Keystone Agricultural Producers
KAP

APAS

The State of Agriculture in the Prairies

WILD ROSE
AGRICULTURAL PRODUCERS

February 2005

Introduction

The Agricultural Producers Association of Saskatchewan (APAS), Keystone Agricultural Producers (KAP-MB) and Wild Rose Agricultural Producers (WRAP-AB) are the three farm policy organizations representing Prairie producers. Our membership consists of primary producers and our mandates focus on the provision of a sustainable environment for agriculture. We have many areas of common interest and work together to ensure our members are effectively represented in all aspects of agricultural policy.

It is on behalf of our membership, the well-being of agriculture and the survival of rural communities, that we bring forward our position on the current state of agriculture.

How the situation evolved

There are many factors that contributed to the situation we find our industry in today. As you can see, these factors are beyond our control. While the list is not all-inclusive, it is extensive and it does illustrate today's environment.

- Commodity prices have dropped dramatically while input costs, such as fertilizer and fuel cost, have risen considerably.
- Farmers that have traditionally stabilized their incomes through diversification have seen declines in virtually all commodity values in a similar time frame, which has neutralized any benefits of diversification.
- The increased cost of ocean freight is a huge issue for Prairie producers since we rely heavily on offshore export markets.
- There have been a number of difficult production years, i.e. drought, grasshoppers, and frost, compounded by the accumulation of currency value and reduced on-farm inventories.
- Europe is increasing its export enhancement programs, which result in the decrease of commodity values globally.
- Subsidies in the US protect producers from commodity value declines contributing to global overproduction, which starts a vicious circle.
- Margins have continued to decline over a number of years.
- For some producers, there are little or no CAIS reference margins to protect.
- Due to large crop volumes, some producers did not have an insurance claim; therefore producers did not have access to cash since there is no market accepting the damaged product. Crop Insurance programs have done what they are designed to do but the fact is that the product in the bin has little to no market value because of severe frost damage, and Crop Insurance cannot address that. Some of the products are nearly impossible to market at all because there is such an abundance of good quality feed in North America, with which it must compete. In some provinces, crop insurance coverage is limited by a number of consecutive crop yields being very poor. It is also limited by the value decline in commodity value. In addition to this, next year will see increased producer premiums and further yield reduction for crop insurance.
- Why this needs government attention - consolidation of these issues in financial institutions. Farmers, some in relatively good shape, are being 'demarketed' by their financial lenders.

- Cash flow requirements to begin the spring mega project are essential.
- Cash advances that should have been cleared up are still outstanding.
- Many of these cash advances are backed by product with insufficient value to repay that advance.
- Debt has grown, as has the vulnerability to any potential interest rate fluctuation. In the Prairie Provinces, the debt for 2003 was $21.9 billion. We expect that this number will dramatically increase in 2004.
- There is a revenue decline in agriculture and, at the same time, farm programs are reducing payments to producers. Both Crop Insurance and CAIS will provide less coverage to producers next year than they did this year. That is a fundamental problem with the program function. It should provide increased funding as margins decline.

What we need to move forward

Governments, both federal and provincial, have addressed previous disaster situations in Canada. This is an agriculture financial disaster. Despite the fact that total program payments by governments to producers in Manitoba, Saskatchewan and Alberta have helped, the degree of hurt continues to mount. Farm revenue has declined drastically while at the same time input costs for many basic farm activities have risen dramatically since 2002.

	Jan 2002	Jan 2005	% increase
Marked purple gasoline	44.07 cents/litre	62.02 cents/litre	+40.73
Diesel (Alta Prov. Allowance Deducted)	33.35 cents/litre	51.97 cents/litre	+55.83
Barbed wire 40kg	$44.35	$56.72	+27.89
82 – 0 – 0 Anhydrous (tonne)	$553.50	$676.35	+18.16
46 –0 – 0 Urea (tonne)	$342.05	$420.49	+22.93
100kg bag (Herbicide Tolerant Canola Certified Seed)	$760.56	$1021.22	+34.27

While there may be some variation of pricing between the three Prairie Provinces, the trend is consistent.

There is a financial disaster in the agricultural community and it continues to have a snowball effect which will impact rural communities, rural infrastructure and will reflect into urban centers as well. There is also a very large human cost as a result of the financial distress in the community. As this problem continues to grow, it is starting to have an impact on the confidence of financial institutions in our industry. Governments need to address this problem before it gets to the point of no return. This did not happen overnight and it will not be solved overnight. As farmers leave the industry in increasing numbers, there are more assets for sale than there is demand. As the market responds to that surplus, the value will further decline, causing more and more balance sheet value decline, which will cause more people to be in trouble with their lenders.

In reviewing information from Statistics Canada, we looked at the 1997 to 2001 realized net incomes less program payments for the three Prairie Provinces. Historically, we have based hurt on five year averaging and therefore we apply the same rules to our examples.

For the 5 year basis, the average of realized net incomes less program payments (Prairies only) equates to -$165 million. While we stayed on the plus side of things from 1997 to 1998, 1999 through to 2001 showed a change in the industry; which, in turn equates to the -$165 million average.

To compare the situation with the current state, we then took the three year averaging of 2002 to 2004 based on the realized net incomes less program payments. In the year 2002, we were on the plus side; however in 2003 and 2004 we dipped drastically. This caused our 3 year averaging for 2002 to 2004 to be on the negative side in excess of -$2.1 billion.

Farm Income Situation in the Prairie Provinces ($ in millions)

	Manitoba			**Saskatchewan**			**Alberta**			**Total**
Year	**RNI**	**Prog Pymt.**	**Diff. RNI/PP**	**RNI**	**Prog Pymt.**	**Diff. RNI/PP**	**RNI**	**Prog Pymt.**	**Diff. RNI/PP**	
1997	344	142	202	724	264	460	357	218	139	801
1998	189	92	97	330	235	95	146	235	-89	103
1999	152	216	-64	328	476	-148	-260	218	-478	-690
2000	209	287	-78	239	777	-538	336	708	-372	-988
2001	517	382	135	814	1020	-206	-549	819	10	-61
									Total	-835
									5 Year Average	-167
	Manitoba			**Saskatchewan**			**Alberta**			**Total**
Year	**RNI**	**Prog Pymt.**	**Diff. RNI/PP**	**RNI**	**Prog Pymt.**	**Diff. RNI/PP**	**RNI**	**Prog Pymt.**	**Diff. RNI/PP**	
2002	537	219	318	769	1004	-235	971	1039	-68	-15
2003	34	308	-274	-390	1623	-2013	-549	1362	-1911	-4198
2004	212	462	-250	-166	1163	-1329	795	1419	-624	-2203
									Total	-6386
									3 Year Average	-2129
									5 Year Avg - 3 Year Avg	**-1962**

To put today's situation in perspective, we took the 5 year average and deducted our 3 year average; this approach indicates that Prairie agriculture realized an average net income loss of $1.96 billion from the marketplace for each of the years 2002, 2003, and 2004. Government payments averaging $2.866 billion over those three same years helped provide a meager positive average income of $737 million in the Prairies. This $737 million equates to an average income per farm of only $6,700 for each year, assuming that there are 110,000 operating farms sharing this income. An income of $6,700 for three years in a row is nowhere near an acceptable reward to Canadian farmers, considering the expertise, amount of work, financial risk, and contribution that these farmers made to Canada's GDP in each of the years we have assessed in the table above. The farm debt load has risen dramatically over the past few years and, at year end 2003, amounts to $22.0 billion; at an average interest rate of 7%, this debt requires $1.54 billion to service, and we are confident that the debt load of 2004 is substantially higher than 2003. Servicing the debt alone will consume more than two times the realized net income for the last three years. Finally, we are forecasting an even more financially challenging 2005 due to the factors itemized in this brief. This illustrates the drastic downward spiral that the industry is facing.

We would like to reiterate that we have focused on the Prairie Provinces only and the losses are drastic. In looking at short term measures we need a quick fix and we need it now. In looking at the 2005 projections for some of the provinces, especially Manitoba and Saskatchewan, there is again a drastic decline in realized net income. As well, the program payments decline along with the RNI, which means that producers can neither depend on the market nor the programs available. Even though Alberta is projecting better incomes, there are certainly some sectors that will not be the beneficiaries of these increased incomes.

The situation we find our industry in did not happen overnight, it was a slow spiral and while it needs some short term measures immediately, it also needs long term solutions. We are committed to working in partnership with governments to find those solutions and bring sustainability back to our industry. However, this being said the problem needs to be addressed now. While we know that we need long term solutions, we cannot wait and watch our industry and rural communities become obsolete.

Conclusion

Agricultural operations in the prairies are in crisis mode. A combination of economic disasters has created the “perfect storm”. Certainly, producers are doing what they can to weather this storm, but it is obvious that they can do little more while governments need to do much more.

Doing nothing is not an option. As we move forward we are facing loss of equity and loss of resources. If we let this situation continue, our industry will face a struggle to rebuild our businesses. Our hope is to get our return from the market but currently this is not a reality.

KAP, APAS, and WRAP strongly urge that all levels of government address this crisis with vigor and commitment. Additional funding is necessary. **In the Prairies alone, there is an immediate need for an additional $2.3 billion over and above the average of the past three years of government program funding.** Working in combination with existing programs and other new initiatives, will help mitigate some of the economic disaster situations facing producers in the agricultural sector.

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