



Opening Remarks to the Standing Senate Committee on Agriculture and Forestry

Farm Input Prices in Canada

Ottawa

Tuesday, May 6, 2008



CANADIAN BANKERS ASSOCIATION

On behalf of the Canadian Bankers Association, its 51 members and their quarter of a million employees in Canada, I would like to thank you very much for the invitation to speak to the Committee on the subject of farm input prices in Canada. We look forward to your questions about bank lending to the agricultural community. I would like to take a moment at the outset to put the banking industry, and its association with the agricultural community, into some perspective.

Canada's banks play an important role in supporting the agricultural sector. We recognize that a cooperative, symbiotic relationship between our members, the farming sector and rural communities is necessary to ensure the strength of this sector. We also recognize that a cooperative relationship with federal and provincial governments is an essential component of this work. The banking industry is in regular dialogue with Agriculture and Agri-Food Canada and other federal and provincial government departments to help implement and deliver agricultural programs for the sector.

It is the banks' relationship with their customers that is of primary importance, however. We work with our customers, in good times and bad, to provide cash management and transaction accounts, and access funds to maintain, grow and diversify their farms whether through mortgages, term loans or operating lines of credit. It is our relationship with our customers that we'll talk about today.

There is a great deal of competition and choice in the market for lending to the agricultural sector, with each competitor striving to increase its market share. In addition to banks, there are credit unions and caisses populaires, Farm Credit Canada (FCC), finance companies and provincial government agencies. In this context, the banks have authorized almost \$29 billion in financing to the sector – that is the amount banks have offered to provide to their customers. According to Statistics Canada, in 2006, chartered banks accounted for 42% of farm debt outstanding.

Moreover, it is also important to consider the type of financing the banks provide. The banks are the largest providers of non-mortgage farm debt outstanding. They account for 55% of this lending, more than \$14 billion. As this type of lending is more complicated than just lending against assets, it requires the bank to truly understand its customers and to work closely with them over time.

Working closely with customers in this way is reflected in the fact that the agricultural sector, and rural businesses more broadly, receive service that is at least as good as urban businesses. According to Statistics Canada, small businesses in rural areas have access to business financing that is comparable to those in urban areas. For instance, rural businesses had 88% of debt financing requests authorized. Rural and urban businesses paid comparable prices for a wide variety of business credit, including demand and short-term loans, mortgage loans and lines of credit.

Working closely with customers is also reflected in our commitment to assisting smaller farmers and the rural communities through bankers dedicated to the agriculture sector and through service innovations. For instance, in order to allow producers to spend more time on their operations and with their family, we are using mobile agricultural bankers. These bankers employ cars and laptops to meet with clients at their farm as opposed to the branch. This commitment to rural communities and the small and medium sized farms that underpin them is also borne out in the numbers.

Providing services to the agricultural and rural community is an important part of what we do as banks. Our commitment to rural and agricultural small businesses is a major part of the banks' SME business segments. For instance, for small businesses, 17% of total funds authorized and 18% total funds outstanding are dedicated to the agricultural sector. Moreover, in recognition of the capital and land intensive nature of farming, the amounts authorized for agricultural producers and related services tends to be higher on average than in other industry segments.

All this is not to say that there aren't any challenges. While grains and oilseeds are benefiting from strong demand, the beef and pork sectors are suffering from increasing input prices, and a drop in cattle and hog prices. In response to these challenges the solid relationships that our banks have built with their agricultural clients allows them to work on a client-by-client basis, taking into account their individual situations to find sustainable solutions when required. As we all know, temporary shocks to the agricultural sector are common. Indeed, this decade, the sector has withstood BSE, avian influenza, drought, and floods. As before, the banking industry will work together with the agricultural sector to contribute to its long-term viability.

Thank you for the opportunity to meet with you on your study. We would be pleased to answer any questions you have.