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Ontario Federation of Agriculture's

Submission to:

The Task Force on
Rural Economic Renewal

March 23, 2000

1.0 INTRODUCTION

The Ontario Federation of Agriculture (OFA), supported by over 44,000 farm families and 30 affiliated organizations, welcomes the opportunity to present our recommendations to The Task Force on Rural Economic Renewal.

Farm families represent a large proportion of Ontario's rural population. Farmers are generally community focussed people who volunteer a great deal of time and energy into their communities, and they have a vested interest in seeing their communities thrive. Any changes that are made to provincial policies are a result of this consultation process, must recognize the substantial contributions that farmers and the agricultural industry make to the economy of not only their communities, but also the Province of Ontario. Any policies that are implemented must not be detrimental to the existing agricultural base in rural communities.

The OFA has a number of suggestions that, if implemented, will add to the viability of agriculture, which in turn will also support rural communities and foster an environment which is attractive to small businesses and industries, thus encouraging rural economic development and renewal. These recommendations are based on the following 2 key principles:

1. Agriculture is an important contributor to the provincial economy (as discussed in greater detail below). A strong economy fosters economic investment by industry, which is beneficial to the whole Province – urban dwellers as well as rural. Therefore, in supporting a strong economy, agriculture benefits all residents. In turn, investment in agriculture will benefit all citizens.
2. Investing in key infrastructure and services in the rural community will attract new initiatives to local areas.

2.0 HISTORY

Rural Economic Development is not a new concept; history shows that it can be beneficial to farmers in the rural community. For example, as settlements began, farmers would:

clear the land and till the soil to bring forth the bounty of food and fiber from the fertile fields . . . And as these people – these farmers – achieved surpluses beyond their own needs, they

came to need other people in towns and rural communities. They need people with whom they could trade their surpluses for the things they couldn't produce. They needed blacksmiths, dry goods stores, livery stables, banks and salons. But they also needed schools, churches and medical care if they were to move beyond economic survival to achieve a desirable quality of life. (Ikerd, J. Sustainable Farming and Rural Community Development. University of Missouri)

If done correctly, Rural Economic Renewal can be beneficial to farmers, the agricultural industry, rural residents and all Ontarians by providing an environment which favours a diverse employment base and strong economy while maintaining a high quality of life in rural communities. However, it is imperative that economic renewal initiatives do not negatively impact on the core of the rural community – the agricultural base.

3.0 IMPORTANCE OF AGRICULTURE IN THE ECONOMY

One need only look at the contributions of agriculture to the rural community, and provincial and national economy to see that agriculture is a cornerstone industry.

3.1 Agriculture in the rural community

Agriculture and related services represent a source of income for more than 119,000 rural Ontario residents, or approximately nine per cent of the rural Ontario labour force.¹ Recent Ontario data indicate that the industries of logging, forestry, mining, quarrying and oil wells collectively employ only 25 per cent of the people employed in agriculture and related services. Clearly, the agricultural industry is vital to the maintenance and growth of Ontario's rural economy.

To give an example, a number of local agricultural economic impact studies are currently being conducted. The recently released Greater Toronto Agricultural Economic Impact Study identified that agriculture in the GTA generates \$1.3 billion in annual gross sales and supports more than 34,700 jobs in the GTA. This includes 3,000 jobs created in the City of Toronto, directly related to agriculture from the GTA, demonstrating that agricultural benefits are much wider than just the rural community. Agriculture plays a very significant role in the GTA economy.

¹ Calculated by OFA from statistics found in OMAFRA "Information Resources" Web Page (<http://www.gov.on.ca/omafra/english/infores.html>), and Statistics Canada, Unpublished Labour Force Data. 1991.

Similar figures were found in the Agricultural Economic Impact Studies conducted for Huron County, and Prescott, Russell, Stormont, Dundas and Glengarry Counties. In Huron, agriculture generates substantial sales volume throughout the economy, beginning with farm gate sales to the total volume of sales generated by agriculture-related businesses. For instance, \$436 million in farm gate sales is generated, of which an estimated \$318 million is captured by the local economy.

While estimates indicate that in 1996, 4,582 jobs existed in the agriculture sector, a further estimation of 11,116 jobs were tied indirectly to the agriculture sector in Huron County through expenditures by agriculture-related businesses. The figure for the five eastern counties indicates that there 17,885 jobs tied to agriculture and \$1.12 billion in sales annually, and for every job in agriculture, there are two additional jobs outside of agriculture.

It is safe to assume that the impact studies which are currently being completed for other counties across the province will have similar findings.

3.2 Agriculture's Importance Provincially and Nationally

Ontario is home to the largest and most diversified part of the Canadian agriculture and food industry. With \$6.9 billion in sales of more than 200 commodities from Ontario's farms in 1998, Ontario farmers continue to demonstrate their importance in Ontario's economy. Consider the following statistics from 1998:

- The agri-food sector contributed \$24.4 billion to Ontario's Gross Domestic Product (GDP) which is almost eight per cent of the provincial total.
- The Ontario agri-food sector employs nearly 682,000 people or approximately 12 per cent of the total employed labour force.
- Primary agriculture accounts for 18 per cent of the total agri-food labour force.
- Ontario based agri-food goods producing industries account for almost 39 per cent of Canada's GDP from the agri-food goods producing sector.
- Ontario farmers produce 26 per cent of Canadian agricultural output in terms of GDP.²

² All values calculated by OFA from statistics found in OMAFRA "Information Resources" Web Page (<http://www.gov.on.ca/omafra/english/infores.html>).

According to Statistics Canada, a million dollars of output from agriculture and related services generates approximately 31 jobs. If Canada reaches the goal set by the Canadian Agri-food Marketing Council of four per cent of world agri-food exports by the year 2005, the effects of market growth and increasing market share could mean an additional \$5.8 billion sales and 180,000 more Ontario jobs.

By helping both the Province and the Country maintain strong overall economies, agriculture assists in attracting investment. Investors and business people look to invest their money and capital in a strong economy. In this way, agriculture contributes to the overall well-being of all Ontarians – creating investment opportunities in urban areas as well as rural communities.

4.0 INVESTING IN AGRICULTURE FOR RURAL ECONOMIC RENEWAL

By maintaining the viability of agriculture, the rural economy can be strengthened. A strong agricultural community can be a very strong force in attracting other economic initiatives into rural communities.

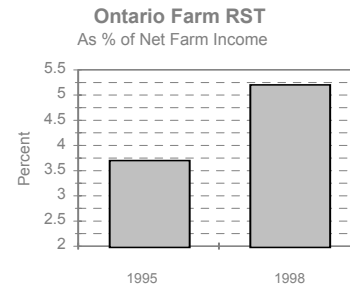
Retention of significant portions of land for agricultural purposes is essential to maintaining a viable countryside which continues to attract tourism, and which protects the quality of life assets which give . . . a competitive advantage in the attraction of quality businesses. (Rural Economic Development Task Force. Final Report - Presented at the Loudoun Board of Supervisors. Virginia)

There are a number of initiatives that, if implemented, will support agriculture and in turn, assist the rural community's economic renewal. These are Retail Sales Tax (RST), Safety Nets, and Development of Local Agricultural Advisory Committees and Nutrient Management Advisory Committees.

4.1 Retail Sales Tax (RST)

We understand this government's resolve in wanting to create a suitable business environment for the province. We approve of this government's work plan to cut taxes and eliminate red tape. The following issue falls within its present mandate.

Thanks to this government, Retail Sales Tax on farm inputs has been reduced. The 1999 budget made the building materials exemption permanent. Now Ontario farmers can invest in machinery and buildings on the same tax basis. Prior to this, buildings faced an extra 8% additional cost and Ontario farmers reduced such investments as a result.



OFA wants to move forward on RST on farm business inputs in three areas.

- 1 OFA wants RST on all farm business purchases removed;
- 2 OFA wants the Ministry of Finance to simplify the Purchase Exemption Certificate process using the OFA and CFFO cards; and
- 3 OFA wants the purchase exemption question changed to require that items be exempt if used 'at least 50% farm use rather than the present 'exclusively for farm use'.

In 1995 Ontario farmers paid \$ 37 million in RST on farm business purchases. Ontario farmers still pay between \$ 25 million and \$ 30 million of RST each year on farm business inputs. Farmers in Quebec, Alberta, New Brunswick, Nova Scotia and Newfoundland pay none. This \$ 25 million in RST was 5.3% of Ontario's net farm income in 1998, up from 3.7% in 1995 in spite of the building material exemption, as net farm income was down. RST on farm business purchases taxes farm income and investment. Our main competitors do not face this tax. When the Manufacturing Sales Tax was removed, farming was the only industry left in Canada with sales tax on some its inputs. Sales tax on farm inputs is gone in most provinces. Ontario must catch up.

Removing RST from farm business inputs is possible. Where this has been done in the harmonized provinces there has been no 'black market' in farm inputs being re-sold for non-farm use. Continuing with the simplified exemption process is a first step and broadening it to change the purchase exemption question so it requires only 50% for farm use rather than exclusively for farm use will make a difference on small purchases such as tools.

By removing all RST from all farm business inputs, farmers will be able to reach the same tax level as our key competitors. The money will still be collected by the government by means of income tax. However, the farmers will have more money in their hands for a longer period of time, which will be spent in the local community.

4.2 Safety Nets

Farm income in Ontario is far below what it was a decade ago. Real farm income in Ontario has dropped by as much as 50 per cent in the last 10 years, from a 1985-89 average of \$1.024 billion per year, to a 1994-98 average of \$512 million per year. Agriculture and Agri-Food Canada's forecasts that farm income for 1999 was even lower, at \$302 million. Much of the decline in this income has been due to low commodity prices which agricultural economists agree are caused by excessive farm support policies in other countries.

To illustrate the point, for every \$1 the Canadian government spends to support its farmers, the United States spends \$2.35 and the European Union spends \$2.65 to support their farmers. This is the kind of competition we have to contend with. Does it make any sense that our government does not increase its support to Ontario agriculture sector, as quickly as other countries.

Ultimately the effect of safety nets is to stabilize farm income, which is equivalent to stabilizing purchasing power in the rural economy.

4.2 Development of Local Agricultural Advisory Committees and Nutrient Management Advisory Committees.

The OFA recommends that the government of Ontario enact enabling legislation that would establish both Local Agricultural Advisory Committees and Nutrient Management Advisory Committees. The financial implications to the government of implementing these committees is negligible. However, they can mean the difference of a farmer maintaining or losing his or her business.

A Local Agricultural Advisory Committee is important to ensure that decisions made in a municipality that could negatively impact upon the farmers, has full information about these impacts, before being made. It will also be necessary to minimize any conflict which may arise from having new businesses enter the rural community from an economic renewal strategy.

Similarly, a Local Nutrient Management Advisory Committee will ensure that the technical requirements associated with the very important issue of nutrient management are adhered to, based on scientifically-sound requirements.

5.0 IF YOU BUILD IT, THEY WILL COME: THE NEED TO INVEST IN INFRASTRUCTURE AND SERVICES

5.1 Infrastructure

There are three fundamental strategies for economic development, especially given the current global, knowledge-based economy. The first strategy (as advocated by Robert Reich) is the need to invest in infrastructure, including roads and bridges. The rationale behind this is that infrastructure “facilitates productivity by making production processes easier and more efficient.” (Ikerd, J. Sustainable Farming and Rural Community Development. University of Missouri).

5.1.1 Transportation

As indicated above, investing in the roads and bridges in rural areas is fundamental to encouraging economic development and renewal in these areas. Businesses require a high quality transportation network to ensure the movement of their goods and services – both inputs and finished products, as well as the transportation of their employees. Having an adequate transportation system is also necessary to promote tourism – an economic initiative which has great promise for rural areas.

The OFA recommends that the Government provide rural municipalities with adequate funding for the maintenance of rural municipal roads and bridges.

5.1.2 Electricity

Farm businesses across rural Ontario heavily rely on hydro to run their operations. Rural communities currently have limited options for energy choice. That is why it is absolutely imperative that hydro remain at a reasonable cost to farmers, small businesses in rural areas and rural residents. As a rural economic renewal initiative, a reasonable electricity cost will encourage small businesses to consider investing in rural Ontario as the cost of doing business will be comparable to non-rural areas. There are a few ways of keeping these costs reasonable, which includes the following:

- Ensure that the Rural Rate Assistance program applies to the entire price of power.
- Interval metres must be available to farmers and small businesses, so they can buy power on the same basis as other industries

- Retain the power district so all parts of Ontario, not just cities, have diversity benefits from different power use profiles. Without this, rural areas will likely see cost increases for farms and business, thus discouraging investment in the rural economy.
- The Standard Supply Price should be the same pooled raw power price in all parts of Ontario, ensuring that it will not vary unduly from place to place.

Not only do these recommendations encourage new business initiatives to establish in rural Ontario, but they will also keep more money in the hands of the business people and residents, which in turn will be re-invested into the community.

In addition, it is recommended that Public Utility Commission's (PUC's) expand from major towns and cities into the countryside. This would avoid new debt for Ontario Hydro Networks Co. (OHNC) and allow OHNC to concentrate in remoter areas. It would provide new customers for PUC's and in most of Ontario have service depots within a half hour drive. Also, local distribution should have rates set locally by local councils via agreements with the local distribution company as this would maintain aspects of competition between municipalities. This will encourage small businesses to examine rural communities as an option for establishing their businesses.

5.1.3 Natural Gas

Natural gas is available in virtually every town and city in Ontario. Over 90% of urban residents and businesses have access to gas and the savings it brings. Almost no rural residents have this choice.

Natural gas could substantially reduce energy costs, not only on farms, but for all rural residents and businesses. However, gas line expansion can be expensive.

At present the Ontario Energy Board (OEB) will only approve individual proposals that have no cross subsidization, or under the January 1998 decision rules, portfolios of proposals where the average has no cross subsidization and all proposals have a profitability index of 0.8 or more. Gas companies are not required to build any of these proposals whatever the profitability index. Many rural proposals cannot meet these stipulations without offering a large aid to construction.

OFA wants the government to consider a change which would provide support to gas line construction, so that otherwise unaffordable gas lines could be built and to commit to working with the OFA and the gas utilities to develop a workable way of extending gas service to rural areas. Over a period of years, assuming average

grants in aid support of \$ 5,000 per kilometre of new line, each million dollars used from private and public sources would provide 200 new kilometres of gas line and service over 2,000 new customers. Each year these customers would save over \$400,000 on energy costs. This proposal would provide savings, new jobs and new investment in rural areas. It would bring the benefits of gas to rural Ontario and put rural Ontario residents and firms on a more comparable basis with their urban counterparts. OFA is keen to work with the Ontario government on developing this proposal.

5.2 Services

The second development strategy is to invest in people, as “people are the basic source of productivity in a 'knowledge-based' era of economic development.” (Ikerd, University of Missouri).

The common practice of preparing the 'best and brightest' to leave rural areas will have to be reversed to meet the cultural and economic needs. 'Home-grown' mind workers have sense of the quality of rural life. . . Quality life-long education will be equally critical to prepare people to succeed in the new, dynamic era of economic development. (Ikerd, University of Missouri).

Finally, there is a need to invest in quality of life - especially in the rural communities which sell themselves on this concept. One manner in doing this is to “make health care an investment in the future.” (Ikerd, University of Missouri).

The last two development strategies - investing in people and quality of life can be linked together, through a broad grouping of social services. There must be a minimum level of services provided to attract people to invest into the communities. A small business owner will generally live in the community that his or her business is in. Before choosing a place to open their business, that owner will require certain services. This includes adequate health care, child care, and schools for their families.

5.2.1 Schools

Ensuring that there are good schools within a community can attract small business owners to relocate (both the business and residence) to the area. This is an essential service that a business person will require. The advantage of easy access to quality education is important not only to the business owners for their

children, but will also be an important factor in having quality, skilled labour who will also be looking to reside in an area that can provide for their children.

To ensure that there are good quality schools that are easily accessible, the OFA advocates for the Government of Ontario to provide financial assistance and policy support to ensure that the needs of rural residents and rural schools in non-rural school boards are met. This could be achieved through the development and implementation of a Rural Education Strategy, which is designed to include rural schools in non-rural school boards among its beneficiaries.

5.2.2 Child Care

Similar to the requirement for schools to attract people to a rural community, there must also be an adequate level of child care services. However, the provision of child care must recognizing that a great number of jobs in these communities do not fall within the traditional 9-5 workday that is found in urban centres.

The OFA request that the government provide the following:

- Flexibility to municipalities in meeting provincial regulations under the *Day Nurseries Act*. Some regulations currently make it difficult to establish and maintain flexible child care programs in rural areas (e.g. regulations for mixed-age group care).
- Structure funding so funds are flexible enough to be allocated where they are needed.
- Greater resources must be provided to municipalities that are assuming responsibility for child care programs for the first time. It must be recognized that child care costs are often higher in rural areas given the low population density and varying child care needs of rural families.
- Interministerial cooperation is required so resources such as schools can be used to serve other needs such as child care.
- Assistance to self-employed families - to both farmers and the small business owner being attracted to open a business in rural areas as part of an economic renewal strategy - and take account of their reliance on RRSPs as pension contributions in subsidy calculations.

5.2.3 Health Care

According to a report prepared by Dr. Robert McKendry for the Ontario Ministry of Health and Long Term Care, 99 Ontario communities had been designated as under serviced and were looking for a total of 534 physicians as of October 1999. Access to

adequate, quality health care services is imperative if the Government wishes to embark upon an endeavour to renew rural areas.

The OFA believes that there must be a rural health care policy that guarantees quality health care availability to rural residents, increases the number of physicians serving rural areas, ensures responsive ambulance service, and maintains rural hospitals. Adequate health care is required for all rural areas of Ontario, and can be provided through small community hospitals. The OFA also believes that the Ministry of Health should spend the money that has been allocated to help improve physician recruitment, training, and availability in rural Ontario. Provisions for support programs, such as professional development and vacation relief, may assist in retaining health care professionals in under serviced or rural areas.

The provision of all of these services is an integral component of encouraging rural economic renewal. The investment that the Government makes in these services will be compensated by the increased economic activity in rural areas. In addition, the residents, who are the voters and tax payers, will surely appreciate knowing that their government is concerned about their welfare. The potential rewards far outweigh the costs associated with these initiatives.

6.0 SUMMARY / CONCLUSION

The OFA has presented a number of suggestions that, if implemented, will foster rural economic renewal. Recognizing agriculture as a cornerstone industry in both the rural community and the provincial economy will assist in building on the qualities and infrastructure that already exists in rural communities. It can assist in attracting the appropriate businesses to these areas; businesses that can flourish in the realities of rural living. Any new initiatives to rural areas must ensure that the agricultural community is not negatively impacted. With any change, there is the potential for conflict between groups. This government must ensure that all policies implemented do not negatively impact upon the agricultural community.

The OFA has provided recommendations for means in which rural economic renewal can be fostered. Some involve an investment into agriculture, which will in turn foster the economy of local communities. These include some changes to the application of Retail Sales Taxes to farmers, and enacting enabling legislation that would establish both Local Agricultural Advisory Committees and Local Nutrient Management Committees. The financial/ budgetary consequences of these investments by the Provincial government can be viewed as being minimal, but with the potential for a great return. Another recommendation is to increase

support to Safety Nets Programs to stabilize farm income, which is equivalent to stabilizing the purchasing power in the rural economy.

Other recommendations revolve around the need for providing the strong infrastructure and social service base that will attract investment into rural communities. The impact of these initiatives is cumulative, resulting in a rural community that is an attractive place to establish a business and reside within. Infrastructure needs in rural areas include investment into the transportation network, provide natural gas to rural communities, and ensure that restructuring of the electricity system maintains reasonable costs to rural communities .

Regarding social services, there is a need for commitment to the education of the youth in the community, provision of a flexible child care system to meet the unique needs of rural communities, and the need to ensure that there is adequate health care practitioners and services available to the residents. By having these amenities available, rural communities will become an attractive place to invest one's time, money and resources. The phrase 'if you build it, they will come', certainly applies with these initiatives, which will foster rural economic renewal .

By investing in agriculture, the Provincial government invests in its citizens. Ontario's Agriculture is key to maintaining a healthy economy. Agriculture creates jobs, and produces outputs which are consumed internationally. Through the significant export of our produce, farmers assist in keeping the strength of the Canadian dollar. In addition, Ontario farmers produce high quality food at low cost which contributes to the low inflation environment that Canadians enjoy.

By helping the Province provide a strong overall economy, agriculture assists in attracting investment. Investors and business people look to invest their money and capital in a strong economy. In this way, agriculture contributes to the overall well-being of all Ontarians – creating investment opportunities in urban areas as well as rural communities.