MARCH / APRIL 2012

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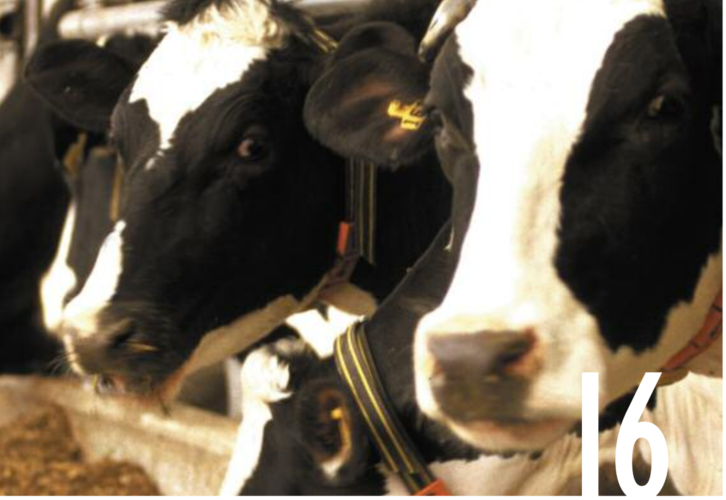
stories

AgriSuccess

Orchard manager Lisa Jenereaux loads apples at Nova Scotia's Spurr Bros. Farms



FEATURES

COLUMNS

MARCH / APRIL 2012

On the cover:
Spurr Brothers Farms near Kingston, N.S., has had success sharing management duties among family members.

Editor, Kevin Hursh
Associate editor, Allison Finnamore

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AgriSuccess has been honoured with industry and trade publication awards, including:

- Canadian Farm Writers' Federation award for periodicals; Gold 2008; Silver 2010, 2011; Bronze 2006, 2007, 2009
- Canadian Agricultural Marketing Association (CAMA) Awards; Excellence 2009, 2010; Merit 2006, 2007, 2011

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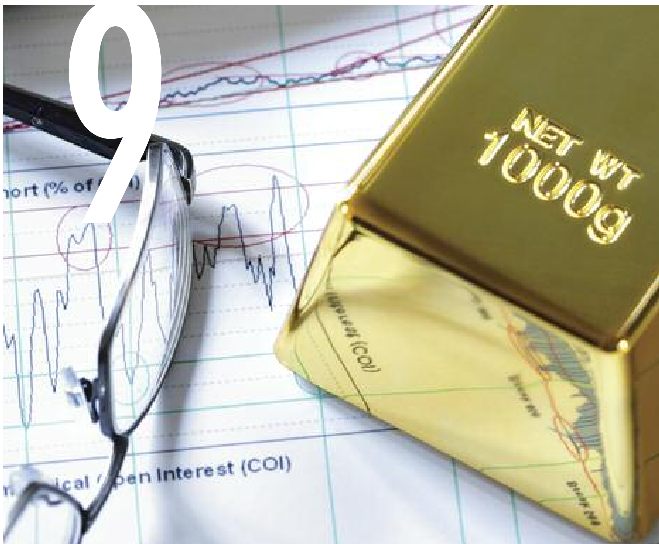
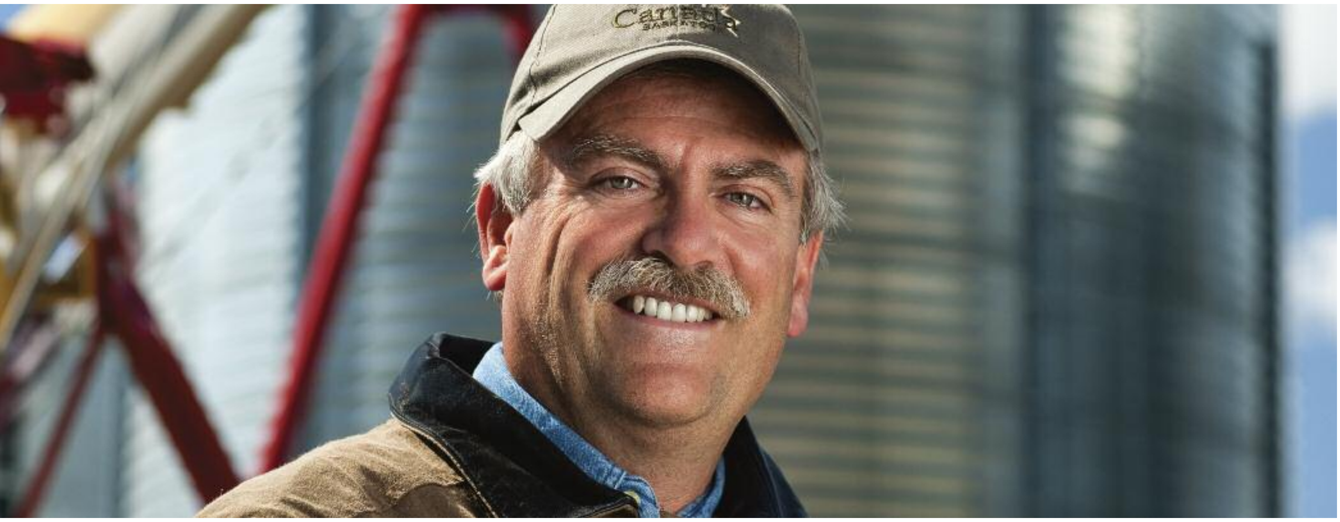


from the editor



Broad generalizations can get you into a lot of trouble, but in general the last few years in agriculture have been good. This isn't true in every sector, in every region or on every farm, but farm income overall has been strong.

A half-dozen years ago, grain producers were struggling to make ends meet and the beef sector was still under the cloud created by the BSE crisis. Challenges remain, but there has been a dramatic improvement in returns. Optimism abounds and more young people are interested in agriculture.

This isn't the easiest time to buy farmland, production quota or breeding stock. When prospects are good, demand pushes prices higher. Bred beef cows and arable land were both a lot cheaper when the outlook wasn't so rosy.

Will the good times continue? Will farmland prices continue to escalate? Analysts have opinions, but no one can say for sure.

You used to be able to put money into a secure interest-bearing investment and watch it grow. These days, with interest rates at historic lows, returns in that sort of investment are miniscule. If you account for inflation, the investment is actually shrinking.

So where should you invest? Should it be on the farm or off the farm? Can the past provide any clues as to how the future will unfold? If you're a dairy or poultry producer, how should you view your production quota asset?

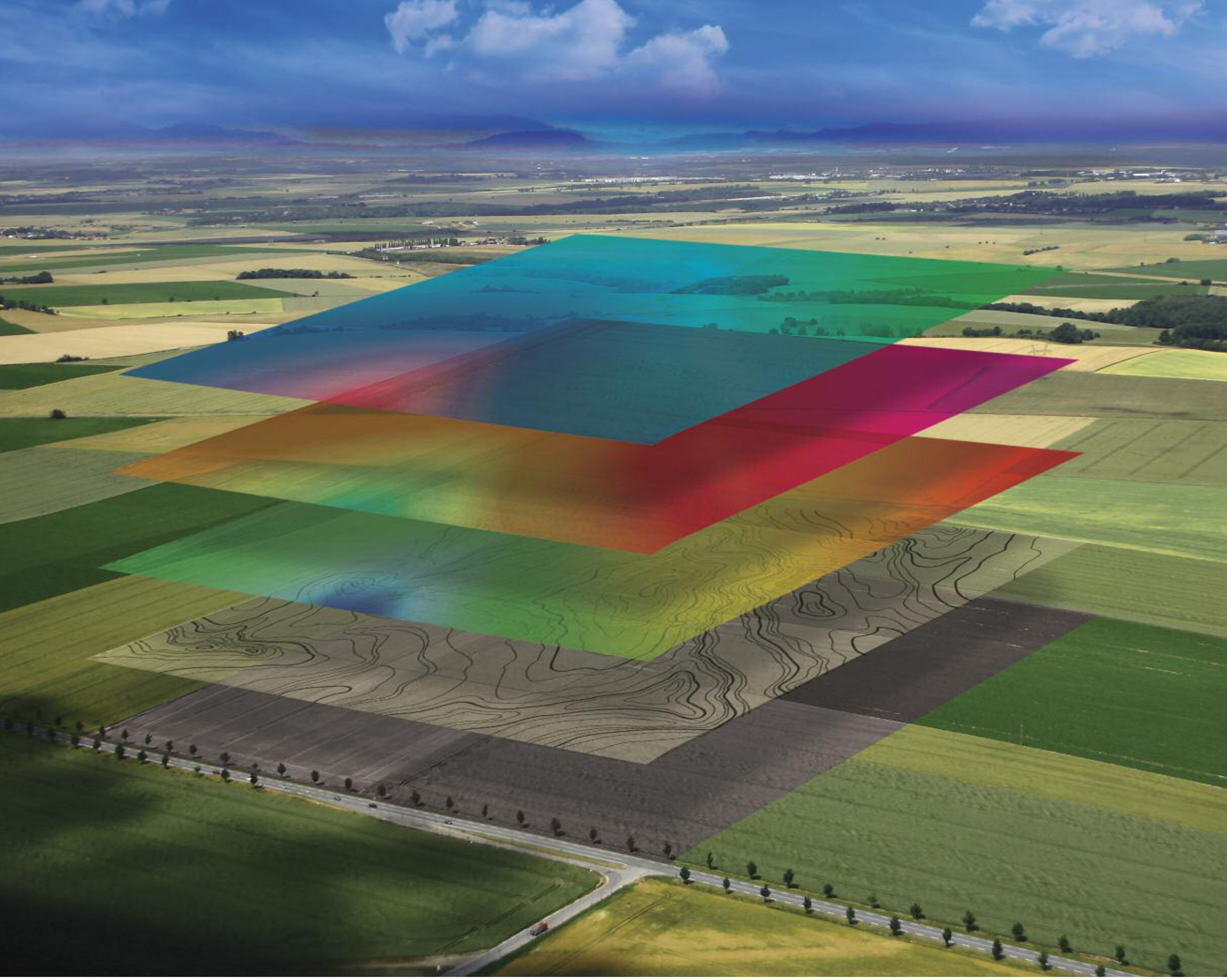
These are the sorts of questions we're tackling in this edition. For most of the questions there are no clear answers, but we hope the discussion helps you chart your financial path.

One thing is for sure. Wrestling with investment decisions is a good problem to have.

We really appreciate your feedback and story ideas. Just email kevin@hursh.ca.

One note to make for the January / February edition: in the young farmer profile featuring Logan and Avery Grant, I identified them as being from Chamberlain, Sask. They are more accurately identified as being from near Craik. Our apologies to the Grants for our error and any resulting confusion.

AgriSuccess is an FCC magazine dedicated to helping producers advance their management practices by providing practical information, real-life examples and innovative ideas.



Thoughtful choices
have intrinsic value

"They have more money than they know what to do with." You've probably heard someone say this. Maybe you've even said it yourself about someone who seems to be wealthy.

The vast majority of us have the opposite problem. Resources are limited, and we have to make decisions about how we spend and where we invest.

It's interesting how some of the things we buy go on to become even more valuable, while other items quickly drop in value.

If you bought a big, expensive flat screen television a few years ago, how much is it worth today? Prices for new televisions have plummeted and there's a pretty limited market for used product. Here's a case where waiting a while to purchase has resulted in cost savings.

If you buy a new pickup truck with all the bells and whistles, it'll set you back a bit. It's amazing how much the price escalates if you want a model with leather seats, a moon roof and all the other toys. It's also amazing how quickly the value drops in those first few years of ownership.

In contrast, some of the other pleasures in life may actually appreciate in value – a cottage at the lake or a restored antique tractor.

Other investments are priceless, such as investing in your children's education or even continuing education for yourself.

A vacation or a golf club membership may seem like money spent with little chance of return, but it's likely to make you happier and more productive. On the other hand, there are farmers with nice travel trailers that haven't been used in years. Just the sight of the unused trailer might be increasing your stress level.

We know we should invest for a rainy day, for retirement and for succession planning. We weigh the pros and cons of RRSPs versus TFSAs. We try to find some balance between investing in the farm and investing off the farm. Typically, there isn't enough money to do all the investing we'd like.

Other investments are priceless, such as investing in your children's education or even continuing education for yourself.

If this sounds like you, here's something to think about. You might consider owning your vehicle a bit longer before upgrading. Rather than a brand new, top-of-the-line pickup, a more basic model might suffice. Maybe you should sell that travel trailer and take a winter vacation instead.

Life is about choices and priorities. Determine what you want to achieve and how you want to live. Understanding your goals will help guide your choices.

BY **KEVIN HURSH** / *Kevin is a consulting agrologist and journalist based in Saskatoon, Sask. He also operates a grain farm near Cabri, Sask., growing a wide array of crops.*

What to do when the good times roll

While there were certainly regions and isolated pockets across Canada that had a difficult year in 2011, it would be fair to say that many others will be able to look back and say this was the year their ship finally came in. Profits were even stronger than expected, and now they're coping with the refreshingly different problem of what to do with them.

The first thing to do is to make sure to understand the tax implications that come with a sudden financial gain, says Terry Betker with Backswath Management in Winnipeg. That way, when it comes time to pay the taxman the money is available.

Paying down debt may be the next priority for producers, according to Jennifer Stevenson, business finance program lead for the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) in Guelph, Ont. It's a good time to assess the debt situation and make sure to be ready for the next opportunity. She advises producers start with the higher interest rate loans first and work down from there.

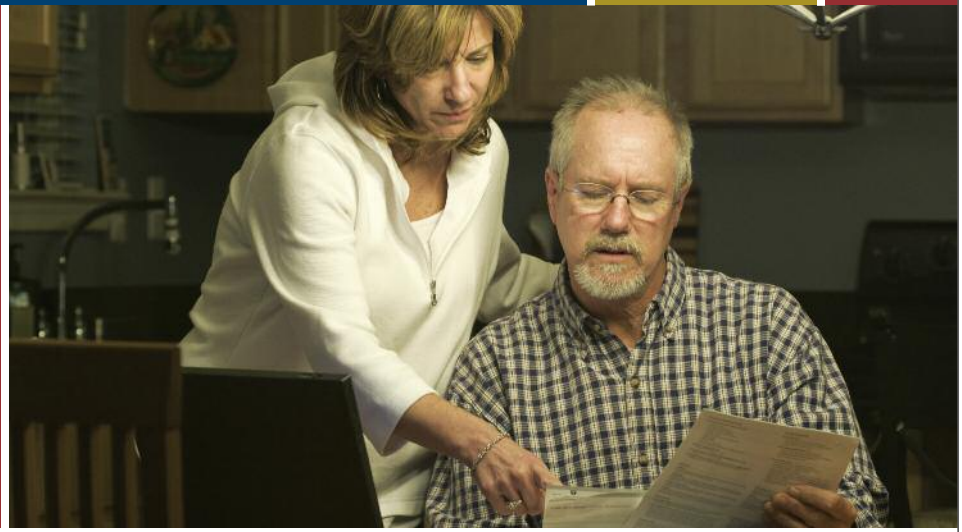
Having a stronger debt-to-equity ratio improves the operation's overall financial health, and gives the producer more flexibility in the future if equity has to be drawn down to weather a bad year.

"Another option is to use it to build up your working capital," Betker says. "For example, I have one client who had strong profits in 2008 and 2009, but had a complete crop failure in 2010. Fortunately, the good years had allowed them to set aside enough of their profits to build up a 150 per cent working capital reserve. They had enough money on hand at the start of 2010 to plant a crop and a half. So after their crop insurance and AgriStability payouts, they will have enough capital to operate for two years with no crop."

Strong profits also provide producers with an opportunity to re-invest in their operations, Betker adds. It's a good time to update machinery or infrastructure, but he says not to buy a new machine just because there's extra money around.

"Whatever you do, make sure you set aside something for fun," Betker says. "Don't be afraid to reward yourself. You work hard and you take on a lot of risks, so don't be afraid to enjoy some of the fruits of your labour when you have a good year."

Unexpected profits can help fund succession plans without pulling money from the budget.



Help with succession

Canada's farm population is aging; the oldest of the baby boom generation turned 65 in 2011. Many are working to turn over management and eventually ownership of their operations to their offspring. The trick is finding a way to do it without saddling the younger generation with an uncomfortable debt load while still allowing the parents to retire in comfort.

Betker says one way is to set aside some profits from the good years to ease the process.

"Pick a number and just set it aside to use for succession when you want to retire in five, 10 or 20 years," he says. "That way, the money is in place if you want to provide your non-farming children with an equitable share of your estate. You could also use it to directly fund your own retirement. Perhaps this could be the money you have set aside to buy your new house in town or your condo in Phoenix when you are ready to retire."

There are several big advantages for setting aside profits that exceed expectations and specifically earmarking them for succession, Betker explains. First, every dollar set aside in the succession fund is one dollar less that members of the younger generation will have to finance when they take over operations in the future. Second, in a dire emergency, succession funds can be converted into a liquid capital reserve fund to offset a really bad year.

Unexpected profits can help fund succession plans without pulling money from the budget.

A chance to diversify

Profits from a great year can also fund diversification projects or research into new markets, says OMAFRA's Stevenson. Right now, land and commodity prices are both high, so it's a good time to use cash flow from commodities or leverage operations to fund innovative products. Or even move the operation away from straight commodities.

"You could potentially invest in a joint venture with a processor to find ways to export your corn to an overseas market," Stevenson says. "Local farming ventures provide another option. Perhaps you could collaborate with a new farmer who has a good idea for marketing goats or less conventional vegetables to the local ethnic markets."

Many diversification projects cost a lot more to get up and running than producers think, Stevenson says. Too many people don't look into diversifying until their backs are against the wall, and that's the absolute last time to be doing it. That's why it's better to implement one from a strong financial position.

BY **LORNE McCLINTON** / *Lorne has worked in the communications field for the last 20 years as a journalist, photographer, scriptwriter and corporate writer. He divides his time between Quebec and his grain farm in Saskatchewan.*


SPURR BROS.

1


DAEWOO
5P
Spurr Bros.
POMMES de TERRE
Spurr Bros.
POTATOES

Division of duties helps this family operation

When you work with family, your co-workers know your strengths, your weaknesses and details about your personal life that typical colleagues would never know.

That's a perfect arrangement for Lisa Jenereaux, orchard manager at Spurr Brothers Farms in Kingston, N.S., about 40 kilometres west of Kentville. Lisa shares her days with her father Bill, her uncle Gordon and her cousin Katie. Together, they farm about 800 acres divided into potatoes, carrots, apples, onions, strawberries and other fruit and vegetable crops. They also operate a potato packing operation.

"Most of the time, it's really good," the 36-year-old says of working together. "We know what each others' strengths and weaknesses are. They know if there's someplace on the farm I need help. And I think as family, you're more forgiving of each other," Lisa notes, adding that family operations can be demanding.

Lisa started working on the farm full time when she was 26. Over the years, working with her father has helped nurture their relationship. She notes that when she was a child – the second oldest of six – her father was often busy in the evenings or on weekends.

"I love working with my dad. We've really bonded over the last 10 years. When I was a kid, he wasn't home much; he was working in the field. Now, we have this great connection. We're really good friends," she says.

She's watched a similar relationship develop between Katie and her father.

"Gordon has a lot of pride knowing that his daughter is working on the farm," Lisa says.

The family has encountered disagreements when working together, she admits, but since farm management has been divided into three distinct sections, there's clarity around who's in charge of what. Lisa looks after the orchards and small fruits. Katie runs the potato packing operation. Bill and Gordon look after the potatoes and other crops, and oversee all operations.

Decisions are made by the person responsible for a particular part of the operation, Lisa explains. "We talk about it, but we each pretty much have the final say. Then we just check to make sure it's cool with the others."

For major, perhaps more controversial decisions that involve large expenses, Lisa does her research, prepares and then presents her family with the facts. She recalls one instance when she attempted to talk her father and uncle into switching their equipment brand loyalty. She researched the model, features and horsepower of their existing brand and the new brand. Then she presented the facts – and showed them that switching tractors would mean significant savings.

"They got a little stuck in their ways, but I did my research and it just took a little more convincing," Lisa says.

She also led the move to bring migrant workers to the farm when she was unable to find local workers to help with harvest. "It got so bad I couldn't get my crop off," Lisa recalls.

"I look after the Jamaican workers," she explains, showing again the importance of having a clear distinction of who does what. Lisa looks after the day-to-day affairs like the bunkhouses and travel arrangements and any problems that may come up. “I had to convince my family that we needed to do this. Now, they can’t imagine the farm without the extra help. It’s enabled us to do so much more on the farm because we know the labour is there.”

Lisa recalls that it took a few years for her to be taken seriously in the family business, not only as an offspring coming on board, but also as a female. She had to earn the respect of her co-workers, both in her family and in the industry.

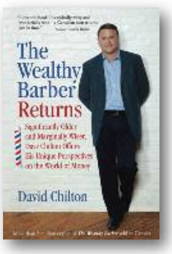
“When I first came to work on the farm – first of all, being a woman and also being so young – I had men who were working for me and it was kind of tricky to come in and be their boss. Dad and Gordon were very supportive of me from the beginning. That encouraged me to keep going.”

It’s taken time, but Lisa’s patience, hard work and commitment to the family farm has led to a rewarding career in agriculture. She’s proud of the work she does with her family at their farm, and appreciates the team spirit created by her co-workers.

BY **ALLISON FINNAMORE** / *Allison specializes in cultivating words. Based in New Brunswick, she is an agriculture and business communicator with nearly two decades of experience. She contributes to publications nationwide and works to help industry promote farming and rural living.*

PHOTOS / Previous page: 1 – Gordon and Bill Spurr, 2 – Katie Campbell and Lisa Jenereaux

Investment approaches for producers



Twenty years after his first best-selling book, *The Wealthy Barber*, David Chilton is back with a new release: *The Wealthy Barber Returns*.

A few years ago, your book is selling well and you make the decision to remove it from the shelf and then you turn around and write another book, *The Wealthy Barber Returns*. Why?

The two are totally unrelated by the way. I pulled the first book long before I thought about writing the second one. I felt the first book needed a fairly significant updating to take into account things like TFSAs (tax-free savings accounts) and ETFs (exchange traded funds) and I wasn't sure that I wanted to go back and rewrite it. There was something about retiring it when it was still doing well that was very appealing to me. I've never thought about changing my mind and even now with the second book, people are saying can you bring the first one back and I say no, I'm glad it's retired. I like the second book better myself. Obviously everyone has a different perspective, but I'm glad it's doing so well.

Right now, agriculture is a fairly solid place to invest. Some farmers find it tempting to plow profits back into the farm. From a financial planning perspective, is that typically a good idea?

You don't usually want to have all your money tied up in one asset. That's poor diversification, but by the same token you have to be realistic. The farm business takes a lot of capital, and when times are good it's a great opportunity to reinvest in anything from machinery to land. So it's easy for us non-farmers to sit back and say, "Hey, you've got to have a more diversified approach." But when you're the one running the farm, there are always capital needs. Return on investment can be relatively good if you know what you're doing. So it's hard to be critical, but in general, your point is a good one.

Overall, farmers are quite good with their money and don't tend to live beyond their means. They tend to buy homes they can afford. I've looked at a lot of farm financial plans through the years, and I'm quite impressed. In fact, the last chapter of *The Wealthy Barber Returns* is only two pages long and is my favourite. It's a story from about 20 years ago when a farmer came to see me and said, here's my financial plan, and he could tell me the whole thing in seven sentences. It's still one of the best financial plans I've ever seen. I think a lot of farmers intuitively use common sense measures quite well. They don't believe in get-rich-quick and for good reason: it doesn't work.

You talk a fair bit in both books about mutual funds. Has your opinion of that vehicle changed much in 20 years?

Yes. On two fronts. One, I think the fact that we can't pick future mutual fund winners is very much in evidence. The vast majority of actively managed money products have to outperform the averages to be winners. It's basic math. We can't all be above average. If you outperform, I have to underperform. We are going to have a zero sum game in terms of performance and when you throw the costs in, most of us are going to underperform. Can you buck the odds and pick the future winners? There is no indication that any of us can. So that part of my opinion has changed. That's why I think more people should use low-cost index-based products, a type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the S&P 500.

The other issue is Canadian costs for mutual funds. We can't afford to pay two and three per cent a year to have our money managed. Embedded in that cost is often an adviser, and if he or she is giving you good advice, that one per cent may be justified. However, if you are paying a combination of two and three per cent, especially in this market environment, it's hard to justify that. Interest rates are less than the inflation rate and mutual funds are struggling because markets are struggling. So two or three per cent is a lot.

DAVID CHILTON
Author of *The Wealthy Barber Returns*

Watch the full interview at **www.fcc.ca/agrisuccess032012.**

"Can you buck the odds and pick the future winners? There is no indication that any of us can. So that part of my opinion has changed. That's why I think more people should use low-cost index-based products."

Hindsight is 20/20

When it comes to off-farm investing, Brett Meinert of Shaunavon, Sask., has experienced both ends of the returns spectrum and everything in between. He has put money into projects that have cost him thousands of dollars, and he's backed ventures that have turned a profit faster than he could have ever imagined. To him, the good, the bad and the in-between are just part of the game.

"That's the risk of investing," he says. "If it was guaranteed, there wouldn't be any opportunities available."

Meinert was an early investor in a community-based hog barn organization in Saskatchewan.

"They created a template that amounted to a 600-sow farrow-to-finish hog operation," Meinert says, saying the model included plans to easily double the barn size. In addition to investing in each barn, they contracted to oversee construction, inventory, human resources, and other operational requirements for the life of the barn.

The goal of stimulating economic development in the area, confidence in the method of production and the reliability of the partners backing the project piqued Meinert's interest. He purchased several $5,000 shares in the barn nearest his home.

The venture started during the low part of the hog cycle, just as the markets were beginning to show improvement. Meinert, along with much of Canada's hog industry, expected the cycle to continue its upswing. While the barn he invested in was doing well, not all of the barns in the company were. Those were dragging down profits, and the hog cycle wasn't turning around as expected.

True to farmer form, he remained hopeful that hog prices would turn around and his profit would increase. It never happened.

"We didn't get into that place of earning a lot of money. It was just a little bit better than break even for a number of years, followed by a pretty nasty turn," he recalls.

At about the same time, Meinert found another investment opportunity in a grain terminal. Formed when the traditional small grain elevators that dotted the west were being phased out, this terminal was started by a group of local producers partnering with Cargill. Meinert was an early investor, following the lead of the original proponents. His $10,000 investment was a fraction of the funding the company required.

"The total share offering had to generate $4 million to build an elevator with construction costs of $8 million to $9 million," he recalls. Now, 20 years later, that investment has been one of the best Meinert ever made.

"Within 10 years of start up . . . all of our debts were paid off and we had expanded. Since then, we've done some other things – we're upgrading some of the front end, and the cost of that is almost the same as the original cost of construction," he says. "We've paid off all the debt in 10 years, plus all of the capital value shares have been paid out. We're into dividends rather than return of capital. It's incredible to have that sort of progress."

Comparing the two investments penny-by-penny is impossible. The different sectors and market conditions each have experienced in the last decade make the two ventures completely different ballgames.

"In some ways it was luck of the draw. We expected to move up from the trough of the hog cycle. We should have made a substantial amount of money before the next downturn, but we didn't," Meinert says. "And in the grain industry, maybe it was the power of the partner we had. Cargill is a very large corporation. They have stringent rules for how they go about investing, and very high expectations regarding management and operations."

When farmers – or any business owners – consider investment opportunities, there are two main elements they should keep in mind: tolerance to risk and investment objectives. That's according to David Clarke, an investment advisor with RBC Dominion Securities and a member of the Canadian Association of Farm Advisors.

"Most business owners prefer to take risks within their businesses, so they tend to be quite conservative with their non-business investments," he says, pointing out that goal-setting is equally important. "Some investors like investments that have growth potential; others prefer investments that pay regular distributions. Others want investments that are very liquid so that they can access funds on a moment's notice."

Whether investments are an opportunity to diversify, part of a long-term business plan, tax advantage or a chance to improve liquidity, they all have their place.

"Good business owners usually have a plan for the future – a three-year plan, five years, 10 years," Clarke says. "These usually include expansions like land purchases, equipment upgrades and barn or dryer upgrades and they require capital. A steady savings or investment program can help facilitate these plans."

He recommends venturing into investment opportunities once a financial review and financial plan are complete. Then, he says, start small and find your risk comfort level.

"It's not unlike building a new barn," he says. "You draw up the plans first, mull them over for a while, make some changes and then proceed to build the building. A proper investment portfolio is done along the exact same lines."

As new investors find their risk tolerance level, they may choose to venture into more risk-oriented ventures, he says. Or, they may choose to stay right where they are.

Interestingly, Clarke's advice to have a financial goal is the exact same advice Meinert gives to businesses seeking investor money. Where the terminal was on a path to profit, the hog operations were focused instead on the community.

"The hype around the hog investment was to create economic activity in our area. That's a neat goal, but I don't have money to put into that sort of a vague operation. What is required criteria is they make money," he says, adding that while profitability goals were present, they weren't the main focus.

And with the insight he's gained, that may be the one small change he would make if he could do it all over again.

"We didn't get into that place of earning a lot of money. It was just a little bit better than break even for a number of years, followed by a pretty nasty turn."

"I would have pushed, in the hog operation, for an emphasis on profit rather than economic development. In the grain terminal, I can't think of anything I would choose to change – other than investing more in the one that worked and less in the one that didn't," he says. Winning and losing are part of the investment risk, he points out.

"Those aren't the only two investments that I've ever made or lost money on. You do the best you can. Make the best decision you can with the information you have available."

BY ALLISON FINNAMORE

FEATURE

Farmland values rising

Farmland has been one of the hottest investments in Canada. According to FCC's Farmland Values Report, published in November 2011, the national average value of Canadian agricultural land rose by 7.4 per cent during the first half of 2011. While it appears that prices will continue to rise in Ontario, Quebec and on the Prairies, there are no guarantees; like any investment, past performance does not guarantee future returns.

"Whenever I'm asked where I think prices will go I always say the same thing," says Marleen van Ham, past president of the Ontario branch of the American Society of Farm Managers and Rural Appraisers in Tillsonburg, Ont. "I don't have a crystal ball; all I know is we've been saying for many years now that at some point this has to end, but we're not seeing it end. I honestly don't know how long prices are going to continue to rise."

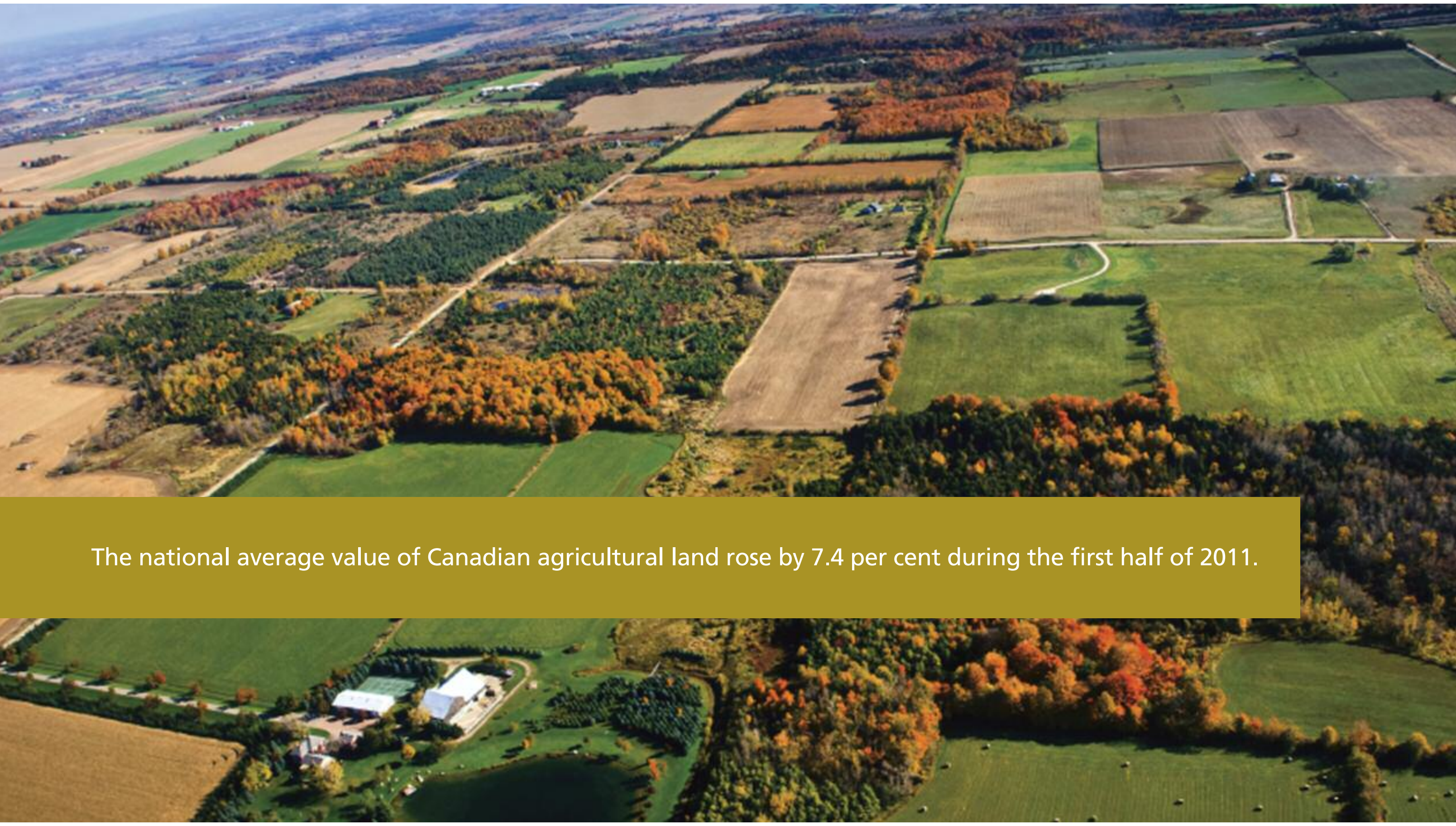
Low interest rates are contributing to this trend, van Ham says. However, there are a number of factors that have combined to create a perfect environment for rising land values. The robust agriculture economy is one example she cites. Grain and oilseed producers are feeling optimistic about their future following several years of good returns. This has created a lot of demand for land as more and more growers opt to expand their operations.

At the same time, extreme volatility in the stock market and low returns from guaranteed investments such as GICs and government bonds have created a pool of investors who want to buy farmland. Since land is a hard asset, it's considered to be a secure investment. The fact that land values have been steadily increasing by about seven per cent annually for the last five years makes it even more attractive.

"Agriculture is a really positive place to put your money right now," agrees Cathy Gale, Regina-based Manager of Valuations for Saskatchewan, Alberta and B.C. for Farm Credit Canada. "It hasn't been nearly as affected by the recession in the U.S. as other sectors of the economy, and farmers are really positive about the future. Our Vision Panel and Optimism surveys show that a large percentage of farmers feel things will be even better in five years than they are now. They are responding by encouraging their children to become involved in agriculture. That hasn't happened for quite a while."

These factors have created a situation where there is very strong demand for land, van Ham says. However, they also are affecting the supply of land being offered for sale. The combination of poor off-farm investment opportunities and rising land prices mean that most retiring farmers aren't keen to sell.

"The average age of people owning land is going up, up, up – but they have no incentive to sell," van Ham says. "Frankly, if I were them I wouldn't sell either. Normally you start to see real estate signs pop up along the



The national average value of Canadian agricultural land rose by 7.4 per cent during the first half of 2011.

secondary roads in Ontario after harvest. I would say there were virtually none out there in fall 2011."

"I get phone calls from farmers wondering if now is the time to sell," Gale says. "People are scared that something like what happened in the '80s, when land values collapsed, will happen again. Anything is possible, but land has been a positive place to be for investment for the last number of years and there does not seem to be any imminent sign that that's going to change."

Both van Ham and Gale agree that whether or not buying land is the appropriate investment right now very much depends on each farmer's individual situation. It all depends on your business goals and your ability to cash-flow your purchase. There is no single strategy that will be right for everyone.

"Agriculture hasn't been nearly as affected by the recession in the U.S. as other sectors of the economy."

"You've got to take a look at where you are in your life and your whole situation, and do what makes sense for you," Gale says. "Farmers call me to see whether or not this trend will continue and if it's a good idea to buy or sell land. I tell them that increasing farmland values is an indicator of the industry's strength and it's good news for producers who hold land as an asset."

BY LORNE McCLINTON

FEATURE

Dairy quota: a useful management tool

There's an old saying that you can't go home again. Matt Plett proved it wrong in 2007 by buying back the family dairy farm near Landmark, Man., that his father had sold 15 years earlier.

Plett and his wife Tanya used their savings to buy the farm. After renovating the vacant tie-stall barn, they bought cows and quota to satisfy their life-long dream of becoming dairy producers.

Obtaining quota was the key. To purchase 50 kilograms worth – the minimum considered necessary to be commercially viable – the Pletts needed roughly $1.25 million. Thanks to a sound business plan and a willing financial institution, they got it.

It was a lot of money for a young farm couple to borrow. But today, after adding another 17 kilograms at an even higher price, Plett, 32, says the cost of quota isn't necessarily prohibitive to entering the dairy business.

"If someone really has their mind set on it, I do believe it's still possible," he says.

Along with import controls and regulated prices, quota forms the foundation of Canada's supply-managed dairy and poultry industries. Allocated nationally (except for fluid milk) and distributed provincially, quota controls the amount of milk, eggs, chicken and turkey a farm may produce.

To either obtain or sell quota, producers go through quota exchanges administered by provincial marketing boards, using a bid-and-ask procedure to establish a clearing price for a successful transaction. Ever since exchanges originated in the 1990s, quota values have increased dramatically. Manitoba is no exception.

In February 1995, Manitoba's clearing price for one kilogram of butterfat (the standard unit for dairy quota) was $8,800. By 2009, the average price had nearly tripled to $25,774.94 a kilogram. In November 2011, it topped $31,000 a kilogram. (A kilogram of butterfat is roughly equivalent to one dairy cow.)

Spiraling prices occasionally lead to suggestions that farmers may be speculating in quota as well as using it. But David Wiens, Chair of the Dairy Farmers of Manitoba, says there's no indication that producers use quota as anything other than a farm management tool.

"From our perspective, we don't see any evidence of producers buying or selling quota based on speculation," says Wiens, who milks cows near Grunthal, Man. "What we see is that producers are either buying for expansion or reducing their herd size."

It's true that quota exchanges will see major transactions involving producers wanting to expand significantly and others trying to sell out completely. But Wiens says successful exchanges don't always involve big numbers. Sometimes they can be quite small.

Wiens says dairy farmers often buy or sell small amounts of quota to fine-tune their milk production. If cows temporarily underperform for some reason, producers may sell one or two kilograms. If production suddenly exceeds their quota base, they can buy small amounts of quota to bring things back into balance. Such back-and-forth transactions may occur several times over the course of a year.

The cost of quota doesn't always go up either, Wiens adds. Two years ago, dairy quota values in Manitoba dipped for several months because poor feed quality resulting from wet weather caused milk production to fall. Instead of buying quota, producers struggled to fill their existing allocations. Later, when production improved, quota trading picked up again. So did the clearing price.

It's an example of the market working as it should, Wiens says.

"If you only want to expand by three or four kilos, it's probably not an issue," he says. "If you're increasing your herd size by 20 per cent, it becomes much more of an issue."

Successful exchanges don't always involve big numbers.

Not all provinces approach quota values the same way. While the P4 western milk pool (Manitoba, Saskatchewan, Alberta and B.C.) allows the price of quota to float, the P5 eastern pool (Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island) controls it.

Starting August 1, 2009, the P5 began a phase-in program to cap the price of quota at $25,000 a kilogram.

The reason for the move was to shield milk producers from running up too much debt, says Phil Cairns, senior policy advisor for Dairy Farmers of Ontario. Quota purchases were being financed over ever longer payback periods, a key factor in the rise of quota values over the previous 10 years.

The result has been mixed. Quota prices have indeed stabilized. But the cap has resulted in upward pressure on the price of land, cows and facilities, says Cairns.

There's no denying that quota is expensive. Farm management specialists say quota makes up two-thirds of the cost of investing in a dairy farm.

But for farmers like Matt Plett, quota is just the cost of doing business.

BY **RON FRIESEN** / *Ron reported on agriculture for the Manitoba Co-operator, a weekly farm newspaper, for 23 years. Now retired, he's a freelance writer.*

Make off-farm investing
part of your plan

It probably seems counter-intuitive for a producer to make investments off the farm when usually there's a long list of things right at home just waiting for attention.

A 2006 study by Kansas State University showed that the majority of Kansas farmers made no or only small off-farm investments.

The decision to invest off the farm, however, is not just about stocks or bonds or ROI, but also about planning to have options down the road.

Even with the best-laid plans, family and work intentions can change over time. Having some flexibility around eventual succession decisions is always useful. In this regard, there are advantages to investing away from the home farm with the aim of having resources for retirement or some inheritance for non-farming kids.

A good example is purchasing farmland that's not directly attached or even linked to the farm's primary production, such as a sugar bush for a dairy farm, or cash-crop fields for a vegetable producer.

Why? Farmland is less likely to lose its value, and with the present volatility in conventional investment markets, even stockbrokers are lining up to get a piece of the farmland action. In addition to accruing value, such purchases can also yield ongoing revenue from rental if not operated by the farmer directly.

In terms of succession planning, you are diversifying your options in the event you have more than one child who wants to take over the farm. Alternatively, the asset can be cashed in for retirement funds without complicating the transfer of the main farm.

It's a theme in the long-term plans of Yves Mongrain, who farms along with his four brothers in a number of operations in Notre-Dame-de-l'Ile-Perrot, just west of Montreal, Que. His principal production is beef but they also supply firewood to the neighbouring suburbs. To this end, they've purchased a number of woodlots away from the main farms, and with various children ready to embark as the next generation, they've got some options at hand.

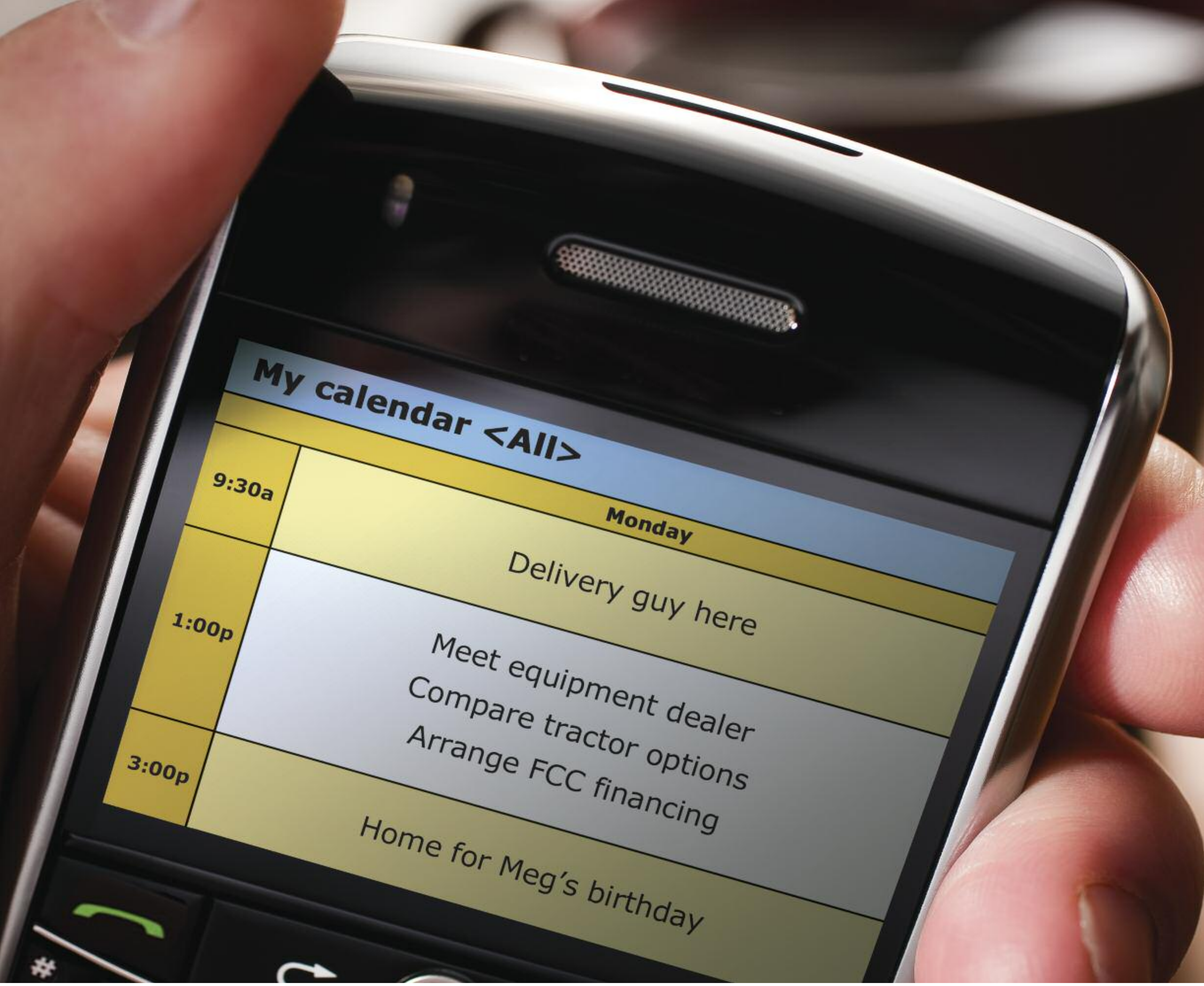
Having some flexibility around eventual succession decisions is always useful.

"We don't want all our eggs in one basket," Mongrain remarks, "and the woodlots give us income diversification as well as some solid value for the future."

With Quebec's farmland zoning law treating adjoining lots as one property, having farmland in different places provides more flexibility for a multi-person farm transfer process even if it appears more complicated. These types of investments help manage risk, provide potential retirement income and set the stage for a successful farm transfer.

What's in your off-farm investment plan?

BY **HUGH MAYNARD** / *Hugh is a specialist in agricultural communications based in Ormstown, Que. A graduate in farm management from Macdonald College (McGill University), Hugh is a seasoned journalist and broadcaster.*


My calendar <All>
Monday
9:30a
Delivery guy here
1:00p
Meet equipment dealer
Compare tractor options
Arrange FCC financing
3:00p
Home for Meg's birthday

Safety investments pay biggest dividends

Farm health and safety expert Glen Blahey is no investment counsellor. But he tells farmers that the money they spend on safety equipment and protective gear will always have the greatest returns.

"Take the purchase of an open station tractor," says Blahey, who works for the Winnipeg-based Canadian Agricultural Safety Association – or CASA – a national non-profit group that works to reduce injuries and enhance safe practices in agriculture.

"A rollover protective structure (ROPS) is standard equipment on new tractors. In the case of a used tractor without one, it's around $1,700 to buy and install one."

Despite the absence of any cashable returns, Blahey thinks the decision on whether or not to buy the added protection is a no-brainer.

"It will protect the farmer, the family, workers, partners and whoever else may use that machine," Blahey says. Tractor rollovers, he adds, normally result in fatal or life-altering injuries.

According to statistics from Canada's national farming surveillance project, Canadian Agricultural Injury Reporting (www.cair-sbac.ca), sideways and backward tractor rollovers account for roughly one-third of the 100-plus agricultural deaths that occur on average each year across Canada. In addition to the human cost and suffering to self, family and friends, the economic impacts can also be severe in terms of lost wages and revenues.

Groups like CASA promote the use of ROPSs, seat belts and other safe practices that have nearly eliminated rollover deaths and injuries in other countries. Blahey says farmers get a big bang for their buck when they spend on everything from safety boots that protect from crush injuries by animals or machines to safety glasses, hearing protection and respiratory equipment.

"If the purchase of fairly inexpensive safety equipment can stop a chunk of metal that flies off a grinder from landing in your eye, or prevent dusty materials and biological agents from going into your lungs," Blahey says, "the positive investment-versus-payoff ratio is almost immeasurable."

He estimates the average annual costs of farm safety equipment to be roughly $2,500 – all of it tax deductible. Blahey believes, however, that the best and most critical safety investment a producer can make is absolutely free.

"Every farm needs a safety plan," Blahey says. "There should be an established process for standard operating and in emergency situations."

CASA offers a downloadable safety plan model for every type of production in Canada on its website, www.casa-acsa.ca.

"All it takes is your time," Blahey says. "You'll never find a better investment opportunity."

BY **MARK CARDWELL** / *Mark is a writer and freelance journalist who lives in the Quebec City region. He is a regular correspondent for a dozen newspapers, magazines, trade and specialty publications in Canada, the United States and Europe.*

FROM FCC

Young people give agriculture **a bright future**

Do you love agriculture? A lot of young people do – with good reason.

Knowing that enthusiasm for agriculture starts early, FCC takes a big-picture approach, supporting future farmers at every stage of their careers with learning opportunities, financing and more.

The partnership between 4-H and FCC spans more than two decades. In Quebec, FCC partners with the Association des jeunes ruraux du Québec and the Fédération de la relève agricole du Québec for rural youth and young adults.

If you're studying agriculture, look for ways FCC can help.

Ag students can get FCC Management Software through colleges and universities that use it in a class and are part of FCC on Campus. And to reward budding entrepreneurs, the FCC Business Planning Award offers cash prizes to ag students who develop winning business plans.

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Last year, FCC disbursed $1.6 billion in loans to young farmers. Many of our customized loans, like Transition and First Step, have flexible options that help young farmers get up and running. FCC Learning farm management training programs on topics like succession planning and farm finances also help them succeed.

It's an exciting time for the industry. The new generation of farmers are innovative, technologically advanced and willing to try new things. Many get their inspiration from FCC publications like Knowledge Insider and AgriSuccess, and their news from FCC Express or the FCC Edge podcast.

Without a doubt, it's a generation that gives Canadian agriculture an exciting future.

You can learn more about opportunities for young farmers at www.fcc.ca/youngfarmer.

FCC is a national sponsor of the Canadian Young Farmers' Forum, and is also a regional sponsor of Canada's Outstanding Young Farmers' Program.

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