

A NEW GENERATION OF FINANCIAL SUPPORT PROGRAMS TO AGRICULTURE

HIGHLIGHTS

Québec's major agricultural policies were created in the late 1960s and the 1970s in the tumult of the Quiet Revolution. They have served agriculture well, but must now be revised to reflect the new reality of a plural, northern, entrepreneurial and multifunctional agriculture.

Of these policies, the Farm Income Stabilization Insurance (ASRA) program affects the sector's evolution the most, and by far requires the biggest portion of the agriculture budget.

A MAJOR REFORM NEEDED

ASRA strayed from its initial objectives by being used for a variety of purposes not outlined in the program and abandoning the reference model profitability objective.

In addition, the budgets for this program are growing every year and are even insufficient. Yet Québec earmarks more resources to support its agriculture than any other society in North America.

Risk management in farm cash receipts*, average from 2002 to 2005

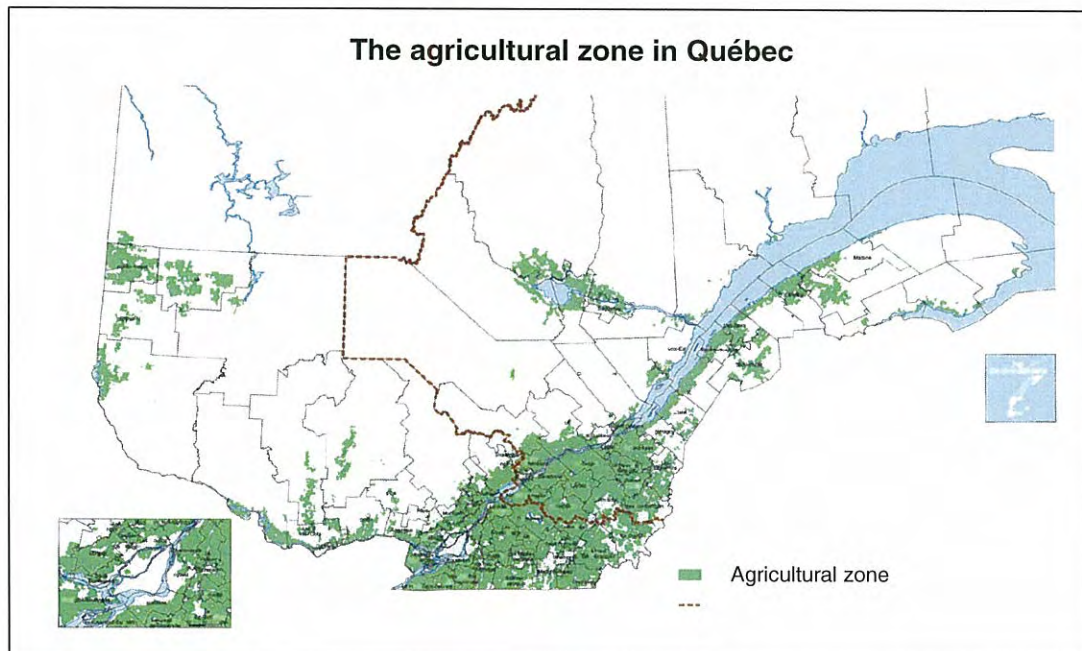
Indicators	United States	Québec
Farm cash receipts (FCR)	\$246,271M US	\$3,702M CA
Risk management (RM)	\$16,348M US	\$571M CA
RM/FCR	7%	15%

*The farm cash receipts do not include the FCRs from enterprises under supply management.

Sources: AAFC, OECD, Statistics Canada, USDA.

AGRICULTURE MUST BE SUPPORTED DIFFERENTLY

Because our agriculture is in a northern climate and is subjected to sometimes difficult conditions, there is no doubt about the necessity to amply support it. This is so important given the globalization of our economy and competitors from different spheres. In addition, agriculture is an essential part of the economic and social dynamic in many regions.



Source: CPTAQ, 2005

However, it must be supported differently.

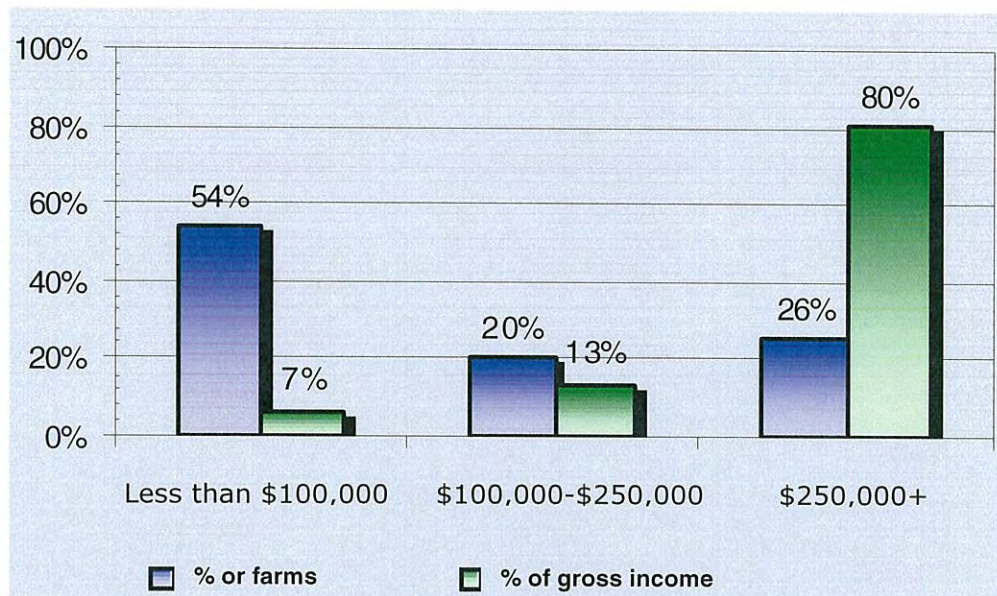
Because ASRA strayed from its initial objectives by:

- how the program was used; and,
- ineffective management in developing reference models.

Because needs have changed:

- Income parity has been considerably reached.
- Company profiles have diversified and polarized.
- Agriculture is becoming increasingly diversified.
- Society is calling for sustainable agricultural practices.

Farm sizes and gross income, Québec (2006)



Because ASRA has led to perverse effects, such as:

- concealing market signals;
- imposing sometimes inappropriate choices;
- neglecting risk management;
- leading to excessive debt;
- not stimulating improvement sufficiently;
- being monopolized by other sectors; and,
- highlighting regional differences.

Because the current and expected costs of this program lead to a dead end.

Because ASRA is not preparing the future.

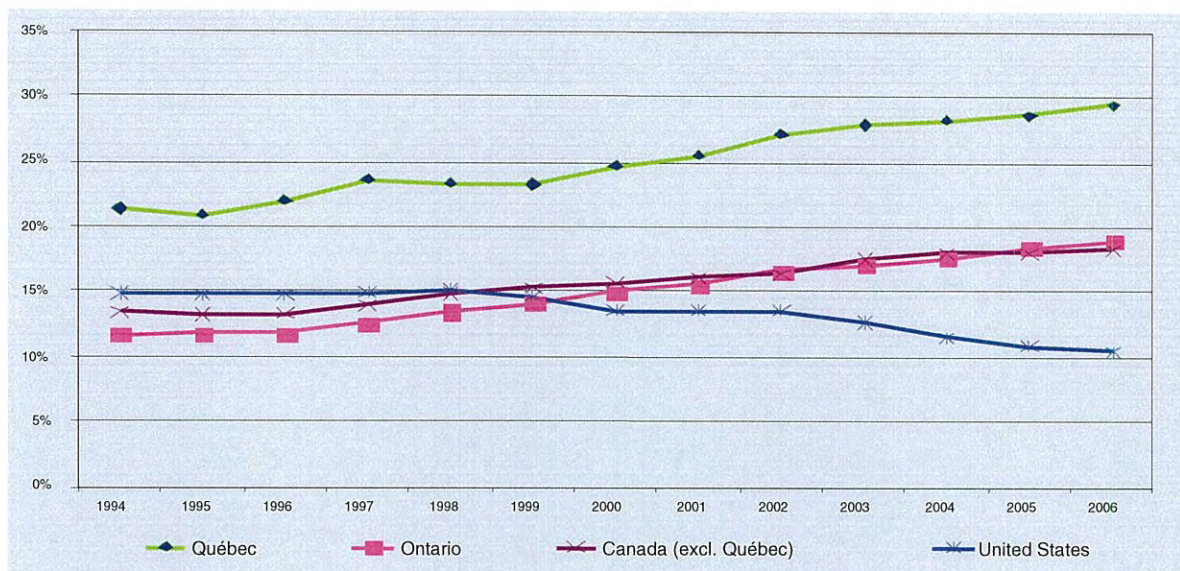
Because ASRA is likely to be challenged internationally.

INDEBTEDNESS LIMITS ADAPTABILITY

By concealing signals from the market, ASRA gradually led agriculture into a false sense of security, creating a context that favoured indebtedness.

In fact, Québec's agriculture is much more in debt than the agriculture of other production zones in North America. A high percentage of our farms are thus fragile and highly dependent on support payments.

Evolution of the indebtedness of Québec, Ontario, Canada (excluding Québec) and the United States (1994-2006)



Sources: Statistics Canada, *Farm Financial Survey*; USDA, *Farm Business Balance Sheet*.

Any changes to the funding method must take this reality into account and be made gradually and carefully.

AN INEVITABLE TRANSITION PERIOD

The report recommends that the transition to a new generation take place gradually over a six-year period. This transition would be four-fold :

1. Gradual tightening of the ASRA criteria to come back into line with the original objectives;
2. More technical support and management resources;
3. Financial aid geared toward the adaptation and transition;
4. Funding for regional initiatives.

Note that for the budget, this transition period would require equivalent amounts as in the current budget (including off-budget advances), but would be used differently, by increasingly supporting structuring actions.

TOWARD A NEW GENERATION OF PROGRAMS

According to the report recommendations, the new generation of funding programs would come into full swing in 2015, even though some components would be launched in 2010.

The new generation of programs would include the following elements:

1. A first line of defence consisting of the national risk management program. This program is offered to all Canadian farmers and generally covers market variations.
2. A complementary self-directed risk management program (PARA) made up of a special bank account (similar to an RRSP) to which the Financière agricole du Québec makes an annual contribution based on the overall agricultural income of the operation. Deposits are not taxable, but withdrawals are.
3. Multifunctional agriculture contracts (MAC) for small agricultural operations in disadvantaged regions. This is an annual lump-sum payment subject to specific conditions.

For example:

- land and watercourse maintenance;
- limited animal density;
- diversification project;
- certified organic production.

CONCLUSION

- This report and its recommendations are the result of:
 - more than 50 meetings involving roughly 600 people;
 - document consultation;
 - two special studies; and,
 - 38 years of personal experience.
- Farming enterprises have become very fragile over the past 30 years.
- Indebtedness, which has become critical, is the primary indicator.
- Québec's agriculture must have significant but improved support.
- A new generation of programs must offer all enterprises a safety net and encourage producers/entrepreneurs to make the best choices based on their reality.
- Due to this (real) fragility, we must be patient, act carefully and individually support the enterprises most at risk during this transition to a self-administered program.
- This change is vital to save Québec's agriculture.

- The success of this change depends on the active involvement of all parties (State, producers, producer representatives, stakeholders, bankers).