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Losing our Grip - 2015 UPDATE: Executive Summary

Introduction

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.

A recent *Agriculture and Agrifood Canada* survey confirmed that Canadians want and expect farmland to be owned and worked by the local farm families, individual farmers, producer co-ops and intentional communities who farm the land. But this system is under serious threat by corporations and investors – including some of our own pension funds – that are seeking greater control over Canada's agriculture so they can obtain a bigger share of the wealth that farmers produce.

As in 2010, the issue today is not only a matter of who owns the farmland, but of 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. When farmers are in a position to make long-term decisions they can put sustainability of 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.

Land grabbing - the International Context

The food and financial crises of 2008 gave rise to international land-grabbing, with governments buying up farmland abroad to ensure future food supplies for their own populations and private investors buying farmland as a stable investment in the face of financial crises and food insecurity. Since 2010, pension funds have started to invest in farmland and now US pension fund manager, TIAA-CREF, is one of the world's largest institutional owners of farmland.

Canadian farmland targeted by investors

Canadian farmland is an attractive to investors looking to protect their wealth in the context of low interest rates worldwide, reduced rates of economic growth, increasing political unrest and apparent instability of the global financial system. As the world population grows and climate instability increases these investors expect Canadian land and commodity prices to rise due to shortages of both.

Farmland values have risen dramatically since 2008. Average values of land and buildings range 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 was $2,227 in 2013 compared to $1,394 in 2008.

Between 2006 and 2011, Canada farmland has decreased by 7 million acres, or about 4%, to about 160 million acres. More than 300,000 acres of Class 1, 2 and 3 land disappeared from the prime growing areas bordered by Lakes Huron, Erie and Ontario in the south and along the St. Lawrence River to Québec City. The loss of this farmland, which is capable of growing a wide variety of crops, undermines Canada's capacity for food sovereignty. Farmland destruction due to industrial and urban development heightens concerns regarding the shift in ownership of Canada's remaining farmland away from farm families and towards investment companies.

Increasing consolidation of land holdings via farmland investment funds and corporate ownership

This report updates the profiles of several companies that have been involved in farmland investment since 2010, including Bonnefield Financial, Assiniboia Capital, Agcapita, Walton International and AGInvest Canada. All raise money for land acquisition by using Limited Partnership (LP) structures to sell higher risk, time-limited shares which can only be sold only to "accredited investors" – such as wealthy individuals and managers of financial institutions, pension funds, government agencies and mutual funds. Land assembled into large parcels by investment companies becomes unaffordable to all but the very wealthy and institutional investors such as pension funds. Farmland investment companies are shifting Canadian farmland ownership from actual farmers to a new class of absentee landlords.

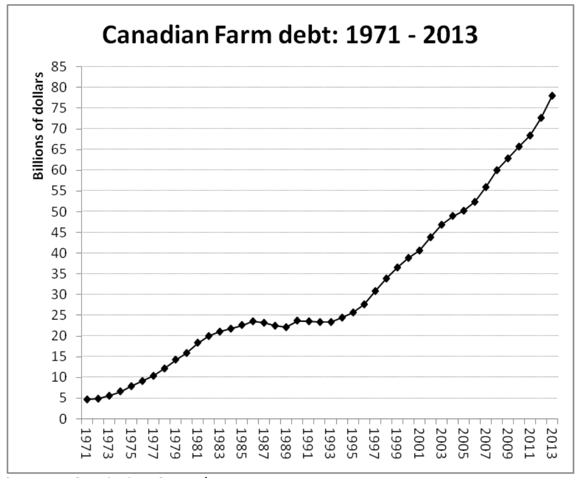
This report also revisits a number of corporate investors such as Nilsson Bros. Inc, One Earth Farms and Broadacre, which in 2010 were acquiring large tracts of land for investment purposes and/or as part of their corporate growth strategy seeking economies of scale, market domination and vertical integration. Most have failed to meet their original expectations, apparently because they could not manage the risks and complexities involved in their business models.

Provincial farmland ownership laws

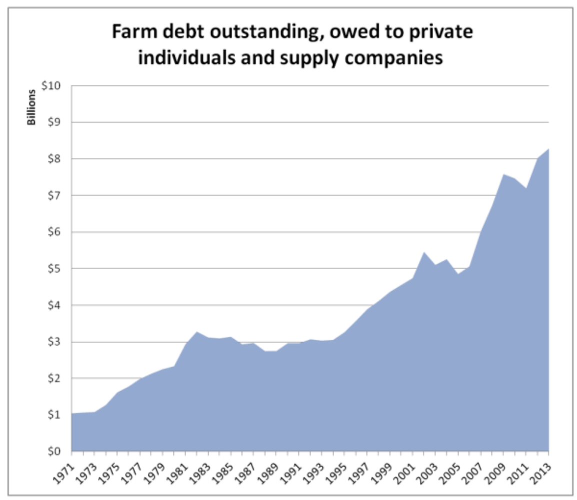
In 2010, the NFU recommended Canada and its provinces enact farmland ownership restrictions to ensure that land is owned by residents of the province. Since then, we have seen some improvements in Quebec and PEI, and a major setback in BC, while laws remain the same in the other provinces. Saskatchewan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

Farm Debt

Farmer's control over the land they farm is also being eroded by the rapid increase in farm debt. Total farm debt rose from $64 billion in 2010 to $78 billion by mid-2013. Low interest rates, a short period of better crop prices and higher land values creates an environment conducive to increased borrowing by/lending to farmers, particularly when land can be used for security. Yet, as the market value of a farmer's land assets increase, each acre does not automatically produce more income. 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 in hope that higher volume 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 dollars lent out to farmers and the average annual amount of interest farmers are paying continue to rise. If interest rates rise significantly, many farmers will be unable to meet their debt obligations.



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



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

The federal government supports farmer borrowing via Farm Credit Corporation (FCC) and via the Advance Payments Program. In 2001 FCC's mandate was changed, allowing it to lend to farm-related businesses that are not majority farmer-owned. 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, the new rules allow farmland investment companies to use the program. By making it a multi-year program, the door is opened to requiring other forms of collateral (to be defined in as-yet-unwritten regulations) instead of marketable inventory on hand. It is likely that security requirements will expand to include land, buildings and equipment not susceptible to unpredictable production risks. If, or when, interest rates increase and/or crop failure occurs, these productive assets could be vulnerable to repossession.

Input Financing

Farm debt owed to private individuals and supply companies increased from approximately $7.5 billion in 2010 to $8.3 billion in 2013. Farmers lose autonomy when the size of loan payments and the conditions placed on loans constrain choices regarding how the farm is run. The integration of farm input suppliers with grain companies further diminishes farmers' independence. Debt pressure is also creating an environment for new types of lenders, such as largely unregulated "input streaming" that offers up-front money in return for several years of future crops at a fixed low price. This type of business is both an investment vehicle selling to investors what amounts to a financial derivative based on canola prices and a virtually unregulated type of private high-risk financing that is marketed to farmers as a source of money for inputs and other operational purchases.

Conclusion and Recommendations

Escalation of farm debt, the necessity for off-farm employment to supplement or replace inadequate farm income for most farm families, and an erosion of the farm population as potential young farmers look elsewhere to earn their livelihood, 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, while forcing farmers into a downward spiral of ever lower prices. The destruction of orderly marketing institutions such as the single desk Canadian Wheat Board and the provincial hog marketing boards put farmers at a disadvantage when selling their products. The *Agricultural Growth Act*'s amendments to Plant Breeders' Rights legislation will result in increased production costs as new exclusive rights granted to seed companies 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 ever higher 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. Many older farmers cannot afford to retire unless they can pay off debts by selling their land. Globally, state-owned sovereign wealth funds seek productive farmland outside of their borders to produce food for their own populations, while private investors seek to buy farmland as a safe way to store their wealth and obtain rent income as they wait for food price increases they expect to result from the twin pressures of climate instability and population growth.

The current policy environment systematically pushes farmers out of business by promoting unaffordable land prices, ever-higher farm debt loads, and the concentration of land ownership in fewer hands. With 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 -- that shifts control over land to absentee landlords, investors and lenders and shifts 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. It 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.*

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.