Submission by the National Farmers Union
on
The Farm Income Crisis,
Business Risk Management, and
The "Next Generation" Agricultural Policy Framework
(APF II)

Presented to the
House of Commons
Standing Committee on Agriculture and Agri-Food
Stratford, Ontario
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Introduction

The National Farmers Union welcomes this opportunity to bring the views of its family farm members to the House of Commons Standing Committee on Agriculture and Agri-Food.

The NFU is a direct-membership, nation-wide organization made up of farm families. It was founded in 1969 and chartered in 1970 under a Special Act of Parliament. The NFU and its predecessor organizations have always worked to implement policies that help ensure agriculture is socially, environmentally and economically sustainable.

While NFU members produce a wide range of commodities, we believe the problems facing farmers are common problems, and that producers of various commodities must work together to advance effective solutions. The NFU believes that the pursuit of only individual self-interest leads inevitably to self-destruction.

The NFU also believes that food production should lead to enriched soils, a more beautiful countryside, jobs for non-farmers, thriving rural communities and healthy natural ecosystems. The decimation of rural communities, growing environmental problems, plummeting farm numbers and the present farm income crisis raise serious questions about current national agricultural and trade policies.

The current Agricultural Policy Framework (APF), in particular, represents a major concern for our membership. During the past five years since the APF was implemented, there has been a dramatic decline in the viability of family farm operations across the country. Not only have farmgate prices declined for most major commodities, but input prices for machinery, seed, fertilizer and credit have increased while infrastructure and regulatory costs have been downloaded directly onto farmers. Any discussion of a

Business Risk Management (BRM) strategy as part of the APF, therefore, must take into account the full extent of this farm income crisis.

The farm income crisis and the APF

Members of the National Farmers Union have participated in a majority of the public consultations on the APF which were held last winter across the country.

At the heart of the debate over farm policy is the question of realized net farm income. Farmers are the foundation of the food system. We are the producers of wealth, and the simple fact is that we need to earn a fair return on our labour and investment. Any agricultural policy that downplays or ignores the legitimate requirements of family farmers in order to boost the profitability of processors, exporters and other components of the food system is inherently inequitable and unsustainable.

While the current APF was implemented about five years ago, it is actually a continuation of policies that were put in place decades ago. In December, 1969, the Report of the Federal Task Force on Agriculture was released by the federal government. This Task Force was commissioned in the fall of 1967 to make a comprehensive assessment of Canadian agriculture and to make recommendations concerning policies and programs for the future. Among its recommendations was that two-thirds of family farmers at that time should be forced out of agriculture, and that those who remain would be more closely integrated with "agribusiness" through production contracts and debt financing.[1]

This document spelled out the policies that would guide government over the next forty years. As the NFU noted succinctly in its analysis at that time: "What the Task Force is saying is that if there is any money to be made in the food industry, it should be made by corporations, not farmers!"[2] Unfortunately, the self-fulfilling prophecies made by that Task Force have certainly come to pass: the farm population of Canada has declined from 9.8 percent of the total Canadian population to fewer than 2 percent; and the money that was to be made in the food system has certainly gone to the corporate sector.

In 2003, the NFU released a ground-breaking document entitled: "The Farm Crisis, Bigger Farms, and the Myths of Competition and Efficiency". This report tracked the trends of the last fifty years and revealed that while farmers have become more efficient, the benefits of that productivity have been captured by processors, input suppliers and other players in the food system. Farmers produced increasing amounts of commodities, but the actual realized net incomes from those commodities declined – year after year. The gap between gross farm income and realized net farm income has widened.
When the APF was implemented five years ago, realized net incomes per farm were at virtually zero in Canada. Since then, we have seen the worst five years of realized net farm incomes in the history of the country. At the same time, we have seen corporate

[1] Canadian Agriculture in the Seventies: Report of the Federal Task Force on Agriculture, D. R. Campbell, P. Comtois, J.C. Gilson, D.L. MacFarlane, D.H. Thain, Queens Printer for Ottawa, December, 1969
[2] "NFU reveals Task Force real objectives", Union Farmer, August, 1970.

agribusiness "earn" record profits.[3] In 2004, when average realized net farm income from the marketplace was negative $10,000 per farm, forty-one of Canada's largest agribusiness companies posted the largest profits in their history.

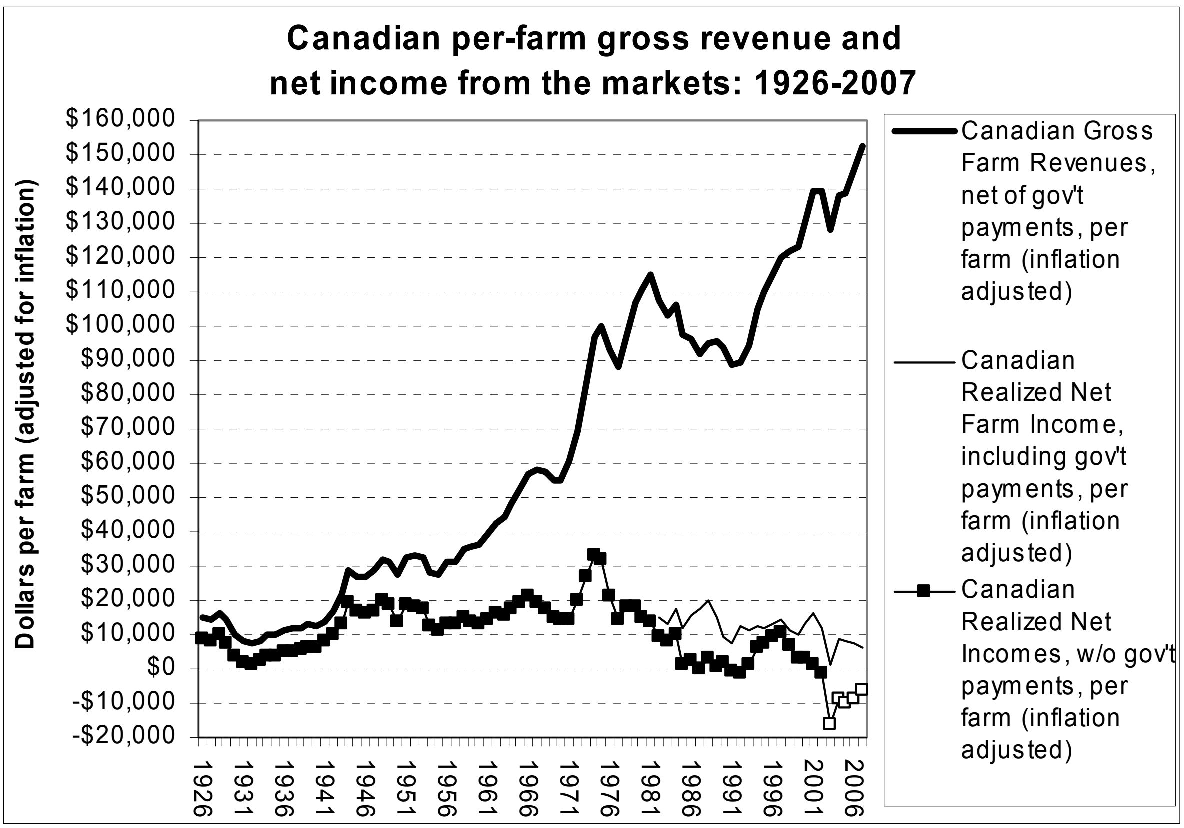
Clearly, if the APF was designed to ensure that all players in the food system except farmers made money, then it was working well.

But in farmers' eyes, the policy has been an unmitigated disaster.

Ontario farm income crisis a reflection of a national problem

In Ontario alone, the last five years have been the worst in history. Those five years of record low net incomes – from 2003 to 2007 – coincide exactly with the years of the APF.

The graph below is from Statistics Canada data. It shows the drop in Canadian net farm incomes, from already low levels in the 1990s, to the record-low levels of the most recent five years. Note that while net incomes hit record lows, gross revenues hit record highs.

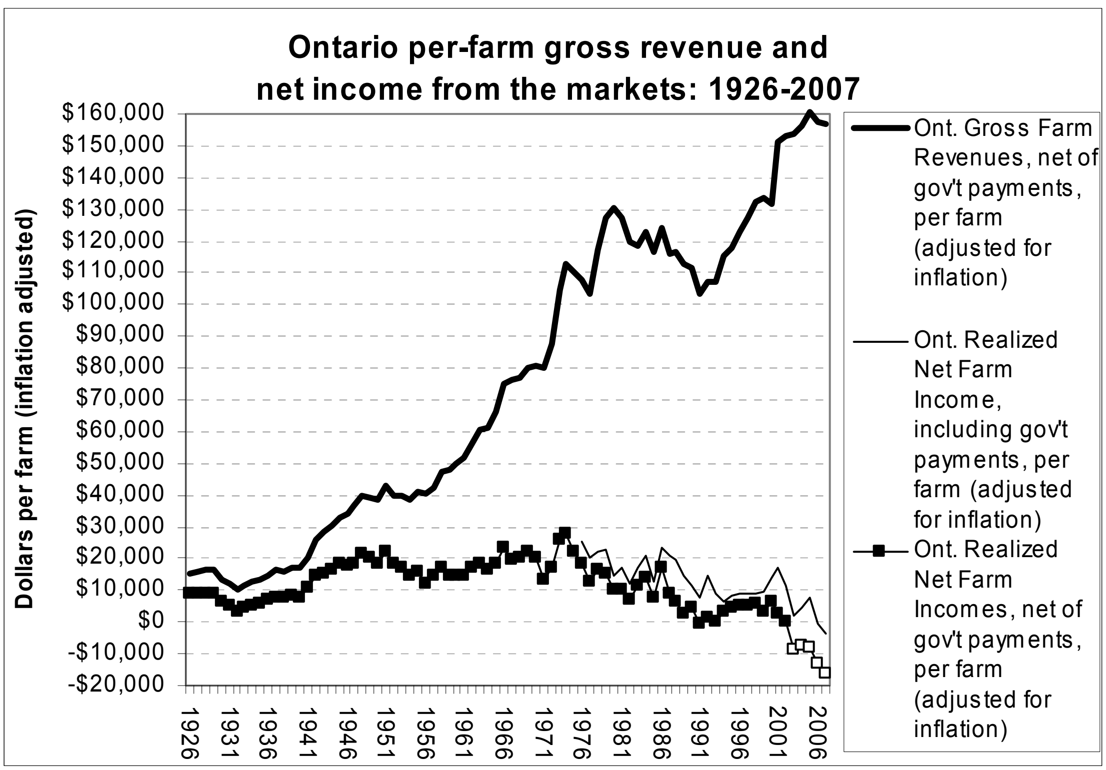


[3] The Farm Crisis and Corporate Profits: A Report by the National Farmers Union, November 30, 2005.

When you look at the data, the most recent five years really stand out. The federal government's Ag. Policy Framework has been a disaster for farmers and rural communities.

The facts speak for themselves. However, what the above graph does not reveal is the reality that a great many farmers who produce food for this country have had to take off-farm jobs just to feed their own families. According to Statistics Canada, small and medium-size farms rely on off-farm income for approximately 90% of their total income.[4] Meanwhile, even large farms with gross annual revenues between $100,000 and $499,000 rely on off-farm income for over half (52.1%) of their total income. And astonishingly, Canada's largest farms, with gross revenues over $500,000 annually, depend on off-farm income for between 25.9% and 33.5% of their total income.

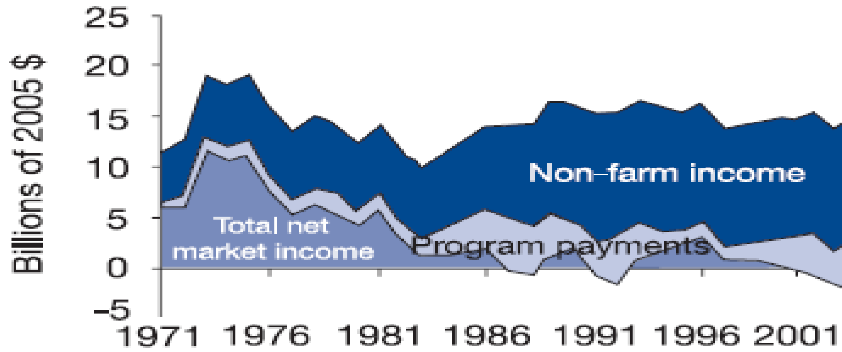
In the face of this reality, how can policy-makers continue to suggest that the key to prosperity for the "agri-food" sector is to squeeze farmers even harder?



The above graph plots Ontario farmers' per-farm revenues and net income. Just as with the larger national trend, this province's farmers have seen their incomes tumble. The past five years remain the worst in history. The federal and provincial governments' APF policies have perpetrated a devastating magic trick. They've turned a record average gross revenue of $150,000 per farm into an average realized net income of negative $15,000 per farm.

4 Statistics Canada, December 8, 2005 release. www.statcan.ca

This next graph is produced by Agriculture and Agri-Food Canada.[5] It graphs net revenues and incomes for all of Canada. Note that it, like the NFU's graphs, shows that farmers' net incomes from the market (the bottom wedge) collapsed to around zero in the mid-'80s, and that they've been consistently in negative territory over the past five years. The graph's bottom wedge shows farmers' "Total Net Market Income" (net income with subsidy payments taken out). If you add up Total Net Market Income since 1985, if you add the positives and negatives, the total is approximately *zero*. According to AAFC, over the past 20+ years, the markets have not rewarded farm families with a penny of net income.



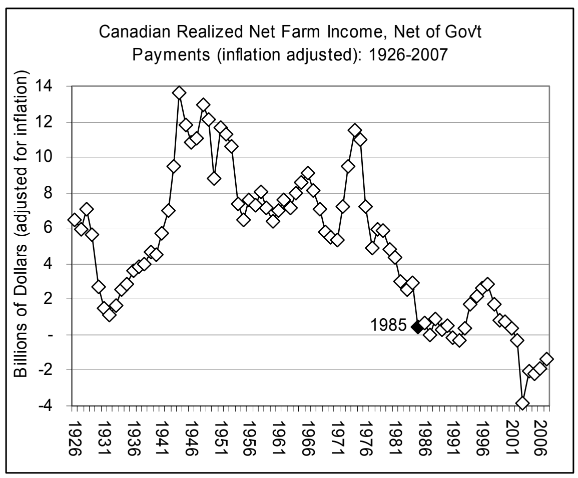
Note: Total net market income plus program payments constitutes total net income

Source: Census of Agriculture, CANSIM tables (002-0001, 002-0009, 380-0056), AAFC calculations.

The farm income crisis is very real. It is not a product of data manipulation. It is a product of destructive federal and provincial policies and rising agribusiness power.

It is important to realize, as well, that this situation is unprecedented. Such a prolonged period of depressed realized net farm income exceeds even the worst period of the 1930s.

The graph to the right shows that the near-zero (and sub-zero) net incomes of the past 20+ years are very different from net incomes of the 1970s: those net incomes were consistently positive and large, as were net incomes in the 1960s, 1950s, and 1940s.



Only in the 1930s do we find net farm incomes like those of today. However, current net incomes are *far below* those of the 1930s. A combination of government subsidies, increased debt loads (now exceeding $52 billion), and off-farm income are the main factors that allow

[5] "Economic Wellbeing of Farm Households", AAFC, Nov. 2006

farming to continue despite sub-Depression level net incomes. Moreover, while the low incomes of the 1930s persisted for a decade, the current crisis is entering its 22nd year.

Business Risk Management: Are "Safety Net" programs the answer?

Our current generation of Safety Net programs are based on the idea that, while farm incomes can be cyclical and volatile, they are generally adequate over the medium term. Thus, these programs—Crop Insurance, NISA, AIDA/CFIP/CAIS—try to even out the highs and lows.

The reality of the 1970s and '80s, however, no longer holds. The main goal of our "Safety Net" programs—smoothing fluctuations in farm incomes that are more-or-less adequate—is at odds with the history of the last 20+ years. Net farm income from the markets, as shown by AAFC, is essentially zero. Smoothing and averaging a medium-term net income that equals zero still yields zero.

Real progress on Business Risk Management must start by facing the realities of the past 20+ years:

- Net incomes no longer display the cyclicality and overall adequacy of previous decades;
- The term "Safety Net" is a misnomer (farm incomes rarely get off the ground);
- Similarly, "Business Risk Management" is a misnomer (more on this, below); and
- Since the mid-1980s, there has existed a structural defect in our agricultural markets that has created a new reality: perennially depressed net farm incomes despite economy-topping efficiency gains, production growth, and export volume gains.

The parade of programs of the past 15 years—NISA, AIDA, CFIP, Crop Insurance, GRIP—has failed to staunch the bleeding in rural Canada because these programs were based on a reality that no longer holds. To end the farm crisis, policy makers must step out of the box, they must admit the new reality, and they must craft farm support programs in tune with that reality.

The problem is market power

While farmers have been racking up record losses, the agribusiness corporations that control the rest of the agri-food chain have been posting record profits. 2004 was the best year in history in terms of agribusiness profit; 2004 was the second worst year in history for farmers. The lesson here is that the allocation of profits within the agri-food chain is largely dictated by market power—huge transnationals with only two or three competitors have market power, individual farmers competing in a global market against a billion other farmers do not have market power.

In the new reality, the key to ending the farm crisis is to deal with market power. In the new reality, "Business Risk Management" must focus on market power. The number one "risk" that farm "businesses" must "manage" is that a radical imbalance in market power within the agri-food chain threatens to bankrupt most of those farm businesses.

There are two ways to stabilize and improve farmers' incomes: programs to transfer money from taxpayers, and programs to equip farmers to extract money from the marketplace. We must concentrate on the latter.

We must strengthen and protect current programs that give farmers power in the marketplace: the CWB; Supply Management; single-desk, orderly marketing of hogs and other commodities. This is critical. If we dismantle such programs, or if we allow foreign attack at the trade table to destroy them, then we will have failed to learn the lesson of the past 20+ years and we will have dashed any hopes of ending the farm crisis. To be effective, new BRM programs must arm farmers to extract higher returns from the marketplace; to be effective, new BRM programs will have to build on and proliferate Supply Management and other orderly marketing, single desk programs.

A convincing case for strengthening such programs was made recently by Ian McCreary, an elected Director of the Canadian Wheat Board. In a presentation to this Committee in Saskatoon April 18, 2007, McCreary said the best way to "protect farmers' risk management is by ensuring legislative support for farmer-run marketing organizations to continue to work effectively. Effective risk management requires tools that give producers power in agricultural markets and the grain trade – not just government income-support programs."[6]

Conclusion

The experience of NFU members who participated in the APF consultation meetings across the country was, in many ways, frustrating.

While the so-called "next generation" of farm policy was hyped as being new and visionary, it actually constituted little more than a continuation of existing policies. As noted above, the loss of family farmers, and the dramatic decline in net farm incomes, proves these existing policies are not working in the country's best interests.

The APF II background paper ironically downplayed the economic contribution of farmers by citing their increased productivity [fewer farmers producing increasing quantities of commodities]. Farm income, which should have been the focus of the consultations, was entirely absent from the background documents. Farm income must be the central pillar of farm policy. In order to achieve higher farm incomes, farmers must be able to increase their market power through collective orderly marketing agencies. Therefore, farm policy must facilitate and encourage the formation and strengthening of these structures. Federal policy must also rein in the growing economic power of privately-owned corporations by beefing up the Competition Act and providing the Competition Bureau with the necessary powers to act in the public interest.

Market power is real. It is the primary determinant of who will be left holding profits and who will not. Our failure to deal with this reality causes our farm crisis. If new BRM

[6] "CWB Director appeals for protection of risk management for farmers", Canadian Wheat Board news release, April 18, 2007.

programs are to end that crisis then those programs must face the issue of market power. Anything less will fail.

New BRM programs must position farmers to buy and sell collectively, to hold product back if markets do not offer fair prices, to idle land if markets seem to be signalling surpluses, and to manage supplies (as does GM, Nike, Sony, and every sector outside of agriculture).

<u>If farmers are more powerful, they will be more profitable.</u> Upon this foundation we must build a new generation of BRM programs.

All of which is respectfully submitted

By the National Farmers Union