

**GRAIN GROWERS
OF CANADA**



**LES PRODUCTEURS
DE GRAINS DU CANADA**

Brief to:
Minister of Finance
and
The House of Commons
Standing Committee on Finance
Fall 2010
Pre-Budget Consultation

Grain Growers of Canada

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GRAIN GROWERS OF CANADA BRIEF ON PRE-BUDGET CONSULTATION

EXECUTIVE SUMMARY

The Grain Growers of Canada represent the interests of 80,000 Canadian grain, pulse and oilseed producers. Our driving principle, developed by farmers, is to pursue a grower-driven, competitive agricultural trading environment based on comparative advantage and open markets. We believe strongly that government does not owe farmers a living, but deserve a policy environment that will allow farmers to make a living.

To pursue this aim, we have identified two key areas of needed government action in the next budget and a number of couple smaller initiatives for consideration. Our aim is to ensure a competitive advantage for our farmers in the open market through effective policy and innovation:

- 1) **Public Research** – Federal government contributions to Agriculture and Agriculture Canada’s (AAFC) research branch are only 60% of the 1994 inflation adjusted number, and we have far fewer plant scientists and breeders than we once did. There is a significant need for increased investment in research branch expenditures and a succession plan to replace aging research scientists
- 2) **Certified Seed Tax Incentive** – One of the barriers to securing reasonable levels of private investment in cereal research is the habit of farmers to save their seed on a yearly basis, instead of buying new varieties of certified seed. This leaves little incentive for the private sector to advance research into cereal seeds without the return on investment. A tax credit to encourage farmers to buy new certified seed annually will be a good starting point to encourage private investment in cereals
- 3) **Capital Cost Allowance Adjustments** – There are a couple areas on our farms where an adjustment in capital cost allowances would provide a direct stimulus in jobs, improve farm viability and also sustainability.
- 4) **Capital Gains Adjustment** – This can be an excellent tool to help ensure young farmers who are taking over family farms can assume assets at a reasonable price.

PUBLIC RESEARCH

Public research is vital to the long-term success of Canadian farmers. However, real dollar investments in public agricultural research have declined. To address this concern, we specifically request the Government of Canada to:

- Put forward a renewed focus on public research in agriculture
- Double the A-Based research budget in AAFC to total \$560 million, and
- Develop a succession plan to replace retiring scientists

Federal government contributions to AAFC's research branch have been relatively stagnant for the last 10 years with no increases for inflation, and the number of full time employees has been continually decreasing. This has begun to cripple our agricultural industry and will continue to do so at an accelerated rate. In 1994 there was \$340 million invested in A-base research, which in 2009 dollars equates to \$458 million. The 280 million allocated to A-base research is not enough to maintain our research infrastructure to keep us competitive.

Private research, while useful in its own right, is not enough. There is no clear return on investment in cereals or on basic agronomic research on crops across the board. By 2012, 95% of private sector research will be in three crops: canola, corn and soybeans, with only 2% directed to wheat and similar small amounts for other cereals, pulses and forages. The public sector has a role.

The government has signalled a desire to facilitate public and private cooperation in research for value-added products in science clusters or DIAP. Additionally, dollars have been allocated to combat new threats to Canadian crops such as Ug99 stem rust. This funding, however, does not address our crumbling agricultural research from the maintenance of research stations to the replacement of retiring researchers. As Canada falls behind other nations in public research in agriculture, our farmers lose their edge in the marketplace.

This issue unites all of our farmer members across the country.

CERTIFIED SEED TAX INCENTIVE

As mentioned in the previous section on public research, there is a lack of private sector investment in cereal research. This stems from the tendency of farmers to save cereal seed to save on short-term costs, and not purchase it annually. Only 18% of all seed planted to wheat is certified, and only 30% of seed in Canada is certified. Essentially, 30% of farmers carry the research costs that benefit everyone. Without farmers buying seed on a regular basis, there is no incentive to invest dollars in cereal research to develop new varieties.

We believe the government should implement a broad-based tax incentive for farmers that buy certified seed. One proposal, a 155% credit on the cost of buying certified seed as an expense on the income tax return of farmers.

This proposal would cost the government 89.5 million if amount of certified seed increases from 30%-50% and 179 million if Canada reaches a full 100% certified seed.

The George Morris Centre estimates that if Canada reaches 100% certified seed use, the tax credit will:

- Increase farm income over \$170 million from the 8 most recently introduced varieties alone
- Generate an additional \$60 million in tax revenue from the 8 most recently introduced varieties
- Return to the economy would be \$600 million

These economic stimulus benefits are in addition to aiding long-term competitiveness by creating the incentive necessary to bring private and private-public investments in research. This does not replace public research funding, but will help ease pressure on the public sector research infrastructure.

CAPITAL COST ALLOWANCE

The strategic use of depreciation rates can spur new investment on our farms in a couple targeted areas;

1. On farm fertilizer storage. Prices of fertilizer rise and fall, especially in the off-season and we often see opportunities to buy at lower prices. However, fertilizer requires special storage bins, and cannot be put into regular grain bins. In addition to the economic activity created by manufacturing bins, farmers will save on input costs.
2. Upgrading of farm machinery. New technologies are able to help guide tractors, fertilizer applicators and sprayers with incredible precision. This not only reduces the costs of inputs and fuel from unnecessary overlaps, it helps farmers to be good stewards of the environment by reducing application errors of fertilizers or weed control products.
3. Improving on farm grain storage. In the last couple years we have seen greatly increased testing in cereals, pulses and oilseeds for trace amounts of mycotoxins. Some of these grow when grain is not stored properly and farmers need to increase the quality of their on-farm storage and aeration systems to help ensure their harvested grain remains in top condition and is healthy for Canadian consumers.

All of the above not only help Canadian farmers, but they also create economic growth through manufacturing, installation and on-going servicing.

LIFETIME CAPITAL GAINS EXEMPTION – FARM ASSETS

The current exemption on the sale of farm assets is \$750,000. In the latest Ag Census the average age of Canadian farmers is 52, meaning many farmers will be retiring over the next few years. For many farmers, most of their retirement savings is in their farm equity. To facilitate the transfer of farm assets to the next generation, and to encourage young farmers to enter the business, we suggest that the limit be increased to \$1,000,000. Enabling retiring farmers or farm couples to retain more of their life savings helps them to pass on their farm to the next generation at a lower price, and would increase the rate of success for many young farmers.

CONCLUSION

The Grain Growers of Canada strongly believe that the advancement of agricultural research in Canada is critical to secure the prosperity of Canadian farmers for the future.

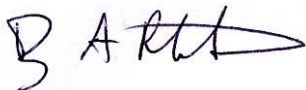
We believe our proposal to implement a certified seed investment tax credit will promote greater private sector involvement in cereal, pulse and forage research and increase our competitiveness.

Spurring greater investments in more environmentally friendly ways of farming and in safer grain storage will help increase consumer confidence in our domestic food system.

Improving the success rate of new entrants into farming will help ensure a viable industry well into the future.

These initiatives will create jobs and economic activity, as well as strengthen the competitiveness of Canadian farmer families. We urge you to give careful consideration to our thoughts and ideas and we look forward to the opportunity to share these priorities with the House of Commons Standing Committee on Finance this fall.

Respectfully submitted,



Doug Robertson

President

Grain Growers of Canada