LOSING OUR GRIP
2015 UPDATE

HOW CORPORATE FARMLAND BUY-UP, RISING FARM DEBT, AND AGRIBUSINESS FINANCING OF INPUTS THREATEN FAMILY FARMS

National Farmers Union
Union Nationale des Fermiers

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Union Nationale des Fermiers

Strong Communities. Sound Policies. Sustainable Farms.

> *"We need the Lands Protection Act to protect us from the incredible wealth of people who live just beyond our borders and see our land as nothing more than a commodity to be bought and sold, like silver or gold."*

Horace Carver, Q.C. | Lands Protection Act Commissioner, PEI (2013)

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How corporate farmland buy-up, rising farm debt, and agribusiness financing of inputs threaten family farms and food sovereignty

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LOSING OUR GRIP 2015 UPDATE

In 2010, the **National Farmers Union** published a major report called *"Losing Our Grip: How Corporate Farmland Buy-up, Rising Farm Debt, and Agribusiness Financing of Inputs Threaten Family Farms and Food Sovereignty".* With this update, we are revisiting that report to see how the situation has changed.

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INTRODUCTION

A recent report commissioned by Agriculture and Agri-Food Canada (AAFC) confirmed that Canadians expect and are supportive of an agriculture system in which farmland is owned and worked by local people – farm families, individual farmers, producer co-ops and intentional communities.[1] But this system is under serious threat. Corporations and investors – including some of our own pension funds -- are seeking greater control over Canada's agriculture and a bigger share of the wealth that farmers produce. As was the case in 2010, the issue today is about more than who owns the farmland; it is about farmer autonomy and control. The men and women who produce our food need to have a stable, resilient economic base that will allow them to make good long-term decisions for their farms, our food system and our environment.

Local farmer control of land and livelihoods not only allows farmers to make a decent living, but also provides wider societal benefits. When farmers are in a position to make long-term decisions, they can put the sustainability of their farm ecosystems ahead of immediate revenues. Long-term thinking is also concerned with community-building, which enriches Canada's diverse land-based cultures. It provides both the ability and the motivation to retain the knowledge and skills of farming in the next generation. Long-term thinking also deals with protecting the land, water and atmosphere for future generations by acting now to slow down and reverse climate change.

As in 2010, farmer autonomy and local control of land and production, which are foundations of food sovereignty, are threatened by excessive farm debt loads, input financing, the conversion of farmland to non-farm uses such as industrial use, resource extraction and urbanization and by land grabbing, the world-wide trend of state and private investor acquisition of large tracts of farmland for speculative or political purposes. These threats continue to contribute to the on-going loss of farms and farmers in Canada. Between 1991 and 2011 the number of farms and farmers dropped by nearly a quarter, from 390,875 to 293,925 farmers, from 280,043 to 205,730 farms. As in 2010[2], farm debt continues to rise, as does management by investor companies. Rising use of input dealer financing has intensified and solidified, though a few of the formerly rising corporate stars have lost their shine.

Since 2010 there have been significant changes to Canada's agriculture-related laws, policies and institutions. These changes benefit agribusiness corporations, weaken farmers' market power and increase farmer costs. As these changes play out, farmers will have an even harder time.

Severe damage to the prairie grain economy has been caused by the destruction of the single desk Canadian Wheat Board in 2012, as both prices and equitable delivery opportunities have been compromised. The threat of corporate control over seed are much more serious as a result of Canada adopting a UPOV '91-compliant Plant Breeders' Rights regime, related changes to the seed regulations in Canada, and the cutbacks to public plant breeding.[3] International trade deals, such as CETA, TPP and FIPPA[4] entrench these threats through investor protection clauses enforced by investor-state dispute settlement provisions which allow corporations to sue governments if their ability to profit is diminished by changes in government regulation, laws and policies.[5] These investor protection provisions are locked in for decades in the event the deal itself is cancelled by future governments.

Accelerating climate change is a serious threat to farmers' livelihoods, the viability of agriculture and the reliability of food supplies in many parts of the world including here in Canada, and it certainly increases the volatility of commodity prices. Practices such as shelter-belt destruction, filling and draining of wetlands and elimination of mixed farming commonly employed by farmland investment companies on large tracts of land add to the problem. The Canadian government refuses to take meaningful action to reduce greenhouse gas emissions. Corporations focussed on extracting wealth from farms and farmers see the climate crisis as a money-making opportunity that will allow them to cash in on rising prices as food and land scarcity intensifies.

LANDGRABBING: INTERNATIONAL CONTEXT

The global "land grab" was coined by the international non-profit organization GRAIN[6] to describe the global farmland buying spree that intensified in response to simultaneous crises in food and finances in 2008. Governments of some countries began buying up farmland outside their borders as a way to ensure future food supplies for their own populations, while corporations and private investors looked to farmland as a stable and relatively profitable form of investment in the face of financial crises and food insecurity.

Sovereign wealth funds (state-owned investment funds) now hold nearly $7 trillion in assets, up from $4 trillion in 2010.[7] Australia has joined the ranks of these large fund holders, along with Saudia Arabia, United Arab Emirates, Abu Dhabi, China, Norway and Russia.[8] Besides Africa and Asia, Australia is now a target for farmland investments by both sovereign wealth funds[9] and private investors.[10]

Commodity Index Funds (CIF) are a new form of financial derivative created in the de-regulated financial environment of the late 1990s that allow investors to speculate on the combined price fluctuations of a large collection of commodities, including agricultural commodities and farmland, without actually owning the assets. Banks that sell these CIFs must hedge the risks of these funds by also buying and selling in futures markets where real commodities are traded. This rise of index fund holdings has contributed to a 26-fold growth in agricultural commodity markets, from about $3 billion in 2003 to $80 billion in 2011. Index funds now make up more than 60 per cent of overall financial holdings in agricultural futures markets. CIFs, along with other financial speculation vehicles, put upward pressure on farmland rental rates to provide a return to investors, while tenant farmers bear production risks.[11] [12]

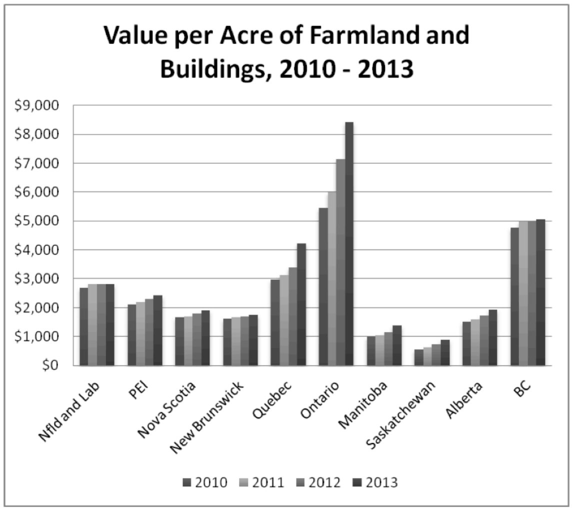
Pension funds have also started to invest in farmland. The US pension fund management company, TIAA-CREF[13], started buying farmland in 2007. In 2012, it partnered with two Canadian pension fund managers – British Columbia Investment Management Corporation (bcIMC) and the *Caisse de dépôt et placement du Québec* which looks after Quebec's public pension plans, to create a $US 2 billion fund called TIAA-CREF Global Agriculture LLC.[14] TIAA-CREF is now one of the world's largest institutional owners of farmland, with land in United States, Australia, Brazil and Eastern Europe.[15] The Canada Pension Plan Investment Board (CPPIB) is building a global team seeking equity investments in farmland valued from $200 million to $1 billion.[16] In 2013, the CCPIB announced its first farmland purchase in Canada, noting that farmland "has historically delivered stable, risk-adjusted returns and the global outlook for agriculture in general is positive due to increasing demand for agricultural products." CCPIB stated that it will seek partnerships with investors, managers and operators as it expands its involvement in farmland.[17]

FARMLAND IN CANADA

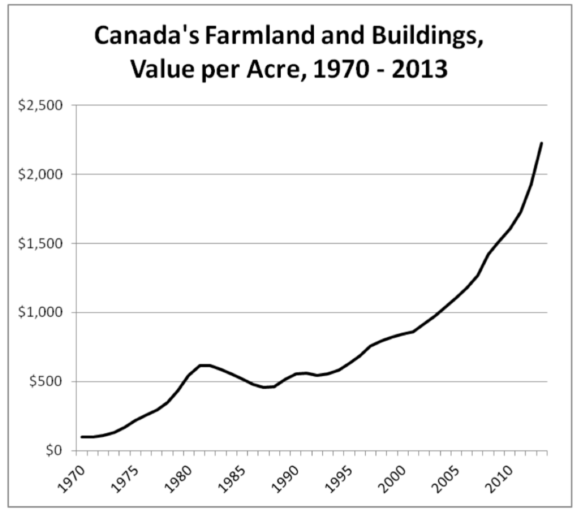
Between 2006 and 2011, Canada's farmland (cropland, pasture, etc. where agricultural products are produced for sale) has decreased by 7 million acres, or about 4%, to about 160 million acres.[18] Approximately 550,000 acres of Class 1, 2 and 3 farmland* were consumed by urban and industrial development between 2000 and 2011. Of that area, more than 300,000 acres were in the prime growing areas bordered by Lakes Huron, Erie and Ontario in the south and along the St. Lawrence River to Québec City. More than half these acres were removed from the Golden Horseshoe area around Greater Toronto.[19] The loss of this farmland, which is capable of growing a wide variety of crops including fruit and vegetables, undermines Canada's capacity for food sovereignty, especially when land is located near large urban centres that need secure food supplies. Farmland destroyed by industrial and urban development is further reason for heightened concern about shifting the ownership of Canada's remaining farmland from farm families towards investment companies.

As reported by Statistics Canada, the value of farmland and buildings (per acre) for each province has risen dramatically since 2008. The range of average values for land and buildings ranges from $881 per acre in Saskatchewan to $8,417 per acre in Ontario, up from $453 per acre in Saskatchewan and $4,593 per acre in Ontario. The weighted-average price of Canadian farmland and buildings, according to Statistics Canada, was $2,227 in 2013 compared to $1,394 in 2008.[20] In Ontario, the value of farmland was significantly higher than the provincial average in the counties of Huron, Simcoe, Middlesex and Elgin.[21] In 2013, some farmland sold for more than $20,000 per acre in parts of Oxford, Perth and Middlesex counties.[22] In Simcoe County, increased land prices may be primarily due to development pressure (see information about Walton International below), but in other counties, land price is driven by its agricultural value.

* In Canada's soil classification system there are seven classes on the basis of soil survey information. Soils classed 1,2,3, or 4 are considered capable of sustained use for cultivated field crops, those in classes 5 and 6 only for perennial forage crops and those in class 7 for neither. Class 1, 2 and 3 farmland have the most productive soils and are capable of growing a wide range of crops under good management. See http://sis.agr.gc.ca/cansis/nsdb/cli/class.html for more information.



Source: Statistics Canada Table 002-0003 Value per acre of farm land and buildings, at July 1



Source: Statistics Canada
Table 002-0003 Value per acre of farm land and buildings, at July 1

Canadian farmland is an attractive target for investors looking to protect the value of their wealth in the context of low interest rates, reduced rates of economic growth, increasing political unrest and apparent instability of the global financial system. Farmland investment companies appeal to both the desires and insecurities of the wealthy:

"Investors are provided with the comfort of a direct investment in farmland combined with a non-operational model of front-end loaded cash rents."[23]

"Canadian farmland has similar inflation hedging qualities to gold but with an ongoing cash yield that gold lacks."[24]

"Agcapita believes farmland is a safe investment, that supply is shrinking and that unprecedented demand for "food, feed and fuel" will continue to move crop prices higher over the long-term."[25]

INCREASING CONSOLIDATION OF FARMLAND HOLDINGS VIA LIMITED PARTNERSHIP FUNDS

Several companies involved in farmland investment, including Agcapita, Assiniboia, AGInvest, Bonnefield and Walton International (all profiled below), raise money for land acquisition by using Limited Partnership (LP) structures to sell higher risk, time-limited shares that are classified as “exempt securities”. This allows them to restrict investors to those who meet relevant provincial farmland ownership criteria. When LP funds mature, the farmland portfolio is sold and the returns are distributed to the limited partners.

There are no requirements for public disclosure of LP financial information or the identities of limited partners. The General Partner in this business structure runs the company, assumes all financial risks, and usually charges LP shareholders a management fee for handling the business. Securities regulations both shield LP shareholders from any liability beyond the value of their investment and exclude them from any role in decision-making.[26] As “exempt securities” LP shares are considered to be high risk investments and must be sold in amounts of at least $150,000 and only to “accredited investors” such as individuals with more than $1 million in net financial assets or $5 million in net assets, and managers of financial institutions, pension funds, government agencies and mutual funds.[27]

Several farmland investment funds claim to be eligible as RRSP investments, but whether they are is hard to verify. To be eligible, RRSP investments must be listed on one of the public exchanges designated by Canada Revenue Agency, yet LPs are by definition exempt from public disclosure and thus not listed. If these companies sell LP shares to RRSP funds, they are benefiting from public support, as investments made through RRSP programs are not taxable until withdrawn from the RRSP, presumably when the investor is in a lower tax bracket. Furthermore, the investor’s cost for land acquisition is reduced as a result of the tax benefit they receive, while farmers competing with them to buy land must use money available after paying their taxes.[28]

These farmland investment companies are also responding to dynamics that result from many decades of concentration and consolidation, as farms “got big or got out” in accordance with the goals of, and pressures that caused by federal agriculture policy since the 1980s. Today many farms are reaching limits in what they can finance or borrow, but have not yet reached their desired size. These farms are over-leveraged but still seek to expand and are looking for capital to invest to increase scale.[29] Such farmers may welcome an investment company’s arrangement to purchase and lease them land they can no longer afford. Some have been unable to manage their growth (see Broadacre section below), and when they fail, creditors gain more by selling the foreclosed land to one large buyer instead of dividing it for sale to local farmers. Thus, the policy environment, combined with ambitious local farmers’ aspirations, has created a friendly environment for farmland investment funds.

When land is assembled into large parcels to be sold later by these investment companies, it becomes unaffordable to anyone other than the very wealthiest people or institutional investors such as pension funds. Farmland investment companies are shifting ownership of Canadian farmland from the hands of actual farmers into those of absentee landlords, thus recreating the tenant farmer model that many of Canada's early immigrants were trying to escape.

Farmland Investment Funds: Agcapita

Agcapita is a Calgary-based investment fund, one of a corporate threesome that includes Enercapita and Equicapita. All claim to be eligible for RRSP investments, and use a similar model to buy Western Canadian farmland, energy companies and the independent businesses of retirement-age owners respectively.

Agcapita's management team still includes co-founder, Stephen Johnston, who is also on the advisory board of the Mises Institute of Canada, an organization that promotes extreme free-market policies.[30] John McKay, Harold Kunik and Barclay Laughland, already involved in 2010, have been joined by Karim Kadry, whose prior position was with the Egypt branch of Kuwait-based Global Investment House. The composition of Agcapita's advisory board has changed: Jim Rogers and Kenneth Clarke have left; Jim Pallister and Doug Anguish have been joined by biotechnologist and molecular farming advocate, Paul Arnison, and economist and Fraser Institute contributor, Glenn Fox[31].

Agcapita decided to focus on buying Canadian, and in particular, Saskatchewan farmland after considering South America, parts of Europe and Africa. It concluded that political stability was a significant economic consideration. In an investment industry magazine, Agcapita co-founder Stephen Johnson reported "While some emerging markets have land that is competitively priced to Canada, when you factor in the political risk of such investments and the lack of agriculture infrastructure, Canadian land becomes that much more compelling. Events have borne this approach out with moves to expropriate land taking place in Brazil and Argentina, up to that time two of the largest markets for direct farmland investment."[32]

Agcapita must limit sale of its partnership shares to investors eligible to own farmland under the laws of Saskatchewan, Manitoba and Alberta. It is selling to investors in BC, Alberta, Saskatchewan, Manitoba, Ontario and accredited investors in Quebec.

Agcapita has purchased approximately 50,000 acres since 2008. In early 2014, it sold the land held under its Agcapita I LP. According to Agcapita's Investment Manager, Karim Kadry, the land was purchased for an average of $439/acre and the company sold it for nearly double that price, returning the proceeds to investors.[33] The package of 19,300 acres, spread over 16 rural municipalities, was sold for approximately $18 million to a single family office, a financial agency that manages the investment portfolio of one wealthy family.[34]

Agcapita's remaining land is held by Agcapita II (13,500 acres); Agcapita III (13,000 acres); and Agcapita IV (approximately 10,000 acres), with additional acres pending. Agcapita IV is still seeking investors and will begin purchasing land once its LP fund is fully subscribed. The company expects to sell the Agcapita II, III and IV packages between 2015 and 2019 for approximately $15 million, $13 million and $10 million respectively.

Farmland Investment Funds: Assiniboia Capital Corp

A June 2010 promotional leaflet stated that the goal of Regina-based Assiniboia Farmland Limited Partnership (LP) was to acquire 400,000 acres. Its pitch to investors was based on rising demand for food in the face of limited future supply due to a number of factors such as global population growth and rising standards of living; increasing preferences for more meat and other forms of protein; diversion of production from food to biofuels; a shrinking arable land base due to sprawl and environmental damage; and challenges to food production in certain regions of the world caused by climatic change.

In February 2014, Assiniboia Farmland Limited Partnership sold all of its farmland (115,000 acres, all in Saskatchewan) to the Canada Pension Plan Investment Board (CPPIB) for approximately $128 million. While this is the largest acreage for a single land transaction we know of, it still falls short of Assiniboia's original ambition.

When the CPPIB transaction was announced, Andre Bourbonnais, Senior Vice-President, Private Investments indicated that the purchase was just a first step in the acquisition of farmland by the national public pension fund. He said, "We see this as an attractive opportunity for CPPIB to invest in an established platform of high-quality farmland in a strategically significant agricultural region of Canada. We look forward to working with management to grow the portfolio and contribute to the development of the farming sector in Saskatchewan."[35]

Assiniboia Farmland LP shares that were originally sold to investors for $25 in 2007 were paid out at $54 in 2014. Over the LP's lifetime, investors also received approximately $58 per share from the revenues generated from the farmland. As the General Partner, Assiniboia's own share of the sale's proceeds amounted to more than $7.7 million.

Assiniboia acquired the farmland using the limited partnership corporate structure previously described. Its strategy included not just speculating on rising value of land and cash rent, but also on benefiting from potential yield and commodity price increases through crop share and variable cash rent arrangements. The company also sought revenue from oil and gas surface leases, carbon credit marketing, gravel development, sale or lease of water rights, and land subdivision (such as yard sites) for resale.[36] Assiniboia Farmland Limited Partnership financed some of its land purchases and obtained over $10 million in mortgages from Farm Credit Corporation.[37] Assiniboia started buying land in 2007 and most of its 115,000 acres had been purchased by 2012.

Assiniboia Farmland Limited Partnership, Assiniboia Capital Corp., Palliser Farmland Management Corp., Emsley & Associates (2002) Inc., Greenfield Carbon Offsetters Inc., Assiniboia Farmland GP 3 Corp., and Input Capital (profiled below), are all owned and managed by the same people.[38] Assiniboia Farmland Limited

Partnership pays asset management fees to Assiniboia Capital Corp and farmland management fees to Palliser Farmland Management Corp. Palliser Farmland Management Corporation manages the farmland and appears to be involved in further farmland acquisition as well. In September 2014, it was seeking an operations manager whose duties included farmland sourcing, acquisition and leasing.[39]

Farmland Investment Funds: Bonnefield Financial Inc.

Bonnefield was created in 2009 by Colonnade Investments, which owns and operates commercial real estate management companies, development and construction operations and private equity investments. Bonnefield and Colonnade have the same individuals in key management positions.[40] Bonnefield believes that “over the long term, shareholders will benefit from Canadian farmland’s exposure to global trends that are increasing demand for, and limiting the supply of, food around the world,” and that “the following factors, among others, will contribute to the long-term appreciation of Canadian farmland: (i) global population growth; (ii) changing diets in developing nations; (iii) climate change; (iv) water shortages; and (v) soil degradation in many of the world’s most important agricultural regions.” [41] In other words, like Assiniboia, Bonnefield is banking on hunger, drought, flooding and soil erosion for its future profitability.

In 2012, Colonnade Investments tried to set up a publicly traded company under the name of Bonnefield. It withdrew its application to the Toronto Stock Exchange later that year, apparently because Saskatchewan, Manitoba and Alberta do not permit farmland ownership by companies that publicly trade shares. The provinces’ regulators would not accept a work-around with the company holding mortgages rather than actual title to farmland. Bonnefield proceeded to issue two more Limited Partnership offerings, providing the opportunity for wealthy investors to finance the purchase of “farmland for farming™” – as per its trademarked phrase.

Bonnefield has continued to seek accredited investors to fund its LPs. Since 2010, the company has completed LP I and added LP II and LP III, each restricted to accredited investors with minimum investments of $150,000 per investor. Bonnefield notes that its investors include “some of Canada’s largest pension funds.”[42] In its 2013-14 Annual Report, BC Investment Management Corporation notes its commitment to a fund that provides exposure to “stable lease income from farmland” and also lists Bonnefield Financial Inc. as one of its external managers and partners.[43]

According to a January 2014 news release, the company has “secured” approximately 35,000 acres in Alberta, Saskatchewan, Manitoba, Ontario and New Brunswick. Purchases in Alberta and Ontario were pending. Bonnefield’s LP I owns approximately 15,000 acres in Alberta, Saskatchewan, Manitoba and Ontario. LP II owns approximately 10,600 acres of farmland in Saskatchewan, Manitoba, and New Brunswick, Alberta and Ontario. LP III closed in January 2014 after raising $261 million, and has not yet reported on the extent of its holdings. Bonnefield did report it used at least $50 million of its LP III dollars to buy 6,500 acres from the Baupost Group, a Boston-based hedge fund[44] after Baupost’s holding company, The Highland Group, withdrew its application to quarry limestone on Class 1 farmland in Ontario’s Melancthon Township.

Bonnefield has developed its own GIS software to identify municipalities with prospects for profitable land acquisition in terms of productivity and rising land prices. It analyses information on soil quality, climatic information, crop yield data, wind maps (to assess land's potential for wind farms), and land values. It prefers land with no farm buildings (other than grain storage facilities) where wheat, canola, lentils, corn and soy can be grown. Bonnefield's investment strategy is to buy land from farmers and immediately lease it back to the original owner or to another farmer, avoiding purchases where there is no farmer already in place to operate the farm. In this way, the company shifts production-related and commodity price risks to farmers, who usually sign five-year agreements.

To find these desirable properties (and their farmers), Bonnefield set up its own dedicated real estate brokerage, Bonnefield Realty Inc., to build and manage a network of well-connected third-party farmland brokers across Canada to help source, acquire and lease farmland.[45]

Bonneville seeks out "progressive, growth-oriented" farmers to help them expand their farms by removing the "burden" of actually owning the land they farm. This option, tenant farming, was all too familiar to previous generations over the last two hundred years and motivated many to leave their homelands and move to Canada. Today, farmers are increasingly faced with the options of becoming tenants for absentee landlords or trying to manage unsustainable debt. Bonnefield's investor land-owners obtain both the asset value of land that is expected to increase over time, and a steady income from production in the form of lease payments. In contrast, the farmer earns returns on his or her labour, equipment and expertise that depend on the cost of inputs, weather, transportation, access to markets, disease and pests, and commodity prices – all more unpredictable than the investor's guaranteed income stream and rising asset values.

Bonnefield describes its ideal progressive farmer as a strong business operator who relies on expert agricultural business advisors. A crop consultant plans and reports on all aspects of crop and field management. A financial advisor performs financial accounting and reporting functions and advises on strategies to improve financial performance. A crop marketer, expert in crop commodities, provides trading strategies to help the farmer run his or her business.[46] When it sought renters for land purchased in Melancthon Township, Bonnefield advertised for tenants, then narrowed its search to twenty-five farmers, of which five were offered about 1,000 acres each for an annual rent of about $330 per acre. Smaller farmers felt excluded because of both the high cost of land rent and the focus on extensive field crop production.[47] Bonnefield renters must farm according to the company's "Standards of Care" and are subject to annual inspection for compliance. While this approach is marketed as a form of corporate social responsibility, it also limits farmer autonomy. The actual scope of decision-making for a Bonnefield tenant appears to be quite limited.

Farmland Investment Funds: Walton International

Walton International is a Calgary-based family-owned company, founded as Doherty Brothers Realty in 1972. It started using the Walton name in 1996 after acquiring Asian subsidiaries. The company focuses on Alberta and Ontario in Canada, but is also involved in land acquisition and development in the southern USA. It seeks investors in Singapore, Hong Kong and Germany.[48] Walton International purchases farmland near cities and then lobbies municipal governments to obtain boundary extensions, zoning changes and servicing. Its objective is to convert farmland that is often suitable for small-scale, direct marketing operations that serve nearby consumers into high value urban land ready for development. Once rezoning and permits are in place the company can sell to developers at a much higher price. Walton not only speculates on land values; it seeks to convert farmland into urban sprawl, thereby reducing Canada's total available farmland.

The Walton group also uses the limited partnership financial structure to obtain investment capital. Because Ontario does not prevent foreign ownership of farmland, and Alberta does not restrict foreign ownership of farmland being converted to residential or industrial development, the company can seek international investors for its properties. Walton focuses on land that is just outside of greenbelt reserves around major cities. The company owns 13,000 acres in Ontario[49], including approximately 4,500 acres in Brant County, Ontario, 3,000 acres in South Simcoe County, and 300 acres on the edge of Ottawa[50]. Walton is appealing the City of Ottawa's recent decision to deny its application to have its land included within the city limits.[51] In Alberta, Walton owns several parcels totaling more than 710 acres that were recently added to the footprint of Edmonton for residential development, and 1,300 acres of land newly added to northeast Calgary[52].

Farmland Investment Funds: AGInvest Canada

AGInvest Canada began selling LP shares in 2004. It is based in Chatham, Ontario and has an office in Abu Dhabi, United Arab Emirates. It buys and manages Class 1 and Class 2 farmland in southwestern Ontario. In September 2014, it claimed to have farmland worth $70 million, and estimated that its properties range in value from $13,750 to $19,000 per acre.[53] It seeks high net worth investors within and outside of Canada.

In June 2014, AGInvest obtained certification from a corporate Shari'a Advisor that serves investors wanting to comply with Islamic principles prohibiting usury. When the certification was granted, the Shariyah Review Bureau commented that Shari'a compliance would allow AGInvest Properties "to flow much needed capital into Canadian agricultural businesses, increasing the sector's growth and advancing the environmental sustainability of farmlands."[54] AGInvest is now marketing to investors in the Gulf States, and has suggested it is helping a Saudi investment company interested in setting up a similar fund.[55] It may be seeking involvement in the $US 800 million King Abdullah Initiative for Agricultural Investment Abroad, which supports private Saudi businesses to make agricultural investments in 31 target countries, including Canada.[56]

Farmland Investment Funds: Hancock Agricultural Investment Group

Toronto-based Manulife Financial, through its US-based Hancock Agricultural Investment Group (HAIG), now "oversees" 1,000 acres of Quebec farmland in addition to its 183,000 acres of prime US farmland.[57] HAIG has not expanded its Canadian holdings since 2010.

CORPORATE OWNERSHIP FOR VERTICAL INTEGRATION AND LARGE SCALE

Our 2010 report profiled a number of corporate investors that were acquiring large tracts of land for investment purposes and/or as part of a larger corporate strategy based on economies of scale, market domination and vertical integration.

Corporate ownership: Nilsson Bros.

Nilsson Bros. Inc., Brian and Lee Nilsson's company, no longer owns XL Foods, Canada's largest beef processing company. Their abrupt departure from meat packing followed a massive food safety scandal. Eighteen people became sick and millions of pounds of beef produced at the XL Lakeside Beef plant in Brooks, Alberta were recalled due to *E. coli* O157:H7 contamination.[58] The plant was shut down on September 13, 2012 when the Canadian Food Inspection Agency (CFIA) suspended its operating license.[59]

The American subsidiary of the Brazilian company, JBS SA, the world's largest meat processor, took over management of the Lakeside plant when the CFIA permitted the plant to resume production on October 17, 2012. In January 2013, Nilsson Bros. Inc. sold XL Foods Inc., comprising its Calgary meat packing plant as well as the Lakeside plant, the associated 75,000 head capacity feedlot and 6,600 acres of farmland to JBS for $100 million.[60] The Alberta government granted a foreign ownership exemption to JBS to allow it to own the farmland.[61] JBS's purchase excluded all of XL's liability or debt.

Brothers Brian and Lee Nilsson have retained ownership of their cattle finance company, insurance company auction marts and associated farmland through a complex corporate structure. They also have extensive land holdings, which are held by Nil-Ray Farms Ltd. through an Alberta-based numbered company. Nil-Ray Farms owns nearly 15,000 acres in five Saskatchewan Rural Municipalities.[62]

Corporate ownership: One Earth Farms (OEF)

One Earth Farms' 2009 dream to become Canada's largest corporate farm had turned into a financial nightmare by 2012. In 2014 it decided to exit crop production completely, due to " ... the historical financial performance of OEF in crop farming operations, the limited fit with OEF's strategic direction, the significant capital required to undertake crop operations and the current and expected future market conditions and commodity price volatility."

One Earth Farms has abandoned its million-acre corporate farming ambitions for a very different business model focused on vertically integrated production of organic and naturally-raised meat and processed food.[63] The company is still a subsidiary of Sprott Resources, but Sprott's share has dropped to just over 50%. The Cape Fund continues its investment.[64] Significant equity in the company now belongs to Mike Beretta, whose Ontario-based brand, Beretta Family Farms, is now the key asset of the company. One Earth's head office moved from Saskatoon to Toronto in 2013.

Former CEO, Larry Ruud is a director at Viterra, now owned by Glencore International, which is a subsidiary of Xstrata, one of the world's biggest commodity traders. He recently joined the board of HCI Ventures Ltd[65] owned by the Hokasen family office, which began investing in farmland in 2004 and now has 50 tenant farmers.[66]

One Earth Farms was unable to generate a profit in its crop farming operations.[67] OEF's production reached a peak in 2011 with 103,002 leased acres in crop production and close to 57,000 in pasture. In 2012, it appears that the company's scale of operations became a critical problem. Nine hundred thousand acres short of its 2009 goal, Sprott told its shareholders it had "slowed the growth of the crop operations in 2012 to allow management the ability to focus on establishing consistent operational performance across multiple geographic regions." It seems that retaining effective management and seasonal workers was difficult, and the company tried to solve these labour problems by applying new computer technology.[68]

Year	Net loss OEF ($ MM)	Net loss, crop production ($ MM)	Acres in production	Loss per seeded acre
2011	$14.0	$15.3	90,769	$168.56
2012	$9.8	$6.1	87,605	$69.63
2013	**$30.4**	**$10.2**	**32,885**	**$310.17**

Source: Sprott Resource Corp.

Following acquisition of Beretta Farms in February 2013, with Mike Beretta as CEO, One Earth began to shift investment into livestock (now at 17,000 head – 91% "natural" and 5% organic) and to scale back crop production while trying to improve performance by decentralizing management and administration. In 2013, One Earth cropped only 34,000 acres and began selling off over $11 million worth of equipment at a loss; in 2014, it did not seed any land, arranged to terminate its remaining leases and sold the rest of its crop production machinery. The company now describes itself as "a Toronto, Canada based vertically integrated food business focused on natural and organic protein-based food production and retail."[69]

While One Earth has abandoned efforts to become the biggest corporate grain farm in Canada, parent company Sprott Resources is still in the land-grabbing business. It bought 6.9% equity in Union Agriculture Group for approximately $29M. Union Agriculture Group is Uruguay's single largest corporate agricultural landholder (2.9 million acres) and produces soybeans, wheat rice, cattle, sheep and dairy for export.[70]

Corporate ownership: Broadacre Agriculture Inc.

In 2010, we profiled AgStream, which was then positioning itself as an investment company dealing in returns on canola crops. In 2011 Agstream's owner, Pike Management Group, appears to have abandoned that venture to focus on Broadacre Agriculture Inc., a company it set up to manage large farms in Saskatchewan, Alberta and Manitoba. CEO Gary Pike is a former director of the Western Canadian Wheat

Growers Association.[71] In September 2014, Broadacre was reported to farm 75,000 acres, one-third of which it owned after purchasing Wigmore Farms Inc., a failing 40,000 acre operation near Regina.[72]

In November 2014, the company filed for creditor protection (bankruptcy) and is now operating as "debtor-in-possession", owing nearly $50 million, including over $14 million to Farm Credit Corporation and nearly $2 million to Viterra Financial. [73]

According to court documents, the company owned only 9,000 acres and leased an additional 56,000 acres from 50 landlords as it tried to expand enough to operate efficiently using large-scale precision farming technology. It had leased enough equipment to farm 200,000 acres, and hired 4 consultants and 60 employees seasonally to do the work. Broadacre had serious difficulties harvesting its crops and lost millions of dollars in 2011, 2012 and 2013. Due to extreme weather events the company was unable to seed one-third of its crop in the spring of 2014. By fall, the company did not have the financial resources to harvest the 2014 crop. The company used "Profit Participating Notes" issued by a bank as a way to involve foreign investors without triggering Saskatchewan's farmland ownership laws. These shareholders lost confidence in the company in 2014 and demanded immediate repayment of over $10 million. By November 2014, creditors' demands and ongoing losses "have rendered the Company hopelessly insolvent."[74]

Corporate ownership: J. D. Irving, Limited

J.D. Irving, Ltd, a private company owned by the Irving family of New Brunswick, is among the world's largest landowners, with 3.6 million acres in New Brunswick, Nova Scotia and Maine. It also controls thousands of acres of forested crown land which it harvests for pulp and paper production. [75]

In our 2010, report we noted Prince Edward Island's efforts to keep land out of the hands of corporations and investors. J.D. Irving Ltd., the owner of Cavendish Farms and related agricultural businesses on the Island, has a history of resisting compliance with the *Lands Protection Act*. When the Act came into force in 1982, J. D. Irving owned and controlled 5,600 acres of farmland. The company refused to cooperate with the regulator and reduce its holdings, and in 2008 was fined $13,000 for violating the Act.[76] The company continued to pressure the province to relax its farmland ownership restrictions. In 2012, PEI appointed Horace A. Carver, QC, to head an independent review of the *Act*. Numerous public hearings were held, with strong participation by citizens, including PEI members of the NFU. Carver's final recommendations, released in June 2013, included provisions to allow individuals and corporations to exempt a portion of their land holdings from their respective 1000 and 3000 acre limits if the land was not suitable for farming. This change provides for a slight increase in overall land holdings, but does keep limits in place. The process also reaffirmed PEI's commitment to maintaining control over its land base. For more details, see the section below on provincial land ownership laws.

PROVINCIAL FARMLAND OWNERSHIP LAWS

In 2010, the NFU recommended that Canada and its provinces enact a unified set of farmland ownership restrictions to ensure that land is owned by residents of the province. Since then, we have seen some improvements in Quebec and PEI, and a major setback in BC, while laws remain the same in the other provinces. Saskatchewan is considering a review of its law to address public concerns about land investment fund purchases.

British Columbia (6,452,867 acres of farmland[†])

BC protects the use of farmland, but does not control foreign ownership of the land, other than to restrict the initial transfer of crown lands to Canadian citizens only.[77] BC passed legislation in 1973 to protect its farmland from encroachment by urban and industrial development, which was then consuming 10,000 acres per year. The *Agricultural Land Commission Act* also addressed public concern about the province's future ability to produce food in the face of a growing world population. The new law created zoning regulations for BC's rural areas that promote the long-term public interest by protecting the food-producing capacity of arable land, as the government of the day recognized that land use decisions made through market forces alone would only serve short-term and private interests.[78] The Act created the Agricultural Land Reserve (ALR), encompassing over 11.6 million acres (over 4.7 million hectares), in which only agriculture and uses compatible with agriculture are permitted.[79] The total area under the ALR is only slightly lower today, however lower quality land may make up a larger proportion of the protected farmland as a result of exclusions and additions to the reserve over time.

On May 30, 2014 the BC government weakened BC's farmland protection legislation by passing the *Agricultural Land Commission Amendment Act.* The new law creates two tiers, with reduced protection for 90% of the Agricultural Land Reserve -- the Interior (1,528,968 acres), Kootenay (392,557 acres) and the North (2,210,783 acres). These three regions of BC are the most affected by oil, gas and coal industry development. Decisions regarding these regions will now have to consider "economic, cultural and social values; regional and community planning objectives; and other prescribed considerations (to be added by regulation in the future) in addition to farmland protection. The amendments changed the Commission's governance by delegating its full jurisdiction to small panels of individuals who reside within each region. Local development pressures may unduly influence these panel members and there is risk that the overall vision of the Commission will be diluted and/or fragmented over time.[80]

[†] Area of farmland for each province in acres as reported in the 2011 Census of Agriculture

Alberta (50,498,834 acres of farmland)

Alberta's foreign ownership law remains the same as in 2010, with non-Canadian owners limited to a maximum of two parcels totalling 20 acres. However, Cabinet can make exceptions, as it did when Nilsson Bros sold the XL Beef plant in Brooks to the Brazilian multinational, JBS, allowing the deal to include the 6,600 acre feedlot. Alberta also permits foreign ownership of farmland for the purposes of industrial or residential development.

Saskatchewan (61,628,148 acres of farmland)

Saskatchewan has not changed its farmland ownership legislation, however the Minister of Agriculture has stated that the law and/or its regulations may be changed in response to increasing public concern about the effect of land purchases by foreign investors and investment funds.[81]

Under the *Saskatchewan Farm Security Act,* only Canadian citizens, residents of Canada and Canadian-owned companies that are not publicly traded may own more than 10 acres of farmland; others cannot unless granted an exemption by the Saskatchewan Farm Land Security Board. The definition of "resident" under the Act is simply a person who resides in Canada for 183 days a year. Further interpretation is provided through policy, which offers exemptions to people who plan to reside in Canada, non-resident investors who own intensive livestock operations, and research or charitable organizations.[82] Foreign investors are encouraged to apply for Saskatchewan's Immigrant Nominee Program to become eligible to own farmland.

The Farm Land Security Board has approved the majority of exemptions sought, with most granted to commercial and resource extraction companies. Annual reports show that between 2010 and 2014 only 4 out of 130 applications – all from land investment companies – have been denied; permission was granted to transfer 761,130 acres to non-resident owners, which includes options to lease nearly 400,000 acres involved with applications for potential wind generation projects. Permits for 1,573 acres were refused.[83]

In December 2012, Agriculture Minister Lyle Stewart hired a special investigator to study recent and future large land deals and trace the flow of money to determine whether any violations had occurred.[84] As of July 2014, the investigator has looked into two companies and found both to be in compliance with the *Act*, although no details will be made public.[85]

In January 2015, Skyline Agriculture Financial Group, a non-Canadian investment company, appealed to the Court of Queen's Bench, challenging the Board's decision to deny it an exemption. At time of writing, the decision was still pending. Skyline is a complicated entity built around mortgages and land value derivatives rather than direct land acquisition. In December 2014 the Board confirmed its original decision, ruling the company's structure constituted a land holding because it was used to obtain the bundle of rights that normally accrue to land owners‡, even if it did not own the actual land title. [86] If this company's court challenge is successful, the door could open to investment companies that raise money on the stock market.[87]

In 2012, the federal government announced it would no longer fund the 78-year old PFRA Pasture Program and planned to transfer responsibility for the land to the three prairie provinces. Manitoba quickly decided to maintain public ownership of its 24 pastures. Alberta's sole pasture was closed. In Saskatchewan, the provincial government said it would sell all 62 pastures (comprising 1.6 million acres). Opposition to privatizing the lands quickly emerged. Pasture patrons could not afford to take on the debt to buy the land, and they, along with other concerned farmers, ranchers, First Nations and conservationists, did not want to see these large areas come under the control of large investors. Because of intense pressure from pasture patrons and their allies, the province has agreed to lease the land to patron groups. Details regarding management, tenure and fees are still being worked out.

In 2007-08, the Farm Land Security Board expressed concerns about the social impacts of rising non-resident ownership, saying, "Despite the benefits of higher land values and increased liquidity for retiring farmers, and to farmers borrowing against their land assets, the Farm Land Security Board sees an element of risk and negative outcome to these extensive acquisitions." In 2008-09, it commented on Limited Partnerships investing in land, saying

> "These entities can raise capital through private placement, offering memorandum or a prospectus. Issuing a prospectus allows the investment units to be marketed through national investment firms. Very large acreage of farm land can be accumulated by this process. As a result, land speculation is now a significant driver of land values in Saskatchewan."

By 2010-11, however, the Board's language was more sanguine, saying "Farm land in Saskatchewan continues to be a safe investment with potential capital appreciation. The Board has met with many delegations looking for investment opportunities in Saskatchewan agriculture that fit within the mandate of the Act." [88]

‡ The Farm Land Security Board listed the following as some of the rights Skyline obtained: farmer/mortgager must operate the land pursuant to annual management and operation models and plans approved by Skyline; farmer/mortgager not permitted to sell any of its property (other than the land itself), including crops produced, without the consent of Skyline; and Skyline will obtain the equivalent of a majority portion of any capital appreciation of the farm land through the Skyline structure.

Manitoba (18,023,472 acres of farmland)

The 40-acre limit on foreign ownership was maintained when the *Manitoba Farm Lands Ownership Act* was amended in 2014. Manitoba's law also prohibits "back door" control of farmland by investors, as it distinguishes between bona fide lenders and those investors who may have other purposes for their financial interest in the land.[89] Manitoba's Land Titles Office reviews documents to ensure all land sales comply with the Act.

The Manitoba Farm Industry Board considers applications for exemptions, taking into account factors such as the public interest, the potential benefit to Manitoba and the specific circumstances of the applicant. The Board is also responsible for ensuring conditions, such as obtaining permanent resident status, are met. Individual decisions are not made public; only a summary is available in the provincial agriculture department's annual report. Thirty-three applications for exemptions, 14 from conservation groups, were considered in 2013/14. One was denied, three were withdrawn, twenty-two were approved and seven were still under review at the year's end. The number of acres involved is not included in the report.[90]

Following the federal government's announcement that it would no longer manage the PFRA Pasture Program, Manitoba agreed to provide the 24 pastures, comprising 400,000 acres of provincial crown and municipal land, to a newly formed non-profit association of pasture patrons who will operate them.[91] Manitoba's quick decision meant its farmers were not faced with the uncertainty of potential loss through privatization and/or prohibitive grazing fees.

Ontario (12,668,236 acres of farmland)

There continue to be no restrictions on foreign ownership of Ontario farmland. However Ontario has enacted legislation to protect the use of its farmland, if not its ownership by Canadians. The Greenbelt Act, which prevents urban sprawl from encroaching on 1.8 million acres of farmland and forested area around the densely urbanized Golden Horseshoe area, has been in place since 2005 and is scheduled to be reviewed in 2015. There is a higher than average density of farms in this area, which produce a wide range of products including dairy, meats, and fresh fruit and vegetables, due to both the quality of the land and the large and diverse market available as a result of its proximity to Canada's major urban centres.[92]

During the 2014 provincial election campaign the government promised to bring in a farmland easement program and expand the Greenbelt.[93] However, there are pressures that threaten both the size and the integrity of the Greenbelt lands. A proposed new highway would remove 8,400 acres, a new Pickering airport and ancillary development on surrounding land would remove a further 18,600 acres. Some municipalities are seeking to reduce the protected area to allow their urban areas to grow and agricultural land is being damaged from contaminated fill dumped on farmland and in natural areas.[94]

Quebec (8,256,614 acres of farmland)

Quebec's land ownership law is linked to its farmland use law*, An Act respecting the preservation of agricultural land and agricultural activities*. Its purpose is "to secure a lasting territorial basis for the practice of agriculture, and to promote, in keeping with the concept of sustainable development, the preservation and development of agricultural activities and enterprises in the agricultural zones established by the regime."[95]

Farmland ownership of more than 4 hectares (10 acres) by non-residents of Quebec is regulated through its *Act respecting the acquisition of farm land by non-residents*. Amendments to the Act in 2013 increased the residency requirement from the equivalent of 1 of the past 2 years to 3 of the past 4 years. Permission for non-Quebec residents seeking ownership of land not suitable for livestock or crop production is automatically granted. A non-resident individual is allowed to acquire farmland on the condition he or she settles in Quebec and becomes a Canadian citizen or permanent resident within four years. The *Commission de protection du territoire agricole du Québec* may allow a non-resident individual or company to purchase farmland after considering the intended use of the land, particularly if for livestock or crop production; the impact on the price of farmland in the region; the effects on the economic development of the region; the development of agricultural products and the development of underutilized farmland; and the effect on land occupancy. Non-residents cannot add more than 1,000 hectares (approximately 2,500 acres) per year to their holdings, but may exceed 1,000 hectares in total with permission.[96]

New Brunswick, Nova Scotia and Newfoundland and Labrador (937,829; 1,018,075; and 77,349 acres of farmland, respectively)

As in 2010, there are no restrictions on foreign ownership of farmland in New Brunswick, Nova Scotia or Newfoundland and Labrador.

In 2013 New Brunswick allocated the exclusive use of 15,712 acres of crown land for wild blueberry production to the large Nova Scotia-based company, Oxford Frozen Foods. The land was exchanged for control of the same acreage of land owned by the company but unsuitable for berry growing. In addition, New Brunswick loaned money to the company to build a new processing plant in the area. Independent local blueberry producers had recently been promised access to one-third as much land.[97] The transfer of the high quality blueberry land to Oxford Frozen Foods put New Brunswick's own producers at a disadvantage by denying them the most desirable lands and by creating a situation of unfair competition. The land transfer allows Oxford to ramp up production for its own vertically-integrated operations in lieu of purchasing from local producers.

Prince Edward Island (594,324 acres of farmland)

In August 2012, in response to requests by the Prince Edward Island Federation of Agriculture and the PEI Potato Board, the PEI government announced it would hold an independent review of the *Lands Protection Act.* In November, Horace Carver, Q.C. was appointed as Lands Protection Act Commissioner. After hundreds of people (including the NFU) participated in public hearings and made 134 submissions, Carver released his report on June 30, 2013.

In spite of considerable pressure to increase allowable land holding, Carver recommended that the existing 1,000 and 3,000 acre limits remain, along with the 5-acre limit for non-residents of PEI, but that up to 400 acres (per individual) and 1,200 acres (per corporation) of non-arable land could be exempted from the calculation of total holdings. In his report, Carver spoke of the importance of land relationships to the social fabric and Island identity, as well as to the proper care of the soil for future generations and food security.

Carver urged the provincial government to have both policy and effective measures in place to deal with any future pressure from non-resident buyers of farmland.

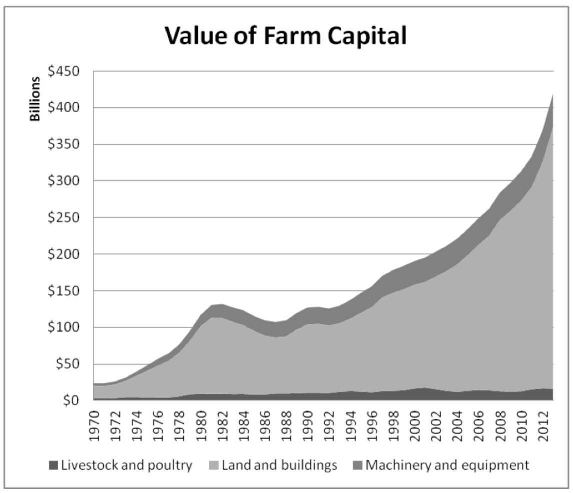
"This province cannot withstand the effects of land grabbing experienced elsewhere in the world. We need the Lands Protection Act to protect us from the incredible wealth of people who live just beyond our borders and see our land as nothing more than a commodity to be bought and sold, like silver or gold"[98]

Recommendation 5 states: "*That the provincial government use data collected under the Registry Act to monitor the sale and purchase of large tracts of farmland by residents and non-residents who are not bona fide farmers, and place restrictions on future transactions, if deemed necessary; exceptions would be made in cases where non-residents receive land from residents via will or in heritance."*[99]

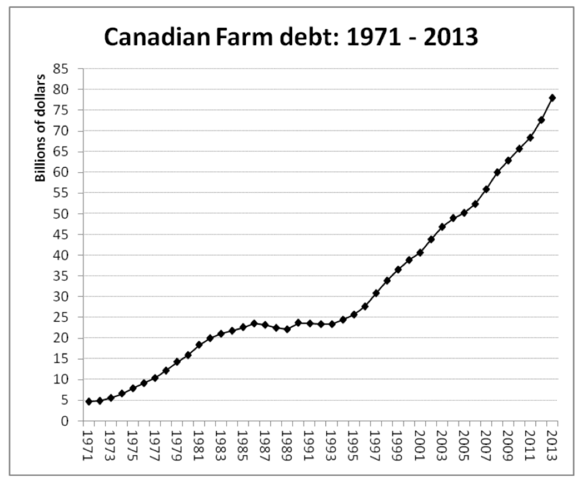
By the end of 2013, the PEI government had committed to implementing the Carver report recommendations.[100] The Carver Report land ownership recommendations were enacted in the PEI Legislature and received Royal Assent in May 2014, but at time of writing, had not yet been proclaimed.[101]

FARM DEBT

Farmer's control over the land they farm continues to be eroded by the rapid increase in farm debt. Farm debt increased from $64 billion in 2010 to $78 billion by mid-2013 – an increase of $14 billion (21.8%) in just three years. Low interest rates, a short period of better crop prices and higher land values have made it possible for farmers to borrow more, particularly when land is provided for security. The light grey band in the graph on the left shows the increase in land values, which corresponds closely to the increase in farm debt shown in the right-hand graph below.

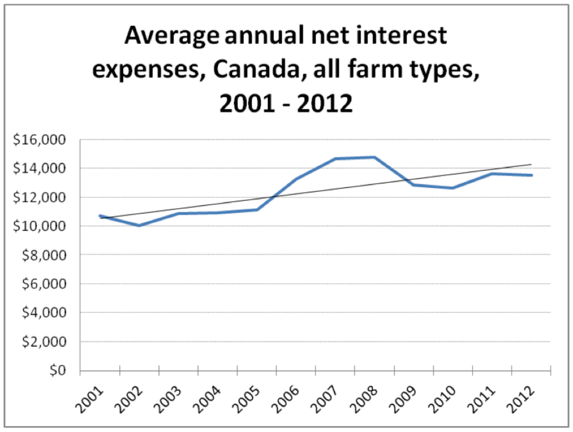


Source: Statistics Canada
Table 002-0007 - Value of farm capital, at July 1

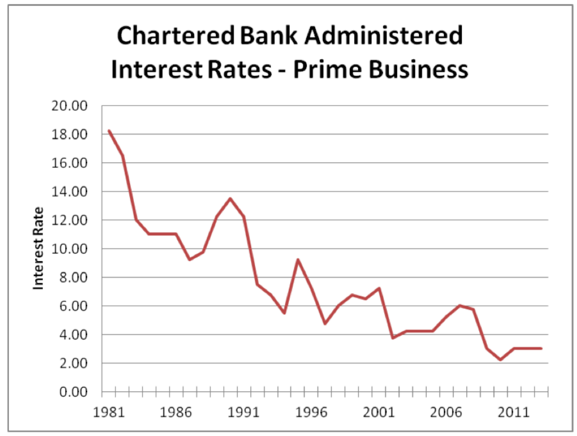


Source: Statistics Canada
Table 002-0008 - Farm debt outstanding, Canada

Speculators profit from buying farmland and selling it later at a higher price. As the market value of a farmer's land assets increase, each acre does not automatically produce more income. Farmers are price-takers when buying inputs and when selling products. This "cost-price squeeze" means that the more powerful economic players capture most of the value of any increase in per-acre production that farmers obtain by financing bigger equipment and more inputs using land value as security. The loans, however, have to be repaid with interest. Lenders benefit both from rising land prices that allow them to write bigger loans, and from the cost-price squeeze that induces farmers to borrow to increase production, hoping that higher volumes will compensate for narrower margins. The extended farm income crisis means the demand for credit continues to grow at such a rate that, even with record low interest rates, the total value of farmers' loans and the annual average amount of interest that farmers pay continues to rise. If interest rates rise significantly, many farmers will be unable to meet their debt obligations.



Source: Statistics Canada

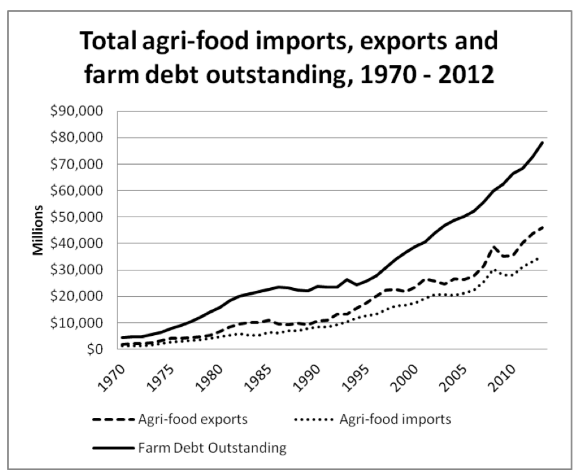


Source: Bank of Canada. The prime business loan rate is the interest rate charged to the most credit-worthy borrowers. When there are differences in the rate charged by individual banks, the most typical rate or rates are taken.

Federal government lending: Farm Credit Corporation

Farm Credit Corporation (FCC) is a federal crown corporation that is accountable to Parliament through the Minister of Agriculture. In 2001, FCC's mandate was changed to allow it to lend to farm-related businesses that are not majority farmer-owned.[102] The 2007 federal budget authorized FCC to borrow directly from the federal government starting in 2008.[103] FCC pays an annual dividend to the federal government, which was $56.4 million in 2013 and $50.3 million in 2014. [104] Since 2001, FCC has increased its share of total farm lending from 17% to 29% in 2013, primarily at the expense of the chartered banks, which have seen their share drop from 46% to 36%.[105]

FCC has an explicit role in implementing AAFC policy, as directed by the Minister of Agriculture.[106] FCC's lending practices and corporate initiatives are currently guided by policy objectives and frameworks, including *Growing Forward 2*, growth of farms and agribusiness enterprises, expansion of export markets, intergenerational transfer and public relations.[107] FCC can offer farmers better rates due to its favorable borrowing position, which may be a factor in increasing farm debt, particularly in sectors encouraged by federal policy.



Source: Statistics Canada

Federal government lending: Advance Payments Program

Changes to the Advance Payments Program enacted via the *Agriculture Growth Act* omnibus bill will promote even more farm debt. While cash-strapped farmers may welcome easier access to operating loans, there are troubling implications.

The Advance Payments Program was designed to relieve farmers of cash-flow difficulties and reduce the downward pressure on commodity prices that occurs if farmers try to sell all their production immediately after harvest. The program provides loans up to $400,000 annually secured by inventory. The first $100,000 is interest-free, the rest is subject to a set low commercial rate. Repayment was tied to sale of inventory and had to be repaid within the year.

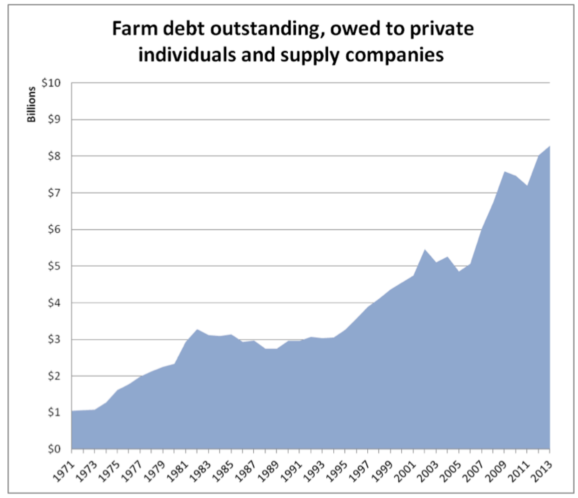
The new rules, however, change the definition of eligible producers, allowing farmland investment companies to use the Advance Payments Program, which enables them to reduce the costs of financing their operations. The companies can then apply those savings to fund further land purchases, thus unfairly competing with bona fide farmers.

As well, the program is now a multi-year program, which opens the door to securing the loans with other forms of collateral (to be defined in as-yet unwritten regulations) instead of marketable inventory on hand, because longer-term loans cannot be secured by uncertain future production. Access to this program may also become skewed towards producers able and willing to provide additional security to the lender. Borrowing against expected sales of future years' production is riskier than borrowing against current inventory, because of unpredictable future yields, prices, and currency exchange rates. Security requirements will likely expand to include land, buildings and equipment not susceptible to such losses. If or when interest rates increase and/or crops fail, these productive assets securing the advance payment could be vulnerable to repossession.

INPUT FINANCING BY AGRIBUSINESS AND INVESTORS

Statistics Canada aggregates farm debt owed to private individuals and supply companies. The amount of such debt increased from approximately $7.5 billion in 2010 to $8.3 billion in 2013, an increase of about $800 million in three years.[108]

Farmers lose autonomy when the loan payments and loan conditions constrain choices about how the farm is run and how willing the farmer is to try different production methods and thus incur financial risk. Increasing integration of farm input suppliers with grain companies further diminishes the farmer's independence.



Statistics Canada
Table 002-0008 Farm debt outstanding, classified by lender

When prairie grain delivery was constrained during the 2013-14 logistics crisis following the removal of the Canadian Wheat Board's single desk and its role in coordinating grain transportation, there were reports that grain companies were denying farmers delivery opportunities unless they had financed inputs through the company and still had outstanding balances. In other cases, farmers in an area waiting for rail service were told that only 80 percent of the cars ordered had been provided by the railway, and that the grain company had given its input customers priority instead of distributing the available space equitably based on farmers' contracts.[109]

Input Financing: AgStream Inc.

Agsteam was a short-lived company owned by Pike Management Group (see Broadacre profile above). It was new in 2010, and there is no evidence that AgStream operated after 2011. Its business model – to lend farmers money in return for a claim on future crops (streaming) - is an idea that has been developed by another company, Input Capital.

Input Financing: Input Capital

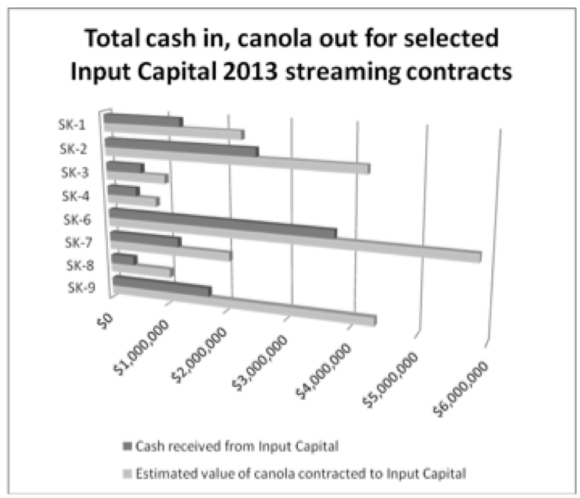
In our 2010 brief, Input Capital was mentioned as a company involved in input financing. Today, its business is both an investment vehicle selling its shareholders what amounts to a financial derivative based on canola prices, and a virtually unregulated type of private credit marketed to farmers as a source of money for inputs and other operational purchases.

Input Capital is an offshoot of the farmland investment company, Assiniboia Capital Corporation (profiled above). It has adapted a financing practice used in the mining industry called *streaming*, whereby a lender provides money to develop the mine in return for a share (or stream) of the mine's future production at a low fixed price. The lender then profits by selling the mineral on the open market. Under Input Capital's *canola streaming* system, the company provides an up-front sum to the farmer in return for a specified volume of canola from each of the next five to seven years' crops at a fixed price (which may be zero dollars). Input Capital then turns around and sells the contracted canola to elevators and canola crushers at market prices.

Assiniboia Capital Corp., Assiniboia Farmland Holdings LP and Input Capital are managed (and largely owned and controlled) by the same people. Input Capital states that some of its streaming contracts will likely be with the tenant farmers on land owned by Assiniboia Farmland Holdings (now owned by CPPIB and managed by Assinioboia) The company further states that "… some portion of the upfront payments made to farm operators may be directed to be paid to Assiniboia Partnership for rent" [110] - a very comfortable arrangement for the lender.

Assiniboia Capital launched Input Capital by test-driving the canola streaming concept in a series of limited partnerships. The LPs were restructured and transformed into Input Capital corporation, which sells shares on the Toronto Venture Exchange.

In 2013, Input Capital had streaming contracts with nine Saskatchewan farmers.[111] Two contracts involved upfront payments plus low annual payments made to the farmer for the committed canola. The other farmers committed to sell the corporation a specified volume of canola each year, with no further payment beyond the initial up–front cash payment. Contracted farmers are required to maintain crop insurance to protect Input Capital in case of crop failure, and the company demands a General Security Agreement on the farm's assets - in some case, even a second mortgage on the land. The company also buys a life insurance policy on the farmer naming Input Capital as the beneficiary.[112]



Source: *Input Capital (TSXV: INP) – Initiating Coverage - First Agriculture Streaming Public Company in Canada - Focus on Canola*, Fundamental Research Corp.

Companies traded on the stock market are not permitted to own farmland in Alberta, Saskatchewan or Manitoba due to provincial restrictions on foreign ownership. Thus, if Input Capital repossesses any prairie farmland from a farmer who defaults, it must sell the land to a Canadian entity according to rules under the applicable legislation.

In its promotional material the company appeals to farmers by telling them they can use the money to pay off debt, or to buy inputs or equipment when they are on sale, suggesting it as an alternative form of financing rather than debt.[113] While these streaming contracts are not traditional loans with cash repayment of principal plus interest, they certainly are debts. The farmer owes the company a fixed amount of canola from each year's crop. The difference between the farmer's contracted price and canola's future selling price is unknown, and represents the company's margin (or risk) and the farmer's cost of financing. If the price of canola goes up, Input Capital gets a better deal. If the price goes down, the farmer gets the better deal and pays less for the loan because the price of canola is lower than anticipated. However, the price of any remaining canola left to sell for his own benefit is also lower, so the farmer may end up in a cash crunch anyway. If the farmer does not produce enough canola, the contract could be paid with other grains, but the amount required to provide compensation equivalent to the missing canola would be determined by Input Capital alone.

At 2014 prices, farmers who entered streaming contracts in 2013 will provide Input Capital with canola worth from 167% to 261% of the cash paid out to them over the life of the contract (more if "bonus tonnes" – 15% of production above the contracted amount – are produced), depending on the individual contract's terms. The company plans to use those very high returns to fund additional streaming contracts.

Lending practices of chartered banks, credit unions and Farm Credit Corporation are highly regulated, but it appears that Input Capital is not touched by similar regulatory oversight.

CONCLUSION AND RECOMMENDATIONS

Escalation of farm debt, the need for most farm families to supplement or replace inadequate farm income with off-farm employment, and the erosion of the farm population as potential young farmers look elsewhere to earn their livelihood; these are some of the outcomes of agriculture policy focused on increasing commodity exports. International trade agreements make it easier for corporations to source food ingredients globally from the cheapest sources, forcing farmers into prices that spiral downward. Destruction of orderly marketing institutions such as the single desk of the Canadian Wheat Board and provincial hog marketing boards put farmers at a disadvantage when selling their products to large, powerful corporations. The *Agricultural Growth Act*'s amendments to Plant Breeders' Rights legislation will result in increased production costs as seed companies will be granted new exclusive rights that will enable them to charge higher prices for seed and increase their ability to collect royalties. The net result of these policy decisions is that an ever-increasing portion of the wealth created by farmers is captured by others, while farmers shoulder rising debt loads just to stay in business.

Canadian farmers risk losing the very land needed to produce our food. Younger farmers cannot afford to buy land and many are reluctant to take on the risks of high debt loads. Older farmers may find it difficult to retire unless they can pay off debts by selling their land. State-owned sovereign wealth funds seek productive farmland outside their borders to produce food for their own populations. Private investors buy farmland to safely store their wealth while earning rent income. Both state-owned and private entities are waiting for expected food price increases caused by climate instability and population growth.

The current policy environment promotes unaffordable land prices, ever-higher farm debt loads, and concentration of land ownership in fewer hands, thereby systematically pushing farmers out of business. In an agricultural model that requires fewer farmers, there is less space for new farmers to occupy. Handing land, skills and knowledge from one generation to the next – an age-old cultural process – is being replaced with a system of financial transactions – a commercial process. The outcome of these changes is that control over land shifts to absentee landlords, investors and lenders and transfers the work of farming to tenants and/or transient, seasonal workers.

The NFU strongly recommends that Canada and its provinces and territories develop policies, programs, laws and regulations concerning land ownership, protection of farmland for agricultural use, farm financing and farm debt that will promote farmer autonomy and land ownership in the hands of producers. We see these measures as necessary steps to move this country towards food sovereignty.

The *Declaration of Nyéléni*, proclaimed by the world-wide organization of small farmers, La Via Campesina, defines food sovereignty as follows:

- *Food sovereignty is the right of peoples to healthy and culturally appropriate food produced through ecologically sound and sustainable methods, and their right to define their own food and agriculture systems.*

- *Food sovereignty puts those who produce, distribute and consume food, at the heart of food systems and policies rather than the demands of markets and corporations.*
- *Food sovereignty defends the interests and inclusion of the next generation.*
- *Food sovereignty offers a strategy to resist and dismantle the current corporate trade and food regime, and directions for food, farming, pastoral and fisheries systems determined by local producers.*
- *Food sovereignty prioritises local and national economies and markets and empowers peasant and family farmer-driven agriculture, artisanal - fishing, pastoralist-led grazing, and food production, distribution and consumption based on environmental, social and economic sustainability.*
- *Food sovereignty promotes transparent trade that guarantees just income to all peoples and the rights of consumers to control their food and nutrition.*
- *Food sovereignty ensures that the rights to use and manage our lands, territories, waters, seeds, livestock and biodiversity are in the hands of those of us who produce food.*
- *Food sovereignty implies new social relations free of oppression and inequality between men and women, peoples, racial groups, social classes and generations.* [114]

National Farmers Union Recommendations:

1. Canada and its provinces must enact a unified set of land ownership restrictions wherein farmland can be owned only by individuals who reside in the province in which the land is located, or by incorporated farming operations (including co-operatives) owned by individuals who reside in the province in which the land is located.

2. Provincial governments should monitor foreign and domestic ownership and control of farmland within its boundaries and publicly report changes annually. Provinces should also consider legislating appropriate maximum size of land holdings per individual, per incorporated family or cooperative farm and per corporation as has been enacted in Prince Edward Island.

3. Differential taxation rates should encourage ownership by farm families and other local citizens and discourage investors and large corporations from buying and owning farmland. Farmers and other local residents should be charged lower tax rates than investors, foreign interests, non-farm corporations, and large farming corporations with numerous shareholders, should be taxed at higher rates. Investments in farmland investment companies should not be RRSP eligible.

4. Governments should provide incentives and support for land stewardship practices that maintain the land's productivity for the long term along, and corresponding penalties for using farming practices designed to extract maximum rents in the short term at the expense of soil health, biodiversity, water quality and other environmental benefits.

5. The Government of Canada and the provinces must set up mechanisms for farm family intergenerational land transfers that do not rely on loans and interest payments. Governments must find ways for young

and new farmers to gain secure access to farmland that does not require massive indebtedness. Such mechanisms could include:

   a. Community-owned land trusts and land banks to ensure food production by local farmers.
   b. Community-based financing options (that retain interest-payment dollars within local communities).
   c. Government agencies that support seller-finance options. (Sellers and buyers could self-finance, and the role of the government agency would be to step in to address rare instances when transactions go bad and there is a need to return the land to the seller.)
   d. An income-assurance plan for beginning farmers to assist them in becoming established and support their long-term success.
   e. A retirement savings program or pension plan specifically designed for farmers that would reduce their need to rely on selling land to fund their retirement.

6. Transferring farmland to non-agricultural uses must be restricted and curtailed. Industrial or residential development on Class 1, 2 or 3 farmland should be prohibited. All provinces should enact legislation to protect their farmland using the laws of BC, PEI and Quebec as a starting point to improve and expand farmland protection across Canada.

7. Farm input suppliers must be banned from tying input financing to delivery contracts.

8. Canadian federal, provincial, and territorial governments must acknowledge governments' role in creating the debt crisis through policies and legislation that allow corporations to externalize costs to farmers. They must deal with the debt bomb that has been planted under the base of our farming system by:
   a. Preparing an honest and factual analysis of farm debt and net farm income
   b. Designing effective and targeted farm support programs that allow farmers to gain short-term stability and allow them to manage an increasingly unmanageable debt load; and by ensuring that only active farmers – not farmland investment companies – have access to such farm support programs.
   c. Reducing the cap on farm support programs so that public funding will encourage small and medium-sized farms that provide multiple social, environmental and economic benefits to rural communities.
   d. Responding honestly and effectively to the farm income crisis and the imbalance of market power that is at the root of that crisis so that farm families can emerge from chronic financial hardship and earn farm-sustaining incomes from the marketplace; and
   e. Direct Farm Credit Corporation lending to provide more support to small and medium sized farms that produce food for domestic consumption. FCC should be prohibited from lending to farmland investment companies or to large export-oriented food processing companies.

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