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TUESDAY, OCTOBER 19, 2010

Flexible credit lenders needed for agriculture's prosperity

With large changes in agriculture's structure underway, farm lenders should be working together

BY WENDY HOLM

Ontario Farmer

A fight is brewing between Farm Credit Canada and Canada's banks. Disappointingly, Canada's credit unions have chimed in. Their beef? Unfair competition is driving up land prices and over-capitalizing the sector, creating a bubble that will break when interest rates rise.

A little sanity here please.

Farm Credit Canada is our most important farm lender. With \$19.7 billion in funds under administration and 17 consecutive years of portfolio growth, they hold a twenty seven per cent share of Canadian farm debt. Twenty-four per cent of loans are to the dairy sector, 25 per cent to crops, and nine per cent each to hogs, beef and feathers. According to Rémi Lemoine,



Large investors are accumulating more land around the world hence the need for lenders who focus on local farmers

growth, they hold a twenty seven per cent share of Canadian farm debt. Twenty-four per cent of loans are to the dairy sector, 25 per cent to crops, and nine per cent each to hogs, beef and feathers. According to Rémi Lemoine, Chief Operating Officer of FCC, 90.5 per cent of their funding goes to primary producers.

By the middle of this century, the world population is expected to climb to nine billion (from 6.9 billion today); a billion more people by 2025. For nine out of the past 10 years, the world has consumed more than it produced. Grain reserves, at 111 days in 2000, have been depleted to a mere 54 days today.

The World Bank predicts global demand for food will increase by 50 per cent by 2030 and that grain production alone will have to double in the next 40 years to produce the beef demanded by higher income consumers. (Already, China consumes four times more beef per capita than it did in the 1980s.)

Yet the arable land per person (.25 hectare) has dropped by half (from .5



Large investors are accumulating more land around the world hence the need for lenders who focus on local farmers

hectare) since the 1970s. The demand for bio-fuels has tripled at 77 million and is predicted to grow to 127 litres by 2017. We are consuming four per cent more water than we are replenishing.

Where is our food going to come from? To the large schools of investment capital sloshing around the global sea looking for safe profits, food is the new plastic. Their game plan? Control the commanding heights of the food system – our fertile farmland – and you control the future.

In their September 2010 study on the global farmland grab, the World Bank reports 45 million hectares of large-scale holdings changed hands in 2009 as compared with an average of four million hectares a year from 1998-

2008. And this is only the beginning.

GRAIN, a small non-profit organization that works to support a community-controlled and biodiversity-based food system, estimates there is \$100 billion in global capital funds targeted for the purchase of farmland; 50 million hectares have already been snapped up. Of the 120 global farmland funds, major players include the Optima Fund. Australia's MacQuarie Agricultural Fund (seven million acres now, headed for Brazil), Pharos Financial Group (Moscow, investing in Asia and Africa), Monaxion (China, 99,000 acre goal), and the Hancock Agricultural Investment Group.

Who is buying? In California, foreign investors from Spain, Switzerland,

China, Egypt and Iran now own 1.08 million acres of that state's prime farmland and are moving into the US Midwest, Texas, Mississippi, Idaho and the Dakotas.

Hundreds of millions of hectares of farmland in sub-Saharan Africa, Central and Latin America and Eastern Europe has been purchased by buyers from the Gulf States, China, Japan, South Korea and Western Europe.

Most recently, investors have trained their sights on two countries with good infrastructure, good government, good farmland and (relatively) low land prices: Canada and Australia.

Canadian fund players include

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Assiniboia Capital (managing 100,000 acres of Saskatchewan farmland; their holdings have tripled in two years), Agcapita Partners (with 60,000 acres and \$100 million under agricultural management), Walton International (boasting 36,000 acres of development-ready farmland surrounding Canada's cities) and Bonfield Financial/Sprott Resources, a First Nations/private sector partnership that plans to bring 200,000 acres under management in the next few years.

Hancock, owned by Toronto's Manulife Financial Corporation, manages 183,000 acres of US farmland and is looking north – they just purchased 1,100 acre cranberry farm in Quebec.

Inflated farmland values contribute to farm debt, which is already staggering. In 1970, for every dollar in their pocket at the end of the day, farmers carried \$3.40 in debt. In the 1980's, the debt to income ratio rose to \$7.42.

By the 1990's, farmers owed \$10.47 for every dollar earned.

In the first decade of the 21st century, this figure rose to a staggering \$23.25, a sevenfold increase over 1970 levels.

In two to three years, when interest rates rise, many carrying heavy debt loads will exit the sector. Left standing will be the foreign investors. Like the fiefdoms of 13th century Europe, these new "lords" will strike a reciprocal relationship with tenant farmers - offering protection (not from marauders but from bankruptcy) and land in exchange for labour and skills to produce food.

With global investment funds playing a larger role in the farm finance market, traditional lenders are being squeezed and banks and community credit unions, particularly those in the Prairies, are feeling the pinch.

In its Sept. 30, 2010 report *Farm Credit Canada: A Challenge to*

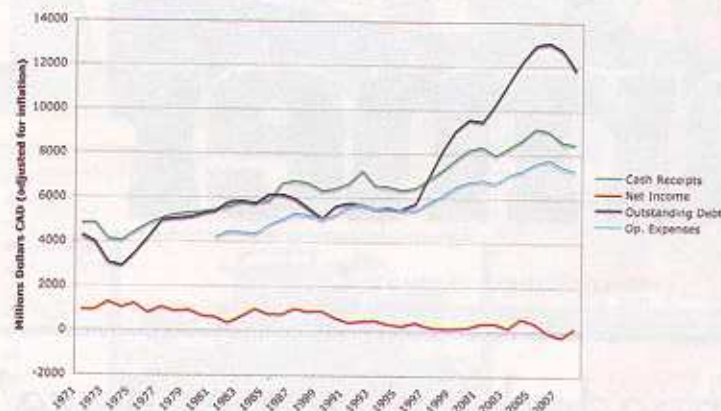
Ottawa to clip their wings.

Their argument – and that of the banks – is that FCC gets "cheap money" from Ottawa and has little regulatory oversight.

Understandable that the banks would take this position. Bad move for Canada's credit union system. Credit unions are financial cooperatives whose goal is to work with partners to provide overall better access and service to communities.

According to Lemoine, FCC lends at market rates and uses the spread over the fed's triple A-rated money to grow their capital pool to lend back to farmers. With respect to regulatory oversight, FCC is accountable to the Auditor

ONTARIO
FARM RECEIPTS, EXPENSES, NET INCOME AND DEBT, 1971 - 2008
(millions of dollars, adjusted for inflation by FPP1)



Source: Statistics Canada
Table 002-0024: Income of farm operators from farming operations, annual
Table 002-0054: Farm debt outstanding, annual
Table 002-0023: Farm product price index (FPP1) annual

CANADA
FARM RECEIPTS, EXPENSES, NET INCOME AND DEBT, 1971 - 2008
(millions of dollars, adjusted for inflation by FPP1)



Wendy Holm, The Holm Team, 2009

bag to support primary producers, who carry far more risk than private sector counterparts.

As a student in Saint Mary's University Masters of Management in Cooperatives and Credit Unions program, I tossed this issue to my classmates. As eloquently summed up by a colleague:

At my credit union, we currently don't do any agricultural lending to speak of... In part, because FCC is there: with funds, with competency, with the right set of risk metrics to know who can be successful and who cannot. We regularly refer would-be borrowers to FCC because, frankly, they do it better than we could or can. And if cheap funds are avail-

syndicate loans so we share both risk and learnings. We not only learn about new industries and new innovations, we learn and relearn the power of collaboration and co-operation. In fact, we weave a stronger social safety net, because we have set up new forms of relationships with each other.

Isn't this what cooperation is all about? There are structural changes occurring in Canada's farm sector. We need to work together to find ways to reduce the impact on farmers and food security, not attack each other in a turf war that no one can win.

—Wendy Holm is a Canadian agrologist and farm columnist. She is also a director of Canada's largest credit

\$10.47 for every dollar earned.

In the first decade of the 21st century, this figure rose to a staggering \$23.25, a sevenfold increase over 1970 levels. Increasingly, farmers are turning to contract arrangements with large agribusiness firms that require tied selling and buying in exchange for crop advances.

banks and community credit unions, particularly those in the Prairies, are feeling the pinch.

In its Sept. 30, 2010 report *Farm Credit Canada: A Challenge to the Canadian Credit Union System*, Credit Union Central of Canada argues FCC is unfairly competing for loans and joins Canada's banks in calling on

the spread over the fed's triple A-rated money to grow their capital pool to lend back to farmers. With respect to regulatory oversight, FCC is accountable to the Auditor General, a gold standard of oversight.

But more importantly, Farm Credit Canada is a critical tool in Canada's public policy kit-

and who cannot. We regularly refer would-be borrowers to FCC because, frankly, they do it better than we could or can. And if cheap funds are available for start-up or expansion farming in Canada, that's a good thing.

And, what's really exciting is when we can work together and

a turf war that no one can win.

—Wendy Holm is a Canadian agrologist and farm columnist. She is also a director of Canada's largest credit union and in her first semester at Saint Mary's University Masters of Management in Cooperatives and Credit Unions program.

U.S. worried about Chinese tariffs on farm goods

Especially of concern are tariffs to be placed on American poultry going into China

BY JIM ROMAHN
Ontario Farmer

American politicians continue to bash China over economic and trade issues.

The main complaint is that the Chinese currency is being held down by as much as 40 per cent below the level it would reach if it were allowed to float freely. That makes it easier for

Chinese to export and more expensive to import.

Compared with that, two politicians complaining about China's new chicken tariffs are minor.

Two Republican senators - Chuck Grassley from Iowa and Orrin Hatch from Utah - have asked the Obama administration to stop China's tariffs on U.S. poultry exports.

They issued a news release saying this is the most recent example of China's discriminatory treatment of U.S. products that violates that country's international trade obligations.

In a letter sent Tuesday to Agricul-

ture Secretary Tom Vilsack and U.S. Trade Representative Ron Kirk, Grassley and Hatch ask that the administration, beyond filing a case with the World Trade Organization, seek talks with Beijing and ask for the withdrawal of its antidumping and countervailing duties on U.S. poultry.

"It's unacceptable for the Chinese government to play politics with its trade policies, especially in applying its trade remedy laws," Grassley said in the news release.

"China's economy is too large, and the country's role in the global econ-

omy is too important, for China to disregard its responsibility to uphold the rules of international trade," he said.

Hatch said that "as the world's second-largest economy, China has an obligation to play by the same rules as everyone else. The Obama Administration needs to take action to prevent the Chinese from unfairly using protectionist measures to hurt American companies."

Despite these protests, the two senators have been among the most protectionist on trade issues with Canada, including hogs and pork and medical drugs.

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