



Minister's Agricultural Roundtable Young Farmers

January 23, 2019 - Guelph, ON

The priority recommendations contained in this document have been submitted for consideration in advance of the Minister's roundtable on young farmers, on behalf of the Beef Farmers of Ontario (BFO).

Challenges

Young farmers face unique challenges in Ontario for several reasons:

- Urban pressure distorts land values and provincial regulations require costly environmental controls.
- A lack of access to financial support from government and lending institutions.
- High land costs and rising interest rates discourage young farmers from entering the industry because of prohibitively high start-up and debt servicing costs.
- Unprecedented levels of production risk and income uncertainty due to more frequent and volatile shifts in global commodity markets, a problem that is particularly challenging for younger and less established farmers to mitigate.

Opportunities

- An eager, well-educated, and consumer-focused generation of new and expanding farmers.
- A growing global demand for safe, responsibly produced, nutritious food. A recent report from the OECD estimates that global beef trade will increase by 25% by 2023.
- Identified access to an abundance of good soil, clean water, and productive land resources.

Ways to Support Young Farmers & Encourage Industry Growth

1. Bring forward to 2019 the platform commitment to increase the cap on the **Ontario Risk Management Program (RMP)** by \$50 million annually and allow any unused funding to roll over into the next program year.
2. Create a cost-shared **Perimeter Fencing Program** for farm properties to support farm establishment and expansion efforts.
3. Expand the northern **Small Business Startup** and **Business Expansion** programs for new, young, and expanding farmers across the province.
4. Create a **Capital Gains Deferral Fund** to assist in the creation and expansion of farms and farm succession.



Background to Support Our Recommendations

Fulfillment of BFO's recommendations will:

- ✓ Support young, new and expanding farmers
- ✓ create and sustain Ontario jobs
- ✓ spur economic activity in rural Ontario
- ✓ provide positive ROI for provincial investment
- ✓ help mitigate threats to Ontario's beef industry caused by factors beyond government or business control

1. Increase investment in the Ontario Risk Management Program (RMP)

Beef farmers now face an unprecedented level of uncertainty, and risks beyond their control due to increased costs of production, government red tape, trade uncertainty, and a level of sustained market volatility we have never experienced. These risks are particularly acute for younger and less established farmers that have limited ability to mitigate severe fluctuations in the market. The best remedy for these risks, which will sustain Ontario's beef capacity and promote new economic output, is to increase Ontario's investment in the Risk Management Program (RMP).

RMP fills a critical gap for livestock commodities in Ontario that are not protected by the supply management system or have access to other effective farm support programs like crop insurance. RMP is a cost-shared insurance program designed to help stabilize the industry by providing partial financial protection for Ontario farmers against global downturns in commodity market prices by providing assistance when market prices fall below a participating producer's support level.

RMP is a made-in-Ontario solution that addresses shortcomings in the national programs. It was designed and developed with direct input from Ontario farmers in partnership with the provincial government. We would like to thank Premier Ford for his campaign commitment to increase the cap on the Ontario Risk Management Program by \$50 million annually. This commitment demonstrates the government's acknowledgment of the vital importance of this program to Ontario farmers and the Ontario economy, and recognizes the chronic underfunding this program experienced under the previous government.

Bringing forward this commitment to 2019 would represent an excellent investment by the province. A 2015 study by Cummings and Associates found that every \$1 dollar invested into the RMP results in \$2.24 in positive economic activity. In addition, the study found that 62% of participating producers indicated the program had a positive effect on their decision to hire and/or maintain employees.

Adequate funding will allow farmers to better manage risk and focus on greater innovation, their farms' sustainability, farm job creation, and new market growth opportunities. Increased investment will also help support young farmers, and those seeking to expand production.



2. Create new land improvement & farm growth opportunities through a Perimeter Fencing Program

We need to find new ways to assist farmers in the establishment/re-establishment of perimeter fencing, which will create new opportunities for growth in the beef and sheep sectors, and for other farm operations looking to incorporate livestock grazing as an enterprise.

Other jurisdictions support livestock farmers with fencing programs to deter predators, to assist with expansion plans, for land improvement efforts, and to promote new income streams for grain farmers. So too should Ontario.

The Northern Ontario Heritage Fund Corporation (NOHFC) already provides valuable cost-share funding for perimeter fencing in the north. Expanding this program, or a similar cost-shared program to the rest of the province would have immediate benefits for the rural economy by supporting local supply businesses as well as young, new and expanding farmers.

3. Expand the northern Small Business Startup and Business Expansion programs for young, new, and expanding farmers across the province.

The Small Business Startup and Business Expansion programs offered by the NOHFC provides young, new, and expanding farmers in Northern Ontario with access to conditional grants and repayable loans to encourage farm establishment and expansion efforts. Offering these programs throughout Ontario would provide measurable benefits to farmers, and would create positive economic activity across rural Ontario.

4. Create a Capital Gains Deferral Fund to assist in creation and expansion of farms and farm transitions

A very large transfer of wealth from aging farmers to their children will take place over the next several decades. Ontario has lost 23% of its farms and farm operators in the last 15 years. More significant, Ontario is losing farm operators under the age of 54, with the number of farm operators 55 and older actually growing.

Alongside the aging farm operators, farmland values have grown at over 10% per year since 2003 due to such factors as urban encroachment, rising cash receipts, non-farmland buyers, and affordable financing. The quickly rising value of farms is incentivizing farmers to exit farming and sell their land and equipment to finance retirement, adding further downward pressure on the number of farms and farm operators. At the same time, the high land costs are discouraging young farmers from entering the industry because of the prohibitively high start-up costs.

As a result, the number of young farmers may not be sufficient to fill the vacancies left by retiring farmers, largely due to the inability to access sufficient capital and affordable land.

In 2015, BFO began to investigate the concept of a **Capital Gains Deferral Fund** as a way to pool capital to incentivize the creation and expansion of farms and to assist with farm succession efforts. The proposed Fund would allow farmers to deposit all or a portion of the proceeds from the sale of their land at retirement and receive a tax deferral on the capital gains. The Fund would then be used to support beginning farmers to acquire farmland. The Fund would be set-up to provide favourable terms to beginning farmers compared to other financial institutions.



At the same time, the Fund would act as an investment instrument for farmers that contribute the proceeds of their land sales as they would receive a return from the interest paid by beginning farmers on the loans granted by the Fund. The Fund would be open to all farmers who sell their land regardless of structure, including individuals, corporations, partnerships or trusts.

A 2015 study by Meyers-Norris-Penny (MNP) estimated that \$5.8 billion in total farmland and building value could be eligible for the Fund. This was calculated as the total value of farmland and buildings in Ontario in 2011, at \$78.5 billion, multiplied by the share of farmers looking to transfer their land to a third-party within the coming years, at 7.4%. On a national basis this could generate more than \$20 billion for the Fund.

Current rules only allow a capital gains deferral of five years and only if land is sold for debt (i.e. a farmer sells his land to a young farmer whom takes out a mortgage on the land). While the Fund would increase the supply of money available for farmland – likely increasing land prices – it would also target young and expanding farmers and improve their ability to acquire the financing needed to acquire land.

Capital Gains Deferral Fund Advantages

- ✓ Reduces reliance on traditional financing
- ✓ Provides security through mortgage-backed loans if the young farmer defaults
- ✓ Frees up the borrowing capacity of young farmers for other uses (e.g. seed, fertilizer, breeding stock, feed and equipment)
- ✓ Reduces down-payment requirements. Traditional farmland loans require a 25% down-payment

Other Incentive Program Options for Young Farmers

- Enhanced ability for farmers to make a one-time contribution to an RRSP on retirement but still receive the equivalent tax benefits as if they had contributed over many years.
- Tax incentive to rent or sell farmland to young farmers.
- Expand the list of eligible transferees beyond the immediate family to include siblings, cousins, nephews and nieces. Currently, land transfer tax is not applicable if farmland is transferred to immediate family members only.
- Protect farmland through zoning rules to reduce upward pressure on farmland prices and reduce the barriers of entry for young farmers. This may bring unintended consequences for farmers who are looking to sell their land as it would likely reduce farmland prices.
- A Farmland Bank could be established to acquire, hold and conserve farmland, while making it available to young farmers for agriculture production. Farmland Bank methods include farmers who donate or bequeath land, private donations, foundations and government.
- A matching service to connect beginning farmers and existing farmers that have no successors but want to transition their farms.



Thank You

On behalf of the Beef Farmers of Ontario, we thank you for the opportunity to participate in the roundtable on young farmers. We would welcome any opportunity to discuss the recommendations contained in this submission in further detail at your convenience.

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The Beef Farmers of Ontario represent 19,000 beef producers in Ontario by advocating in the areas of sustainability, animal health and care, environment, food safety, and domestic and export market development. BFO's vision is help foster a sustainable and profitable beef industry, and have Ontario beef recognized as an outstanding product by our consumers.

