

May/June 2006

AgriSuccess

JOURNAL



Risk management in commodities

How to get information and experience to improve your operation's bottom line.

Managing
exchange rate risk

Helping media
understand

Open up –
it won't hurt a bit

Schmoozing the market

Egg marketing success



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AgriSuccess Journal is published bi-monthly by Farm Credit Canada.

AgriSuccess is committed to advancing management practices that lead to success in Canadian agriculture.


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On the cover:

Jason and Felicia Watson of Yellow Grass, Sask., have been hedging the value of their crops since 1996.



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Letter from the editors



FROM KEVIN HURSH AND ALLISON FINNAMORE

The word “marketing” has a lot of different meanings and connotations. Whether you’re a dairy producer, a grain grower or a greenhouse operator, there are elements of marketing in your business.

Marketing can mean managing commodity prices. It can also refer to promoting your operation or finding ways to direct market to consumers.

In this edition of AgriSuccess Journal, marketing is the theme and we hope there’s information you find interesting and valuable no matter what kind of enterprise you have.

There’s no magic strategy, no cookie-cutter approach that’s going to work for everyone in all situations. Like everything else, marketing takes effort and practice. There are successes and failures. And the rules of the game continue to change.

That’s why some dislike marketing. It’s also why others thrive on it.

Love it or hate it, there’s no doubt it’s increasingly critical to your bottom line.

Your story ideas and comments are always welcome. Please e-mail us at info@agrisuccess.ca or call 1-888-332-3301.

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The editors and journalists who contribute to AgriSuccess Journal attempt to provide accurate and useful information and analysis. However, the editors and FCC/AgriSuccess cannot and do not guarantee the accuracy of the information contained in this journal and the editors and FCC/AgriSuccess assume no responsibility for any actions or decisions taken by any reader of this journal based on the information provided.

Mark your calendars

June					July								
W	T	F	S	S	S	M	T	W	T	F	S	S	
2	3	4	5						1	2	3	4	5
9	10	11	12		4	5	6	7	8	9	10	11	12
16	17	18	19		11	12	13	14	15	16	17	18	19
23	24	25	26		18	19	20	21	22	23	24	25	26
30					25	26	27	28	29	30	31		

October					November								
W	T	F	S	S	S	M	T	W	T	F	S	S	
			1	2	1	2	3	4	5	6	7	8	9
6	7	8	9	10	14	15	16	17	18	19	20	21	22
13	14	15	16	17	21	22	23	24	25	26	27	28	29
24	25	26	27	28	28	29	30						

BY MIKE JUBINVILLE

Keeping track of key agricultural report dates is important for grain marketers wanting to stay on top of the data that has the potential to shift price direction. Here are a few of this year's key dates you might want to note.

Statistics Canada

May 10 – Stocks of Canadian grain at March 31

June 22 – Preliminary estimates of field crop areas

August 25 – Canada Production Estimates

USDA

Every Monday – U.S. Crop Progress

May 12 – U.S./World Crop Production, supply/demand

June 9 – U.S./World Crop Production, supply/demand

June 30 – U.S. Acreage and Grain Stocks

July 12 – U.S./World Crop Production, supply/demand

Watch for analysis as these reports are released in FCC's weekly e-newsletter, AgriSuccess Express.

Rule of 72 BY KEVIN HURSH

In these days of fancy calculators and online tools, there's still a place for rough estimations. If you're calculating the long-term interest cost of a loan, or the value of an investment over time, the rule of 72 provides a quick estimate you can do in your head.

At eight per cent interest compounded annually, a value will double in nine years. Eight times nine is 72. At six per cent interest, the time required for doubling is 12 years. At three percent, doubling takes 24 years.

The rule of 72 isn't exact, but it's very close and it will let you amaze your kids and colleagues.

Marketing strategies for culls

BY LORNE McCLINTON

Feeder cattle prices have soared in the wake of the U.S. border opening for animals under 30 months of age, but the market recovery has not been as dramatic for cull beef and dairy cows.

It would seem that there should be a better way to market culls than loading up a truck, hauling them to the closest auction mart and hoping for the best. However, beef industry experts say it isn't easy to realize an improved return from the market.

"Unfortunately, when it comes to cull cows, there's not a lot of options out there," says Neil French, an instructor at Olds College in Alberta. Direct marketing can capture extra value, but only for specific cuts of meat.

"If you just grind the whole animal up into hamburger, you are guaranteed to lose money," French cautions. "Cuts like tenderloin are valuable no matter what the age of the animal. Hamburger and low quality stew meat are not going to bring a huge premium no matter how you raised it."



Managing exchange rate risk



BY KEVIN HURSH

For those of us in the export-oriented sectors of agriculture, one of the biggest threats to returns in recent years has been the currency exchange rate. It's one of the factors that should be considered as part of an overall marketing plan.

Even if a product is being exported somewhere other than the United States, the trade typically takes place in American dollars. The rise in value of our loonie as compared to the American greenback over the past several years has had a major impact on commodity prices.

One of the biggest threats to returns in recent years has been the currency exchange rate.

According to information on the Bank of Canada website, the all-time low value for the Canadian dollar was on January 21, 2002 when it was worth only 61.79 cents US. Compare that to the 88.50 cents reached on March 2 of this year.

Canola that was \$5 a bushel at the dollar's high mark would have been well over \$7 a bushel at the low exchange rate. A feeder steer worth \$1 a pound would have been \$1.43.

Economists and market watchers do not agree on the future direction of the loonie. Some believe the ascent will soon stall. Others believe the currencies could move to par over time.

Michael Levy of Custom House Foreign Global Exchange is one of the latter. "We had the strongest currency in the industrial world last year," he notes.

Levy believes the Canadian economy will continue to outperform that of our southern neighbours. He points to the positive balance of trade enjoyed by Canada as compared to the continuing trade deficit in the U.S. He says the Canadian accumulated federal debt per capita is roughly half that of the U.S. and while ours is going down every year, theirs continues to increase.

Within two years, Levy expects the currencies will be at par for the first time since the mid-'70s.

Even if Levy is correct, the rise in value won't be a straight line. He notes that dips in value can be an opportunity for exporters. Of course, there are no guarantees. An exporter could lock in what was believed to be favourable, only to have values become even more attractive.

For most individual Canadian producers, hedging currency or using an option probably isn't viable. However, we do it indirectly whenever we lock-in a forward value for a commodity.

A canola or corn price locked in for this fall or early in 2007 is priced in Canadian dollars. The same can be true in livestock deals. With an established price for some future date, a producer no longer has to worry about changes in currency values. The buyer has assumed that risk.





Jason and Felicia Watson hedge commodity risk from their farm in Yellow Grass, Sask.

Risk management

BY LORNE McCLINTON

You don't have to live near a commodity exchange to trade futures but, traditionally, it has been an advantage. Markets can turn on a dime and it was helpful to be where the action was to keep pace. Today, there is so much information on global markets and weather available on the Internet that producers can stay on top of market trends and use the commodity market to manage risk from home.

Producers can stay on top of market trends and use the commodity market to manage risk from home.

Unfortunately, only a small percentage of producers use the tools at their disposal. Even if you never use a commodity exchange yourself, understanding the markets will help you use the pricing tools offered by various grain buyers and brokers.

The sharp decline in canola prices during the last half of 2005 is an example of the risks producers experience. Anyone who didn't have a price locked in through a production contract with a grain company or who put options on the futures markets watched helplessly as prices tumbled from near record highs to near record lows. Those that did hedge their canola protected themselves against the drop in values on at least part of their production.

Jason Watson, a farmer near Yellow Grass, Sask., has been using his commodity trading account to hedge the value of his canola since 1996. "Canola's an easy crop to trade," Watson says. "Over the long term I think I've done all right when I've used the markets to hedge the price I get for my crops. I haven't done as well when I've gone in to speculate."

A futures option is an almost risk-free way for producers to lock in a minimum price. "If you went out

and bought a put for your canola, you are just locking in the downside price for your crop," Watson says. If you locked in a \$300 a tonne price, for example, it might have cost you \$5 a tonne. The worst you can do is lose your \$5 but if you do, that means you sold your canola for more than \$300.

Basis, the difference between market price and the price you receive for your product, is also something to watch carefully. "If there's \$20 basis level, I'll lock that in and then look for an attractive future price," Watson explains. "If we haven't anything priced in at harvest, and the basis level is low, we'll start selling it and buy it back on paper, if we think it's going to go up. You get rid of storage risks, you get a pile of cash coming in and you free up bins."

Watson learned how to trade commodities in a marketing class in university. His father also used the market to hedge his feeder cattle. Unfortunately, very few producers are confident they have the necessary skills to manage risk by using the markets. A risk-free way to hone your trading skills is by setting up a trading account on FACTSim, the University of Florida's online commodity trading simulator.

FACTSim, developed by University of Florida professor John Vansickle, applies the 4-H approach, "learn to do by doing," to the commodity market. "I train a lot of farmers on the use of futures and options," Vansickle says. "It's one thing to show them the theory on how to use these tools but it's another to get them to pull the trigger when they're trading real commodities. FACTSim is the practice before the real game. It gives them hands-on experience to how the markets operate without risking real dollars."

Since FACTSim trades use real time data from the North American commodity exchanges, Vansickle doesn't like to call it a game. If you made money on a FACTSim

trade, you would have also made money if you had made the same trade through a brokerage account. While it is possible to trade any commodity handled on the major exchanges, Vansickle suggests farmers start with ones that relate to their operations. If you grow wheat, corn or soybeans, start with those and develop information sources you can watch as these markets evolve.

“I suggest adding an element of competition to your trades to keep it interesting,” Vansickle says. For example, he recommends family members challenge each other to see who can do a better job to market the crop.

Producers can sign up for a trading account on FACTSim at www.factsim.org. For \$30 US, users get a six-month subscription and a \$50,000 trading account (\$50 US for an annual subscription). If you run out of money, you can arrange for a loan from the FACTSim bank. A loan fee and interest will be charged to your trading account.

Simulated trading is a low-cost way to get actual trading experience. This, combined with using the market information available on the Internet, can go a long way to help manage risk in commodities that are actively traded.



Information is a click away

The major commodity market websites are logical places for producers to start monitoring market trends. Grain producers, for example, can easily find and lock in canola prices by going to the Winnipeg Commodity Exchange, www.wce.ca, soybean and corn prices at the Chicago Board of Trade (CBOT), www.cbot.com and wheat prices at the Kansas City Board of Trade (KCBT), www.kcbt.com. Livestock producers can track price trends and hedge hog and cattle prices at the Chicago Mercantile Exchange (CME) at www.cme.com. On Canadian Wheat Board grains, information on the various Producer Pricing Options can be found at www.cwb.ca. The Ontario Wheat Producers' Marketing Board website is www.ontariowheatboard.com

Do you want to know how the Ukrainian winter wheat crop is faring?

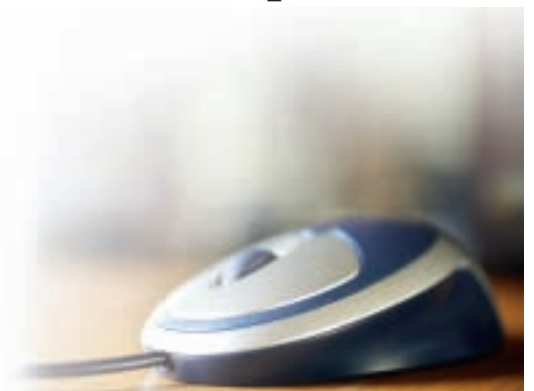
Check out the USDA international commodity intelligence reports at www.pecad.fas.usda.gov.

Is the rain in Spain falling mainly on the plain?

Check out the weekly European precipitation maps at: www.cpc.ncep.noaa.gov/products/analysis_monitoring/regional_monitoring/europe.html.

Does it make sense to plant oats in 2006?

Check out the current stock-to-use ratios available in Agriculture and Agri-Food Canada's biweekly bulletins for Canadian Grains, Oilseeds and Special crops at www.agr.gc.ca/mad-dam/e/bulletine/v19e/v19n01_e.htm.



Helping media understand



BY ALLISON FINNAMORE

Trying to capture a headline in the nightly news or daily newspaper can be a challenge, especially when issues like wars, natural disasters or politics are jostling for attention in hectic newsrooms.

It's feast or famine in agriculture when it comes to the limelight of media attention. When disaster strikes, journalists flock to farms for comments about BSE,

avian flu or rain washing away hopes of a successful crop year. But where are they in the good times? Chances are they're off covering another disaster.

The media is frequently criticized for only reporting the bad news, but the blame can't all be shouldered by the reporters, editors and producers.

Bad news makes the news

because the issue stands out from the normal. Even though good news can be outstanding, it doesn't tend to bubble to the surface as readily.

Now, take a step back and look at agriculture.

As producers, you're a talented and diverse group – you have the skills of agrologists, economists, scientists, mechanics...the list goes on. Learning about you takes time. Journalists often come to an agriculture story or end up on the beat (if there is one) with very little background knowledge about the industry. Luckily for the media, you tend to be patient teachers.

Also fortunate is the growing number of resources opening the world of agriculture to media. At www.farmissues.com, a media resource centre provides facts and figures about every sector of agriculture, including photographs and video clips from farms, a list of contacts and explanations of agriculture hot topics. If journalists still have questions or want someone to talk to, there's a direct link to e-mail an expert.

Of course, nothing beats a visit to the farm, but if deadlines or distance don't allow, www.farmissues.com has virtual farm tours, where visitors can see how beef, deer or sheep farms operate. The website is sponsored by Ontario Farm Animal Council, Ontario Pork and Farm Animal Council of Saskatchewan.

Farm Credit Canada is also taking a proactive approach to educating media about agriculture. Earlier this spring, seven journalism students from across Canada took part in Ag 101 on Highway 1, a tour that included visits to most agriculture sectors and several processing facilities in five provinces. It was an eye-opening experience for the students, some of whom had rarely left the city.

Projects like these set the foundation for good news in agriculture. Now, the entire industry needs to continue the promotion. Find knowledgeable communicators through farm groups to write news releases about your successes and innovations. Build a relationship with journalists so you know who to call about the good news. Help the journalists bring agriculture's many extraordinary stories into the limelight.



Open up – it won't hurt a bit



BY OWEN ROBERTS

If you subscribe to the adage “Better the devil you know than the one you don’t,” you perfectly understand the message – and the marketing implications – implicit in a new consumer attitude report about introducing transgenic animals into the food chain.

Consumers want more information, not less.

University of Guelph researchers David Castle, Karen Finlay and Steve Clark asked 1,300 people across Canada what they felt about transgenic pigs and salmon, two new technologies that are being actively developed for mass consumption.

Pork from the transgenic pig, a trademarked creation called the Enviropig, has an environmental benefit. The pig can degrade otherwise indigestible phytate (phosphorus bound by phytic acid). That eliminates the need for supplements and can reduce the phosphorus content in the Enviropig’s manure by up to 60 per cent.

Transgenic salmon’s advantage is primarily economic rather than environmental – its growth hormone is tweaked with the addition of a gene from another fish species (the ocean pout), making it reach maturity faster than conventional salmon. In aquaculture, faster-growing fish could mean a more predictable, steadier salmon supply, and potentially boost jobs in coastal towns where they’re raised.

Are consumers interested in buying them? Not at first blush, the researchers found.

Consumers were initially put off by the label ‘transgenic.’ But the more information they were given, the more some of the group warmed up. For example, during their initial exposure to the salmon, they disapproved of the fact they contained another fish’s genes. But later, when they were told these fish could be cheaper, the approval rates picked up (and who says consumers don’t vote with their wallets?).

That might tempt marketers to skip the potentially negative introductory step, and go right to product

marketing, hoping consumers don’t ask tough questions (or unearth something unpalatable). But don’t, say the researchers – new technology introduction is a process, not an event, and consumers have to be nurtured along.

Although the technology may be a little thick and cumbersome, it’s usually vital background to understand the benefit. Consumers want the information, and in this study, the more information they had, the more comfortable they felt with the new technology, at least to a point.

That prompted Castle and Finlay to offer some advice.

“Consumers ought to be able to obtain the information they feel they need to make informed choices around the adoption of new technologies that concern their families, perhaps via labeling or broader information dissemination,” they wrote in the *Journal of Public Affairs*, August-November 2005.

When biotechnology first appeared on the scene in the late 1970s and early 1980s, everyone thought they knew the best marketing strategy: don’t tell consumers what they don’t need to know.

But in hindsight, and as this study points out, that approach was wrong. Consumers want more information, not less. And not all will reel at technology if they’re informed.

The bottom line? Communicate and be open. It works.



Schmoozing the market



BY HUGH MAYNARD

If you're going to market your produce, you have to be prepared.

You can't miss it, sitting on the side of the highway and painted in brightly coloured vertical stripes, just like a packet of Lifesaver candies. "It" was a vegetable stand, a former garage converted into a direct-to-consumer outlet for local farm produce. Great idea, but "was" is the operative word because the stand has lain idle for a number of years now, doomed by the number one cause of new business failures – poor planning. Bright colours and a big parking lot, even good produce, will never overcome a poor location. And stuck out in the middle of nowhere on a stretch of road where cars have no other reason to slow down is not a good spot to sell cabbage.

We talk a lot about marketing in agriculture, but do those who decide to seek a little added value to their farm enterprise really have what it takes? It's not who you choose as your painter but how you prepare yourself as a marketer. If you're going to market your produce, whether it be specialty grains to a broker or fresh produce direct to the consumer, you have to be prepared.

One way is to hire an expert and do some planning; yes, this means some cash up front but at least the money for the new paint job won't be wasted. The Canadian Farm Business Advisory Services program will contribute up to half of the consultation costs for a farm business planning consultant for marketing (visit www.agr.gc.ca/ren/cfbas/consult_e.cfm for more information).

Another approach is to take a course in marketing. It doesn't have to be a degree. There are lots of certificate and short courses offered by universities and community colleges, even at conference seminars, and there are online courses available as well. The Canadian Farm Business Management Council's website is a good place to start your search for

an appropriate course – go to www.farmcentre.com, click on the link for Learning Centre, followed by Farm Courses Database, and then type "marketing" into the search engine.

Marketing is also a two-way street – it's not just about your customers but also about how you interact in all business relationships. A good set of 'schmoozing' skills (I know, I know...it sounds ridiculous!) is a good marketing strategy for building relationships with the fertilizer salesperson or the staff at the grain elevator.

Look for continuing learning opportunities related to schmoozing as it's a great way to meet n'greet, to get the most out of networking and to earn the confidence of those you work with. It's fun and – no matter the colour of your stripes – there's no better marketer than yourself.



Egg marketing SUCCESS

BY PETER VAN DONGEN

Ever wonder how to develop and market a new product within the complex and regimented structure of the supply management system? Frank Born is proof it can be done. He has created a marketing success within the Canadian egg business.

Our story begins in 1990, when Born purchased the family egg farm in Abbotsford, B.C. With egg sales falling due to concerns about cholesterol, his timing wasn't great. But, Born saw opportunity.

Born now sells over 2.5 million dozen eggs per year.

Over the next four years, Born researched, developed and perfected his own flax-based vegetarian chicken feed. When fed to laying hens, the specialty diet resulted in eggs approved by Health Canada as being "an excellent source of Vitamin E," "low in saturated fat" and "a source of Omega 3 polyunsaturates." With a ready market, the Born 3 egg was launched.

Born has since sold his own quota and now sells over 2.5 million dozen eggs per year as the president and sole employee of Born 3 Marketing Corp. Through contracts with feed companies, distributors and other farmers, he maintains firm control of his Born 3 brand while keeping capital costs to a minimum.

He likens his innovative approach to a piece of software that's been plugged into an existing system.

"It's not just the feed, it's the whole program going from the feed company, through the producer, to the grading station, into my packaging, and into the stores – all under my direction," Born explains, noting the same approach could easily apply to milk or cheese producers. "I've created a separate entity that I designed, yet I'm working within the system, and that's what gives it the protection as well."

What can we learn from Born's experience? He distills it down to these five points:

- **Study the system.** Understand what happens each step of the way, from production right through to distribution. Look for ways to make the system work for you.
- **Find good partners.** Don't try to do it all by yourself. By creating win-win partnerships with existing players, Born reaps the benefit without any extra capital investment or employees.
- **Get to know the consumer.** You have to look beyond the farm gate. Attend trade shows, conduct in-store demonstrations, do whatever it takes to talk directly to consumers.
- **Do your homework.** It took four years to take Born 3 eggs from research to retail. Take the time to research your idea, prove your concept and create a proper business plan.
- **Look for emerging opportunities.** Born developed a market-ready Omega 3 product before Health Canada even recognized Omega 3 as a category. Find out what is happening in other parts of the world. The next Born 3 egg might already be out there, just waiting for you to bring it home.



Fuelling demand

Farmland values continue climbing

Several factors are fuelling a demand for land across the country.

The average value of Canadian farmland rose in the second half of 2005. Values increased 1.5 per cent between July and December.

Farmland values in many provinces increased, consistent with Canada's growth trend since 2000. Values are influenced by factors unique to each province or market area. These factors include supply and demand, diversity of agricultural land and weather conditions.

British Columbia leads the way with values increasing by 10 per cent, reflecting a buoyant and vibrant provincial economy.

Ontario shows the second largest increase in the country. Values rose 3.8 per cent in the last half of the year as the beef industry recovers from BSE and lifestyle farmers continue buying farms for housing. Values in Newfoundland and Labrador, Alberta, Saskatchewan and Manitoba experienced moderate increases. Prince Edward Island, Nova Scotia, New Brunswick and Quebec land values remain stable.

"Farmland value information helps Canadian producers make strategic business decisions and experience greater success," says André Tétreault, FCC Vice-President, Credit Risk. "With this information, producers make informed decisions about purchasing or selling land."

FCC researches and publicizes changes in land values across Canada twice a year. The complete Farmland Values Report, including a 10-year trend for each province, is available on the FCC website at www.fcc-fac.ca by clicking on Products & Services/Property.

Percentage Change in Farmland Values		
Provinces	1st half of 2005	2nd half of 2005
B.C.	6.5%	10%
Alta.	3.2%	2.8%
Sask.	0.8%	0.5%
Man.	1.6%	0.2%
Ont.	1.8%	3.8%
Que.	0.4%	No change
N.B.	(0.3)%	No change
P.E.I.	No change	No change
N.S.	0.4%	No change
N.L.	No change	3.0%
Canada	1.6%	1.5%

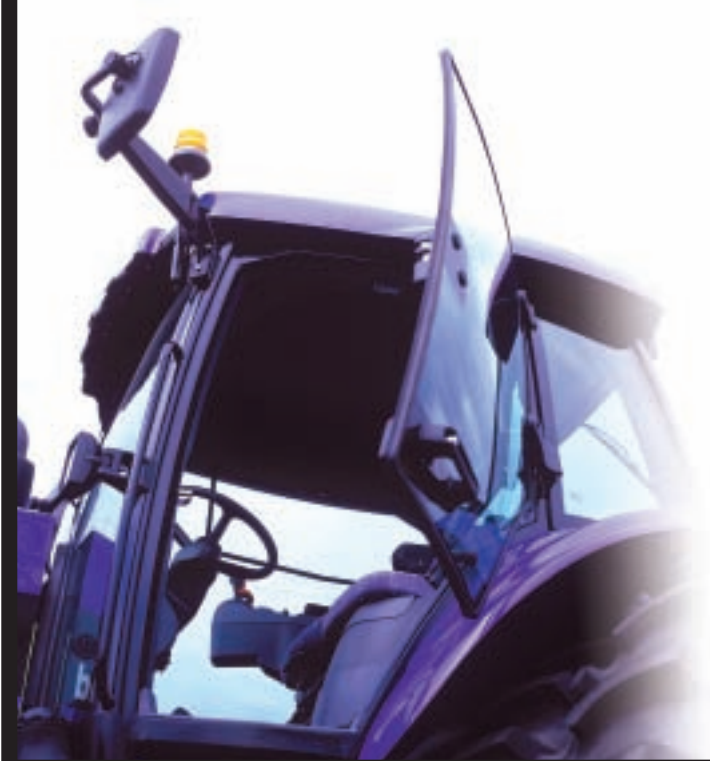
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