) is writing with regard to your stakeholder consultation concerning how to assist new/beginning farmers and facilitate intergenerational farm transfers.

As you may know, Canadian Central is the national trade association for 425 credit unions operating outside of Quebec. The Canadian Central affiliated credit union system currently has over 5 million members and holds approximately \$119 billion in assets.

The credit union system is a significant lender to agriculture and to the agri-food sectors in Canada. According to Statistics Canada data, credit unions and *caisses populaires* outside of Quebec hold 11% of farm debt outstanding, up considerably from the 1993 figure of 5.2%. During the same period, farm debt outstanding held by the banks has declined from 48.5% in 2000 to 42.3% in 2007. In fact, the strongest competition faced by credit unions in the agricultural market appears to come from Farm Credit Canada – a Federal Government Crown Corporation. Excluding Quebec market share numbers for comparative purposes, Farm Credit Canada held 27.3% of the farm debt outstanding in 2007. This number has consistently grown over the years with an average annual growth rate over the past 15 years of 10% and a remarkable 11.6% more recently.

The role of credit unions as lenders to the Canadian agriculture sector underlies our interest in the development of policy in relation to beginning farmers and farm transfers.

First of all, Canadian Central wishes to express its support for the work of your Department in updating the old Farm Improvement and Marketing Cooperatives Loan Act Program, now the Canadian Agriculture Loans Act Program (CALA) and making it available to assist in the inter-generational transfer of farms. From our perspective, the CALA is a good program as it offers loans on appropriate commercial terms that have been assessed and approved by prudentially regulated, private sector lenders. It is our understanding that your Department is making efforts to widely advertise the availability of the CALA and program “take-up” is now improving. We agree that strong efforts should be made to promote the CALA Program and its potential benefit to younger farmers.

Canadian Central acknowledges that currently, there are many factors to dissuade young farmers from entering or staying in the business including:

- Volatile commodity prices;
- Uncertain access to foreign markets;
- Production subsidies in other jurisdictions;
- High land prices and associated debt; and
- High costs and debt levels associated with the purchase and/or lease of capital equipment.

The credit union system is of the view that, of these factors, rising debt on the farm is the issue of most significant concern. Thus, in our opinion, the Federal Government should avoid employing policies that would promote further debt on the farm when trying to address the issues noted above. Such policies include programs that "term-out" short term debt, expand the availability of interest only facilities or use the FCC as an easy access creditor. In the long run, such policies merely drive up debt levels, reduce real returns to farmers and drive up the price of quota and agricultural assets thereby making it more difficult for young farmers to enter or stay in the business.

To elaborate, analysts such as Professor George Brinkman (University of Guelph) have been advising that debt levels in Canadian agriculture are already too high and significantly greater than on US farms. For instance, Professor Brinkman recently calculated that Canadian farmers had debts in 2007 of \$49.8 billion, which is three times their debt levels in 1981 and that their debt to income ratio went from 2-1 in 1972 to 23-1 in the period between 2004 and 2007. American farm debt levels have only increased by 19% in the last 26 years. In Canada, such debt levels may seem sustainable in a context of where current revenues are good (in some sectors) and interest rates are at historic lows. However, when rates climb to historically average levels or higher, many Canadian farmers (young and old), and their lenders, could find themselves in significant difficulties.

Credit unions are also increasingly concerned about the role Farm Credit Canada is playing in facilitating the growth of high debt levels in agriculture. As mentioned above, FCC is rapidly growing its share of farm debt outstanding. This number has consistently grown over the years with an average annual growth rate between 1993 and 2008 of 10% and a remarkable 11.6% between 2003 and 2008. In 1993, FCC held just 9.5% of farm debt outstanding outside of Quebec while in 2008 the figure is close to 28.2%. Professor Brinkman, has recently commented that at "...the present growth rates of FCC lending and farm credit generally, FCC may be the only farm lender in Canada by around 2040." Furthermore, FCC is now lending for very protracted amortization periods in regard to quota and engaging in interest only lending activities that ultimately drive up the price of quota and agricultural asset values in general. These dynamics drive up costs and make it even more difficult for young/beginning farmers to operate.

To reiterate and conclude, the credit union system believes that the Federal Government should avoid initiatives that aim to address obstacles faced by younger farmers by facilitating the further expansion of farm debt. Such initiatives may be attractive over the short term but ultimately produce unintended and undesired outcomes that make it more difficult for such producers to survive and thrive.

If you or your officials wish to discuss these comments, please feel free to contact me at the coordinates set out below.

Regards,



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