Foreign purchase of Québec farmland
A takeover or a misunderstanding?

Recent rumours of Chinese interests buying up Québec farmland have created quite a stir. Following reports that foreign investors are taking steps to acquire agricultural real estate in Québec, various groups weighed in on the matter. The purchase of farmland by developing economic powers is a well-documented phenomenon, especially in Africa. However, based on an analysis of the information available to date, the rumours are unsubstantiated and whatever purchases may be contemplated are nowhere near the size of those made elsewhere in the world. That said, there are definitely investors out there looking to invest in foreign farms as a more stable alternative to the volatile financial markets. And Québec has many farmers approaching retirement or interested in selling their business for one reason or another. However, Québec agricultural land can only be sold under certain conditions. An Act respecting the acquisition of farm land by non-residents was enacted to ensure that massive purchases such as those observed in Africa and elsewhere cannot occur here. What follows is an overview of the situation around the world in this regard. We will then look at what is happening in Québec and the implications if the recent rumours were to become reality.

A NEW TREND?
Just like globalization, farmland purchases or leasing is not something new. According to some, it is akin to practices common during colonialism when foreigners didn’t need government permission to settle in a given country. Others believe it is a way for emerging economies to establish their hegemony. Either way, the practice has become more prevalent in recent years as skyrocketing food prices, particularly grain, is pushing starving populations to riot and food security is becoming a growing concern. For their part, buyers are being driven by the desire for more stable investments than those offered by the financial markets, the limited availability of arable land and drinking water, limited storage capacities and distribution systems.

For China, one of the biggest buyers, the adventure began long before the last decade. This country set the stage way back in the 1980s, initiating collaborative projects, mainly in agriculture and health, with African countries.

MASSIVE TRANSACTIONS
How big are these transactions around the globe? According to a report prepared in May 2009 by the International Food Policy Research Institute to the Food and Agriculture Organization (FAO), 15 to 20 million hectares were purchased or about to be purchased in the last three years (20 million hectares is about 200,000 km² or approximately the size of Senegal). A territory this size represents about 25% of Europe’s farmland. Olivier de Schutter, United Nations Special Rapporteur on the right to food, reckons that some 30 million hectares of land were negotiated for sale during this same period. The land is purchased for cultivation and livestock production, and investors look for the best real estate, i.e. lush properties close to the markets. It is difficult to accurately assess the extent of the trend as many transactions are shrouded in secrecy.

There are two types of buyers: governments and large multinationals with huge buying power, and small private investors with more modest means. Africa is the most sought-after location for various reasons, for instance, most of the farmers do not own the land but simply have a right of use. The bulk is state-owned, making negotiation easier since one or just a few parties are involved rather than countless small owners.
The FAO has found that this trend is accelerating in Africa and elsewhere. There is concern that the transactions are being rushed and that local populations will lose the rights to their land. Although the agreements include commitments to create jobs and build infrastructures (roads, bridges, buildings, etc.), there are fears that local producers will lose their jobs. Rural agricultural agencies complain that they are not being consulted. Finally, transparency is sometimes lacking concerning the distribution and destination of the crops. Because of all this, analysts see a real risk of tension.

What is surprising is the size of the transactions, millions of hectares sold or leased by just a few buyers, and not only by private investors but also by governments, which are increasingly striking deals with each other.

**A WIDESPREAD PRACTICE**

China is not the only one buying up or leasing farmland. The United Arab Emirates, South Korea, Oman, Qatar, Malaysia, Libya, India, Sweden, Russia, Ukraine and Japan are just some of the other major players. In fact, Saudi Arabia approached the Tanzanian government as far back as 2000 to lease 500,000 hectares for wheat and rice production. The country imports 25% of the rice it consumes.

Libya buys abroad but also leases its own land: 35,000 hectares for cultivating vineyards and olive groves. However, it has large interests in Mali through MALIBYA, a company that leases land to grow rice, which is then shipped to Libya. The most widely known project involves 100,000 hectares. Chinese subcontractors are carrying out the development work for this company. In exchange, Libya has agreed to build roads, hotels, mosques and even a building for the government of Mali. Food crops are not the only commodity of interest to buyers. For instance, a Spanish firm derives biofuel from its 80,000-hectare property in Senegal.

In Africa, transactions are multiplying in Zambia, Zimbabwe, Uganda, Tanzania, Republic of Congo, Mali, Ghana, Ethiopia, Kenya, Sudan, Mozambique, Madagascar and Senegal. Although it may appear long, this list is not exhaustive. South America is also attracting investors. For example, South Korea picked up land in Argentina that will be used for meat production. Analysts often have trouble finding information about these transactions, and what is available at times is unreliable and questionable, making it hard to present an accurate picture of the situation.

China’s activities in this area are among the best documented. In the eyes of many observers, it is the leading candidate for buying and leasing land. It’s not hard to see why: It has 9% of the world’s arable land to feed 20% of the world’s population. Growing urbanization and massive industrialization are encroaching on land that could be used for crop and livestock production. An estimated 40 Chinese agri-food companies have set up operations in 30 countries, bringing their own workers, seeds and standards. In 2006, China had already signed agricultural agreements with several African governments and even set up experimental farms. Farther north, a “Sino-Kazakh” company was formed to lease 7,000 hectares for 10 years to grow soy and wheat in Kazakhstan.

Also active on this front is Saudi Arabia, which in spring 2009 approached the Tanzanian government to buy 500,000 hectares for rice and wheat production. Through government subsidized agricultural firms, India is looking for land in Africa. American and British investors are also scouting for opportunities in farm real estate around the world.

As we can see from graphs 1 to 4 in box 1 on page 3, Africa is not the only place on buyers’ radar screen: so is Southern Asia. And Indonesia, the Philippines and to a lesser extent, Russia, Kazakhstan, Argentina, Cuba and Mexico have all received offers that they did not turn down.

**GOVERNMENT AND PUBLIC REACTION**

Not all governments have the same attitude to what some view as a land grab. In some countries, investors are being solicited by local authorities in search of more direct investments. Of particular interest are large-scale farming operations and the resulting benefits of new technologies and infrastructures that come hand in hand with industrial agricultural development. However, openness to this type of exchange varies widely from one country to the next.

Observers worry about the “unequal power relations” between the buyers or lessees and those who have to give up their land. Since many farmers do not have title to their plot, they often find themselves with no land on which to grow their crops, no income and no livelihood. Many African countries have yet to adopt rules to safeguard the rights of small farmers. Sooner or later, this situation is bound to lead to resistance from local communities.
It looks like observers and farmers are not the only ones who are worried. The G8 nations (United States, Japan, Germany, France, United Kingdom, Italy, Canada and Russia) even discussed the matter at their July 2009 meeting) and promised to “develop a joint proposal on principles and best practices on purchase of land in developing countries. This code of conduct is being supported by the IFPRI (International Food Policy Research Institute) and the African Union (AU).”

In the meantime, people are mobilizing. The most gripping example is the rallying of Madagascar’s farmers at the end of last year and in early 2010 in response to the government’s plan to lease 50% of the island’s arable land (1.3 million hectares) to South Korean interests (Daewoo Logistics) for 99 years. The contract gave the company the right to grow and export corn and palm oil to South Korea. The leaked out transaction led to bloody riots, the toppling of the government and cancellation of the deal.


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Although land purchases have not aroused as much anger elsewhere in the world, peasant organizations are pushing governments to recognize their rights even though they do not always have recourse. Kazakhstan’s farmers are undoubtedly less than thrilled about the impending arrival of 3,000 Chinese on their territory.

According to some consultants, close to one million Chinese will soon be working on experimental farms in Africa. This will disrupt local communities and in no way guarantees spinoffs for local farmers. In Asia, protests are being led by the Asian Peasant Coalition and The International League of Asia-wide Peasants’ Caravan for Land and Livelihood, which was very active in 2009. The organization’s efforts are aimed at educating people on the effects of sales to third parties that deprive local farmers of their livelihood as well as promoting food sovereignty.

This buying and leasing of arable land has created quite an uproar. It is in this context that the Québec media reported in March that a group of Chinese interests were supposedly looking to purchase 40,000 hectares of farmland. However, on closer investigation, it turns out that there is no substance to the story. Still, it would be interesting to see under what conditions it would be possible to acquire 40,000 hectares. How much of Québec’s farmland does this actually represent? And finally, would such a transaction be realistic for Québec?

QUÉBEC’S AGRICULTURAL SECTOR

Before venturing a hypothesis, we must first look at all the parameters. What is Québec’s agricultural situation? To what extent does it present a real interest for foreign investors? As well, what are the rules for farmland purchases by non-residents? We can only draw conclusions once these questions have been answered.

As we have seen, the Chinese are not the only ones interested in buying farmland. However, based on recent events, a number of observations can be made in their regard: they are very active, they have made huge transactions, and money seems to be no object. Rightly or wrongly, they are perceived as wealthy buyers who can’t be stopped. So what can Québec offer them?

A BRIEF HISTORY OF QUÉBEC’S AGRICULTURAL SECTOR

According to the 2006 Census of Agriculture, Québec had 30,675 farms or 26% fewer farms than 20 years ago (1986) and 40.5% fewer than 30 years ago (1976). This decline has therefore been underway for quite some time (graph 5). Industrialization, the shift to a service economy, and technological advances have all played a part, to varying degrees, in reducing the number of farm operations throughout the 20th century.

Estimated at 3,462,935 hectares in the 2006 Census of Agriculture, the total farm area shrank 4.8% from 1986 and 13.6% from 1976. However, while the total number of farms and the farm area have declined, farms today are actually larger than they were 20 or 30 years ago. Québec farms averaged 279 acres in 2006, i.e. 113 hectares, up 28.7% over 1986 and 45.4% over 1976 (graph 6 on page 5). Livestock production accounted for 70% of farm receipts. As mentioned in the report of the Commission sur l’avenir de l’agriculture et de l’agroalimentaire québécois (CAAA), “Québec’s climate and the biophysical characteristics of the soil are especially conducive to pasture and livestock production.” Practical speaking, this means that foreign investors looking at farm real estate in Québec are not doing so for its massive grain yield potential and even less so for rice.

Farmland prices do not follow a steady or predictable pattern. Some boom years are followed by declines or by periods of near stagnation (graph 7). In 2008, a hectare of cropland and farmland averaged $7,081 and $5,710 respectively. The preliminary data for 2009 shows that land value rose in some regions but fell in others. Land value is determined by a host of factors such as demand and agroclimatic potential, which affects certain crop yields and, by extension, the resulting revenues.

Cropland values more than doubled between 1986 and 2008, especially from 1996 to 2002. The same trend was observed with farmland. These prices may seem ridiculously low when compared to those published in 2009 by the British firm Knight Frank LLP (graph 8) for farmland around the world. Although the data sources and calculation methods differ, the gap between Québec and certain countries is all too clear. Some say that foreign investors are drawn by these low prices. But first the land has to be available for sale; investors have to know its production potential and understand how to work with the seasons.

Québec farmland values rose sharply in 2008, fuelled by several factors, including high grain prices that year, increased global demand, fluctuating energy prices and North American demand for corn for biofuel production. As well, low interest rates may have convinced potential buyers to take the leap. Finally, the real estate and stock market crash may have increased the appeal of farmland as a more viable investment, boosting the number of transactions.

It bears mentioning that land values vary widely from one region to the next depending on its use (graph 9 on page 6). The prices listed here are meant more as a reference point than as an absolute value and were estimated based on the transactions made that year. For the evaluation, each region needed to have at least eight transactions; no data is posted for those that did not. The Montérégie-Ouest and Est regions had the highest cropland values. Due to its strong production potential, a longer growing season than areas farther north, and competition with residential development, this land is more expensive than elsewhere in Québec.
THE SITUATION ELSEWHERE IN CANADA

Rumour has it that the Chinese investors looking to acquire Québec farmland started off by issuing a mandate for 10,000 hectares (the equivalent of 88 Québec farms averaging 113 hectares). This grew to 40,000 hectares (the equivalent of 350 Québec farms), and the mandate was changed once more to encompass all of Canada.

Farmland investment already exists in western Canada, with two Canadian investment firms (Agcapita Partners LP and Assiniboia Capital Corp.) purchasing land in the Prairies and then leasing it to farmers. In 2002, Saskatchewan enacted legislation restricting the sale of land to provincial residents. This measure has kept prices fairly low and opened the door to Canadian investment funds.

For their part, the Europeans already decided to establish a presence in Québec back in the ‘70s and ‘80s, buying up farmland and setting up different types of operations than we’re accustomed to seeing, i.e. vineyards. However, their purchases didn’t involve thousands of hectares. The fact is that agriculture is not the only focus of the Chinese; in the last few years they have expanded into energy and metals, trying to strike deals with western Canada for the former and Ontario for the latter.

The Chinese are not the only ones interested in agriculture. Last summer, Hancock Agricultural Investment Group (HAIG 2009), a U.S. subsidiary of Toronto-based Manulife Corporation, which specializes in farmland management, acquired Canneberges Bécancour, a 450-hectare farm in St-Louis-de-Blandford.

WHY SELL?

There are many reasons why Québec farmers would be tempted to sell. One is because they are being squeezed by climbing operating costs. The reality is that their selling prices are not offsetting the increases in input prices. Graphs 10 to 15 on page 7 show the gap that has emerged over the past two decades in both grain and beef and pork production, which are not subject to supply management. Energy costs, more specifically, heating and fuel for machinery, have grown substantially faster than prices. For grain producers, pesticide and seed prices have risen much faster than the selling price. And for the pork and beef industry, the pressure created by these sudden, haphazard increases is becoming increasingly hard to manage despite the compensation measures in place.

Québec farmers may also want to get out because of their growing debt. Anyone remotely connected with the industry agrees on this one. According to AGECO Group, farm businesses have seen their debt double in the last decade: “30% of farming businesses can’t cover their expenses.” “The debt ratio rose from 28.4% in 2001 to 32.2% in 2005. This compares with 20.4% in Ontario and 11.4% in the U.S. in 2005.” For the supply-managed commodities (dairy, eggs and poultry), quota prices are in themselves a heavy debt that makes it even tougher for the next generation to buy the farm. The debt burden is growing every year, a factor that could prompt owners to give up their business.

WHO WILL TAKE OVER?

The aging of the farmer population and the dearth of young people interested in entering the business may tip the scale in favour of selling to whoever is interested. For farmers, the value of their operation is, in essence, their retirement nest egg. If the next generation is not interested in taking over, then to whom will they sell? The last Census of Agriculture, conducted in 2006, showed that 33% of Québec farmers were over 55 and only 15% were under 40.

The UPA’s Fédération de la relève agricole reckons that 1,100 new farmers are needed to keep the number of Québec farms at their current level (about 30,000). However, only 600 to 800 join the ranks each year.


Graph 10 – Crops: Energy costs have grown faster than grain prices

Graph 11 – Crops: Pesticide and seed prices have increased faster than grain prices

Graph 12 – Crops: Even property taxes have risen faster than grain prices

Graph 13 – Potatoes: Rising pesticide and fuel prices have outpaced increases in potato prices

Graph 14 – Livestock production: Input costs have grown much faster than livestock prices

Graph 15 – Livestock production: Increases in property taxes have outpaced growth in livestock prices

* The index is based on 1990 for soy due to data availability.
Sources: Statistics Canada and Desjardins Economic Studies

* The index is based on 1993 for processing potatoes due to data availability.
Sources: Statistics Canada and Desjardins Economic Studies
Why is succession so difficult in agriculture? The price of a farm is already an obstacle. In 2006, the value of the average farm’s assets was $1.4 million in Québec, a sharp increase from the $289,000 in 1986. The cost of a 50-cow dairy operation (Québec average) was, including quotas, greater than $2 million. Compared to other industries, farms have a low return on assets, which also limits borrowing capacity.

Another factor is the recent shift to large-scale operations. Some of the advantages sought in a context of greater market access include economies of scale, a competitive edge and lower unit costs. As such, smaller farms have lost their appeal and young would-be farmers have perhaps been put off by the massive cost of starting a huge operation or of buying a well-established farm.

That said, financial assistance is increasingly available. Financière agricole offers aspiring farmers grants of $20,000 to $40,000 for a new business, depending on their level of training. And the Québec government budget tabled on March 30 included the creation of the Fonds d’investissement pour la relève agricole (FIRA). This $75-million fund, capitalized equally by the Government of Québec, Capital régional et coopératif Desjardins and the Fonds de solidarité de la FTQ, was set up to encourage non-family-related agricultural business transfers and start-ups by entrepreneurs under the age of 40. Only time will tell if this measure is enough to offset the number of retiring farmers.

**OTHER INCENTIVES TO SELL**

Another factor that could prompt farm producers to sell is the WTO negotiations. Although the talks that began in Doha in 2001 have yet to produce an agreement, it is quite clear that the direction is towards greater market access. The proliferation of bilateral agreements all over the world in recent years attests to a willingness to increase trade.

Until a new agreement is reached, the rules of the last round (Uruguay Round) remain in effect. As such, supply-managed commodities (dairy, eggs and poultry) are, to some extent, protected. But the current deals do not guarantee that this will continue. At this time, there is no assurance that these products will be included in the “sensitive products” category, which will be more sheltered from trade liberalization. All in all, greater access to the Canadian and Québec agri-food markets will drastically affect supply-managed products. All this indecision naturally has farmers worrying about quotas and about how much their business will be worth. What will happen to their production, their profitability and their farms? This uncertainty is certainly not conducive to investing in or starting up a business.

The proposed changes to the Farm Income Stabilization Insurance (ASRA) program are another uncertainty that could lead farmers to consider selling. Designed to offset the difference between market price and production cost, this program was just recently reformed. A surge in assistance costs in the last few years and a desire to open the program up to more businesses are the reasons why Financière agricole decided to review its application rules.

The main changes include setting a cap on the budget and on the number of insured units (hectares, livestock). The biggest worry for producers is the calculation method that will be used to determine compensation. In the past, all specialty farms were included in the count for the assistance. Now, only 75% of the most efficient farms will be used to determine the amounts that will be allocated. As such, the average production cost will be less than in the past, as will the indemnity paid out to each farmer. This new calculation method is worrisome for the embattled pork industry. These new rules also create strong apprehension, which could fuel the already established trend of farm selling.

**WHEN DISMAY IS ADDED TO THE MIX**

One last factor that could push farmers to close or sell their business is intangible yet very real: dismay. A growing number of producers are feeling this way for a variety of reasons, some of which were discussed earlier. Although not broad-based, this sentiment is not limited to a few isolated cases either, and while hard to measure, it appears to be spreading steadily. A growing number of problems are being added to an already tough situation that includes difficulty finding a replacement, an inability to foresee a worry-free retirement, and tenuous trade negotiations.

While every profession must contend with elements beyond its control, the fact is that the farming industry has been plagued by more than its fair share of woes in recent years: market instability (wildly fluctuating prices), heavier workload (to comply with environmental and food safety regulations), unpredictable weather (more frequent temperature extremes), animal disease (swine flu notably), stiffer competition, and a soaring loonie.

Beyond all these considerations, farmers are increasingly feeling isolated. Farming is less socially acceptable, for lack of a better term. Urban expansion to the suburbs and rural regions may have brought urban and rural dwellers in closer proximity but it has also made it more difficult to run a farming operation. For all these reasons, plus the financial problems, some farmers are thinking about throwing in the towel.
Add to this traceability, animal vaccination requirements, agri-environmental fertilization plans and reports and forms that take time and money to complete. Farm producers must meet all these demands while trying to improve their bottom line. They do all this willingly despite no assurance that the market will reward their efforts with higher prices.

CHINESE ACQUISITION OF QUÉBEC FARMLAND: IDLE THREAT OR CAUSE FOR PANIC?
Rumour has it that Chinese investors are looking for 40,000 hectares of farmland. This equals about 400 km² or 80% of the island of Montréal, which measures about 500 km². According to the 2006 Census of Agriculture, the total farm area in Québec was 3,462,935 hectares that year. Therefore, a purchase of 40,000 hectares by foreign investors would equal 1.2% of the total farm area or about 354 farms. In 2006, Québec had 30,675 farms with an average size of about 113 hectares. It remains to be seen whether the Chinese who have been buying up farmland around the world are interested in such small operations.

We must remember that these are assumptions and that the realtor’s mandate supposedly includes all of Canada. If so, then the 40,000 hectares represent 0.06% of the nation’s farmland. In 2006, the average size of a Canadian farm was 294 hectares, three times bigger than a Québec farm.

Moreover, these alleged investors are also looking for 30,000 hectares of forestland, the equivalent of 300 km². In order to gain a better idea of the size of the mandate, we can compare it to the total area of Québec’s private forests, which is about 70,000 km², spread among 130,000 owners. According to Québec’s Department of Natural Resources and Wildlife, the province has 66,246 km² of productive forestland. If the Chinese picked up 300 km², they would own 0.4% of Québec’s private forests or 0.6% of its private productive forestland.

These are clearly very small percentages. What is worrisome is not so much how much of the land would be sold, but the fact that the door would be opened to land purchases by non-residents. The outcry over these assumed purchases was sparked by what we perceive as a repetition of what is happening in Africa, Southeast Asia and South America.

WHY BUY FARMLAND IN QUÉBEC?
Because of sketchy information from potential buyers, their real motivation is hard to figure out. We can only make assumptions. Perhaps they’re buying farmland because China fears a food shortage. Some even go so far as to suggest that their main interest is really Québec’s pork production. The fact is that compared to other parts of the world, land is much cheaper in Québec (graph 8 on page 5). Still, none of this holds up under scrutiny: our planting season is quite short, the plots are smaller than what the Chinese have been snapping up in other countries and insufficient for their food needs, it costs more to raise livestock in the Northern Hemisphere because of our winters, and there is the matter of how to ship the food 12,000 km² (Québec-Hong-Kong).

Other observers believe that the appetite of the Chinese for Québec is due to their very high savings rate and the resulting need for investment vehicles. While it’s true that farm real estate is an attractive asset class for investment funds and institutional investors that offers an alternative to riskier options as well as a hedge against inflation, there is no price surge right now and therefore no reason for hordes of buyers to rush in and buy.

WHO WANTS TO BUY LAND?
So far, no one has managed to identify the alleged investors behind the “40,000-hectare mandate.” They are thought to be either Chinese Canadians, a buying consortium, Chinese civil servants or fund managers. Their identity is critical because not just anyone can buy farmland in Québec.

We have what one might call barriers or firewalls. Back in 1978, the An Act to preserve agricultural land was enacted to protect farmland against real estate speculation. In 1996 it was amended and renamed An Act respecting the preservation of agricultural land and agricultural activities.

Québec also has legislation called An Act respecting the acquisition of farm land by non-residents. According to the latest version, tabled on April 1, 2009, a person who has not lived in Québec for 366 days in the 24 months immediately preceding the date of acquisition of farmland cannot buy land. Any derogation from this rule must be examined by the Commission de la protection du territoire agricole du Québec (CPTAQ). A look at the CPTAQ’s practices over the last few years reveals that it tends to approve the transactions of buyers who wish to establish themselves in Québec and commit to staying for two years. However, they must prove their intent. In place for some 30 years, this mechanism has successfully kept speculators at bay. Although it does not stop buyers from using front men, the law provides for legal recourse should this happen.
So while there’s no immediate threat, the situation is clearly conducive to the sale of farmland in Québec. Producers have no shortage of reasons to sell their operations. Investment funds and institutional investors pretty much everywhere in the world consider farm real estate an attractive asset class that offers diversification and protection against inflation. Agricultural land is becoming a safe-haven investment. That said, bringing these two groups together will not necessarily turn into a buying spree, at least not in the immediate future.

Although the reports of potential farm purchases by Chinese investors have sparked public concern, we have seen that it is easier to buy land elsewhere in Canada than in Québec and Saskatchewan, both of which have enacted legislation to limit acquisitions by non-residents. For now, the governments do not seem alarmed and have not announced any special measures. In Québec, the public’s reaction has shown the province’s watchdog for agricultural real estate acquisitions, the Commission de protection du territoire agricole, just how much Québécois care about who owns the land, attesting to the heavy responsibility it must shoulder in this regard.

Still, this analysis has raised some questions. Some farmers are at the end of their rope and ready to sell. What choices must Québec make to ensure a vibrant agricultural sector?