

Next Generation of Agriculture and Agri-Food Policy

Renewal: Capturing Opportunities
Through Skills and Knowledge
A Discussion Paper



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The Next Generation of Agriculture and Agri-Food Policy – A Federal, Provincial, and Territorial Initiative

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Renewal: Capturing Opportunities Through Skills and Knowledge A Discussion Paper

1. Introduction

This paper is one of a series of consultation documents designed to stimulate a dialogue amongst all stakeholders about how governments and others can work together to ensure a competitive and profitable Canadian agriculture and agri-food sector that provides safe, innovative and high quality products and services.

There are five thematic papers, covering the topics of: innovation and science; environment; food safety and quality; renewal; and market development and trade. These five areas largely reflect the structure of the existing Agricultural Policy Framework and it is hoped that stakeholders will also provide input on whether a different set of themes would work better in the future.

Additional consultation material includes:

- An overarching discussion paper meant to stimulate dialogue on the broad issues facing the sector and the overall direction of the agriculture and agri-food sector;
- A principles paper meant to stimulate dialogue on guidelines for developing the next generation of agriculture and agri-food policy;
- Consultation material on business risk management (BRM) programming; and
- A series of economic backgrounders.

Thank you for taking the time to review this paper. We welcome your input and ideas. Contact information is provided at the end of the paper.

2. Background

Market forces, both within Canada and internationally, are putting pressure on farms and other businesses throughout the agriculture and agri-food value chain. Increasing agricultural productivity and low-cost competition in global markets are intensifying the downward pressure on prices of major commodities. At the same time, the cost of farm inputs is rising. Canadian agriculture and agri-food enterprises have adapted to these market forces. Farms are expanding and consolidating. The net effect is less labour intensive and more capital intensive production.

Changing consumer preferences are presenting profitable opportunities for farms and value-added businesses. Producers are adjusting production mixes, exploring value-added production and innovative technologies. Some producers are pursuing opportunities in new markets such as organics and bio-fuels.

Many producers and others in the sector are prepared to make needed adjustments but require assistance to do so. The knowledge, skills, tools and advice required by producers and others to adapt varies greatly depending on their personal circumstances, stage of the farm lifecycle and business objectives. However, farmers with similar needs may have different views on the assistance they need.

New Entrants and Beginning Farmers

Based on the 2001 Census of Agriculture, the Canadian farm population is aging, similarly to the Canadian population, at a rate faster than ever before: 35% of farm operators are over age 55 with only 12% of producers under age 35. This trend is expected to continue. Facilitating the entry of beginning producers will have a significant impact on the long-term competitiveness and sustainability of Canadian agriculture.

There are a considerable number of new entrants to farming each year¹. These entrants face specific challenges in establishing operations, particularly related to financing and capital investment. Entering the farm business entails high capital costs. An initial investment of \$1,000,000 in a farm generally requires an existing net worth of over \$400,000. A start up farm business should not have a leverage ratio (debt/equity) of more than 2.0 unless there is sizable off-farm income within the family household. At entry costs of \$1,000,000 or more, intergenerational farm transfers of wealth are generally required to support debt financing.

Mid-Career

To remain profitable, mid-career producers often need to transform their operations through adaptation, innovation and/or capturing value-added opportunities.

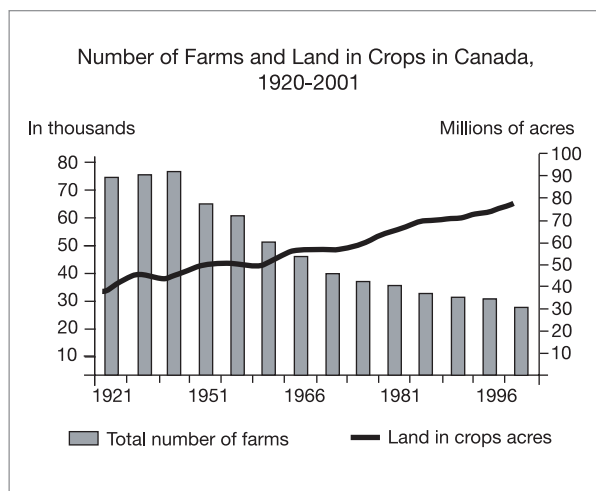
The complexity of farm management is increasing. This is especially true given the current era of rapid technological change. Continuous learning is required for producers to manage effectively. Indeed, there is a link between education and training, and higher farm profitability. This is true for farm operations, small and medium sized businesses (SMEs) working with producers up the value chain, and new entrants (individuals and SMEs) looking to invest in value-added agricultural opportunities.

Retirements and Exits

Agricultural production in Canada continues to face strong adjustment pressures despite the fact that farm output has increased and the land base used for crops has grown. The decline in farm numbers has slowed from the 1950s, 1960s and 1970s. However, individuals continue to enter and leave farming on an ongoing basis.

Vulnerable Operations

Financially vulnerable farms are found in all sizes of farms, including large operations. The definition of a financially vulnerable farm is one that has low farm net income, low net worth and few off-farm opportunities for the owner-operators. Families operating medium-sized farms may not provide employment for all adult family members. Furthermore, the income from smaller scale operations may be insufficient to invest in technology and knowledge development. Farm income and assets may also limit farm operators' eligibility for general employment and social programs, even when farming is not providing adequate income or employment.



¹ Over the period from 1996-2001, there were 56,510 entering farms according to the 1996 and 2001 Census of Agriculture from Statistics Canada. There are higher entry and exit rates for smaller farms.

Most farm families do not experience low income. Still, a key challenge to be addressed by agricultural policy involves the business-focused low income farm where a family is relying heavily on farm income but the farm is experiencing chronic low profitability. This results in low total family income and can place a family in a precarious position: low income constrains choices with respect to changing the operation or leaving production, but without change income is likely to remain low.

Given the nature of agriculture and the market realities described earlier, all decisions on the farm have some degree of uncertainty. Decision making can be improved when options for improved income can be clearly defined along with their associated risks, opportunities, uncertainties and mitigating strategies.

3. Current Policy and Programs

Governments support market-driven adaptation in the agricultural sector. Current Renewal programming provides individual producers with access to knowledge, tools and advice to make well-informed business decisions. Programming helps build the skills that producers require to increase their income through on and/or off-farm opportunities.

The current goals of Renewal policy and programming are to:

- Increase the profitability of producers;
- Enable producers to make choices about sources of income;
- Help producers meet market and consumer demands; and
- Help producers capture opportunities from science and innovation.

Renewal services are focused on four national programs. Three of these programs provide producers with access to business planning advice:

- Canadian Farm Business Advisory Services (CFBAS) for Farm Business Assessment (CFBAS-FBA);
- Canadian Farm Business Advisory Services (CFBAS) for Specialized Business Planning Services (CFBAS-SBPS);
- Planning and Assessment for Value-Added Enterprises (PAVE).

In addition, the Canadian Agricultural Skills Service (CASS) gives participants access to skills and knowledge development activities.

As of June 30, 2006, Renewal program uptake was as follows:

Program	Total Participants
CFBAS – FBA	6775
CFBAS – SBPS	684
PAVE	91
CASS	3393

Uptake is still increasing as some programming has only recently been established through FPT agreements. Based on client feedback, Agricultural Policy Framework (APF) Renewal programs are working well. For example, in a satisfaction survey completed by CFBAS-FBA participants in 2005, over 85% of the participants were satisfied or very satisfied with the program.

National Renewal initiatives also include support to other organizations that support change, adaptation and knowledge and skills development. Those organizations are the Canadian Farm Business Management Council, Canadian 4-H Council, Association of Canadian Community Colleges, Canadian Agricultural Safety Association, Canadian Young Producers Program and Canada's Outstanding Young Producers' Program.

Provincial and Territorial Renewal Initiatives

Provincial-territorial Renewal initiatives are complementary to federally-funded programs. Provincial-territorial initiatives focus on:

- New entrants;
 - Beginning farmer support and farm succession
- Business information;
 - Developing industry strategies
 - Extension services
 - Building private sector advisory capacity in cooperation with public sector initiatives and resources
- Alternative market opportunities;
 - Supporting the capture of opportunities
 - Extension services
- Human resource management;
 - Developing business management tools and information
 - Providing management training

Some provinces have taken the lead in delivering certain national Renewal activities. The basic assessment, action plan and business planning undertaken through federal programs is enhanced by provincial and territorial activities including advertising, referrals, path finding and in-depth information about opportunities in the industry.

Other Renewal Related Initiatives

Beyond Renewal programming, there are a range of programs and policies including those offered by Crown agencies. Some of these involve financial support such as those of Farm Credit Canada (FCC), the Agricultural Financial Services Corporation of Alberta, Financière agricole du Québec, Farm Improvement and Marketing Cooperative Loans Act, and the Advance Payments Program. The FCC and provincial governments and agencies have products specifically targeted to beginning producers. Another initiative is the Agriculture Human Resources Sector Council Steering Committee, a volunteer group of stakeholders formed to steer research on the adoption of a Sector Council for agriculture.

4. Considerations

Innovation and Skills

The complexity of farm management is increasing. Not surprisingly, there is a correlation between education and training and higher farm profitability. But the role of governments in fostering this linkage, especially as it relates to innovation, requires deliberation.

Any proposed policy and program options will need to be considered along with the role of other initiatives and programs such as the Advancing Canadian Agriculture and Agri-Food (ACAAF) program.

Facilitating Transitions and Adjustment

The issue of removing barriers to entry for beginning producers, and the retention of existing producers, is larger than the issue of access to capital. By facilitating profitable operations and access to emerging opportunities, the agricultural sector will be better able to renew production across the value chain and position itself to remain competitive in coming decades.

Improving farm business practices, linking into the value chain and diversifying farm family income can all help mitigate the risks faced by individual producers. Still, some producers want to reduce their income dependency on farming but face barriers in doing so. Their approach may involve seeking additional employment in another part of the value chain or leaving the sector entirely.

Other policies and programs affecting producers may also impact on business decisions. Social and economic legislation, programs and regulations (e.g. those related to the environment, food safety and quality, taxation and the welfare of individuals and families) have a major impact on the decisions of producers. As a result, they influence the structure of farms and the sector.

Income tax provisions in particular have an influence on the structure of the farm sector, impacting on the number and size of farms; production and marketing decisions; and investment in equipment, machinery, buildings and land. Producers can manage their income for tax purposes to stabilize their cash flow and provide funds for reinvestment in the farm.

At the same time, the tax system is providing benefits to a growing number of part-time producers who contribute minimally to the output of the sector but affect the price of farm assets, particularly land. Some of these part-time producers will eventually expand their operations to become full-time operators and many will operate profitable farm businesses. However, others may not have profitability as their primary goal, but can nonetheless benefit from some programs and policies intended to assist business-oriented farmers. This latter segment of the farm community may not need adjustment programming or direct subsidies to maintain their operations.

Regulations also impact how producers can manage change. Both taxation and social assistance have an effect on transition within the agricultural sector – i.e. the entry and exit of producers in and out of agriculture.

While other social and economic legislation, programs and regulations may have an impact on farm transition and adjustment, potential changes that fall outside the responsibility of agriculture ministers would need to be considered by the relevant departments.

5. Proposed Objectives and Policy Option

Proposed Policy Objectives

Moving forward from APF Renewal into the next generation of agriculture and agri-food policy, the following principles were used for developing policy and program objectives and options:

- Respect areas of jurisdiction for each level of government;
- Avoid duplication, overlap or replacement of provincial and territorial programs and delivery mechanisms;
- Respect Canada's domestic and international trade commitments.

It is also recognized that industry has the primary responsibility for, and is in the best position to adopt specific actions designed to increase profitability and manage risk.

Based on these principles, the following policy directions for the next generation of agriculture policy are proposed:

- Build on current Renewal results
- Facilitate natural market changes
- Assist clients in making well informed choices as they adapt
- Provide flexibility to meet the needs of clients in different circumstances, sectors and regions
- Create links to other next generation programs to benefit from synergies among the themes

Proposed Policy Options

Focused on skills and knowledge, the scope for next generation of policy may need to extend services beyond individual producers towards overall sector competitiveness. The overarching focus could be to help Canadian farmers, their organizations, and agri-value SMEs access and apply skills, knowledge and innovation to enhance profitability and increase income for the Canadian agriculture and agri-food industry by:

- Capturing new opportunities by providing access to knowledge, skills, tools and advice to producers, sectoral organizations and enterprises using new business models (including SMEs). This could include developing knowledge, skills (including resource management) and tools, facilitating business planning, and expanding services to agri-value SMEs working with producers (up the value chain) and sectoral organizations.
- Facilitating transition. This could include providing access to expert knowledge and skills, facilitating business planning, and engaging sectoral organizations and SMEs.
- Helping low income farm families increase their income. This could include developing on and/or off-farm skills and providing access to expert advice.

Proposed Program Objectives and Options

A number of specific program objectives are also proposed to enhance knowledge, skills and tools in the sector to exploit new opportunities:

- Support producers who want to increase their farm family income through farm and non-farm sources.
- Help capture new opportunities.
- Facilitate innovation by producers and agri-value SMEs.
- Assist agricultural sector/commodity groups in supporting innovation, diversification and transition activities within their industry.
- Help sectors to identify and address work force issues.

To achieve these objectives, the next generation of programming would need to address the differing needs of farms, agri-value SMEs and sectoral organizations. The increase in scope from current Renewal programs to the next generation is illustrated below.

	Farms	Agri-value SMEs	Agricultural Sector/Commodity Groups
Capturing new opportunities by providing knowledge, skills, tools and advice	✓	✓	✓
Facilitating transition	✓	✓	✓
Helping low income farm families increase their income	✓		

Current National Programs
 Next Generation

Clientele

Farms: All individuals and families operating farm businesses, individuals entering agriculture or who want to transition out.

Agricultural Sector/Commodity Groups: Associations/boards, Farm groups, Group of farms with similar characteristics/needs.

Agri-Value SMEs: Small and medium size value-added businesses, Individuals and SMEs planning to invest in agricultural value-added opportunities, Marketing agencies/business/board.

In farming, unlike most other businesses, work and social well-being are tied together. Most farm families live where they work. This makes exit more difficult and socially disruptive. A potential role for government is to assist individuals in deciding whether to exit or to continue farming (with or without off-farm employment), through programs that ease adjustments and decrease vulnerability.

6. Questions for Discussion

There are several issues requiring further discussion and analysis, including:

1. What role should the next generation of policy play in supporting transition in the agricultural sector? (i.e. entering/exiting agriculture, increasing activity up the value chain, diversifying to another commodity, etc)
2. Should the existing Renewal policy be expanded beyond producers to agri-value SMEs working with producers and sectoral organizations?
 - How should a policy enhancing skills and knowledge work with agri-value SMEs?
 - How should a policy enhancing skills and knowledge work at an organizational or sectoral level?
3. How can policy focused on skills and knowledge play a more effective role in supporting innovation and exploiting new opportunities (e.g. skills, investments, market intelligence)?
4. How can policy focused on skills and knowledge continue building a strong, competitive and innovative Canadian agricultural sector and effectively support increased industry self reliance?
5. How can policy focused on skills and knowledge help sectors deal with work force issues?
6. Are there regulatory impediments to exploiting new opportunities?
7. What should the top priorities be?

ADDING YOUR VOICE TO THE DISCUSSION

Federal, provincial and territorial governments look forward to hearing from a wide variety of individuals and organizations, and working together to develop a solid policy framework that supports a prosperous agriculture and agri-food sector. We encourage you to add your voice to this discussion, beginning in January 2007. For more information on this process:

- Visit our website at
<http://www.agr.gc.ca/nextgen>
- Call 1 800 O-Canada (1 800 622-6232)
TTY: 1 800 926-9105
- Contact any federal, provincial, or territorial agriculture office

