

# AgriStability or Aggravation?

*Agri-business members' views of AgriStability - 1,081 reasons why immediate changes are needed!*

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Federal, Provincial, and Territorial (FPT) governments have been reviewing Business Risk Management (BRM) Programs including AgriStability since July 2008 and producers have yet to see any meaningful changes to these programs. In a recent survey by the Canadian Federation of Independent Business (CFIB) of almost 1,100 agri-business owners across Canada, several problematic areas within AgriStability have been identified. Poor customer service, complex and large volumes of paperwork, timeliness issues, and predictability are just some of the concerns cited by CFIB agri-business members. FPT governments are currently holding consultations with producers and stakeholders in May and June 2010 on the challenges facing the sector, BRM programs and the opportunities that lie ahead. It is CFIB's hope that these consultations will spur governments into action to make some immediate changes to AgriStability. CFIB believes BRM tools are a last resort, but when producers do need them, they have to work. They must be transparent, accessible, predictable, and timely.

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## About CFIB

CFIB is a non-partisan organization exclusively representing the interests of 105,000 small- and medium-sized businesses in Canada, of which 7,200 are agri-businesses. CFIB is entirely funded by our members and takes direction from them through regular surveys on a variety of issues. CFIB believes farmers, in their capacity as entrepreneurs, require strong advocacy with respect to the business-related issues of farming.

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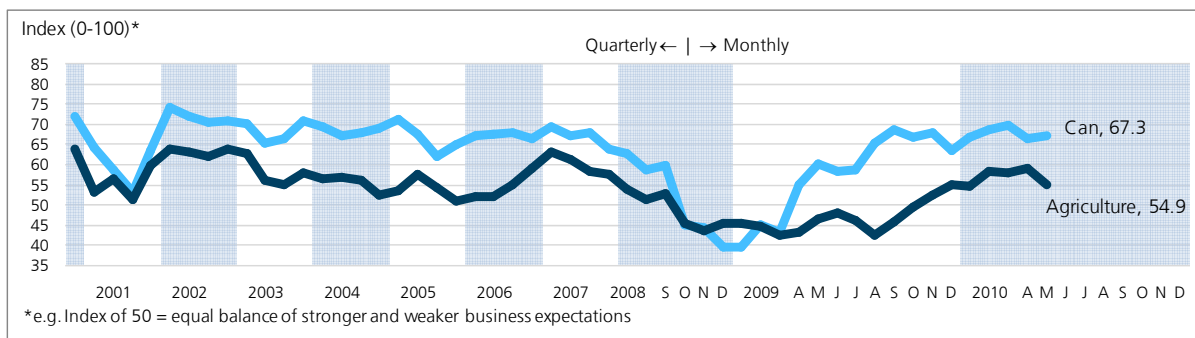
## Monthly Agriculture Business Barometer – Agri-Business Outlook for the Year Ahead

Since 1987, CFIB has been surveying its members about their expected business performance each year. In 2001, CFIB started collecting the data quarterly, and as of 2009, monthly. We now release a Monthly Agriculture Business Barometer which gauges agri-business optimism for the year ahead. While we have seen a slight improvement in optimism in agriculture over the past few months, it is

clear farmers have not been immune to the global economic downturn. When compared to the national business confidence level of 67.3 the agricultural sector continues to lag behind other industries with an index level of 54.9 (see Figure 1).

Figure 1:

### Monthly Agriculture Barometer



Source: CFIB, *Monthly Agriculture Barometer*, May 2010

## Government policy needs to fuel optimism

Government policy can either fuel or dampen optimism in the agri-business sector. While government cannot control many global issues affecting the agricultural industry, they can certainly take steps to improve the tax and regulatory environment in which agri-business owners operate. Additionally, they can make programs like AgriStability more transparent, timely and predictable.

While CFIB agri-business members would sooner garner their profit from the marketplace, we continue to hear that AgriStability is not helping those members that are mired in an ongoing downturn in the marketplace.

## Point of View: AgriStability Survey

The following sections outline the national results from our latest survey on BRM programs. This report was based on data collected from November 23, 2009 to January 11, 2010 and this survey attracted 1,081 responses from CFIB's agri-business members across Canada. This survey supplements CFIB's previous reports, *Growing Forward - For Some, Not All* (2008) and *The Case Against CAIS* (2006).

## What should a government BRM program provide?

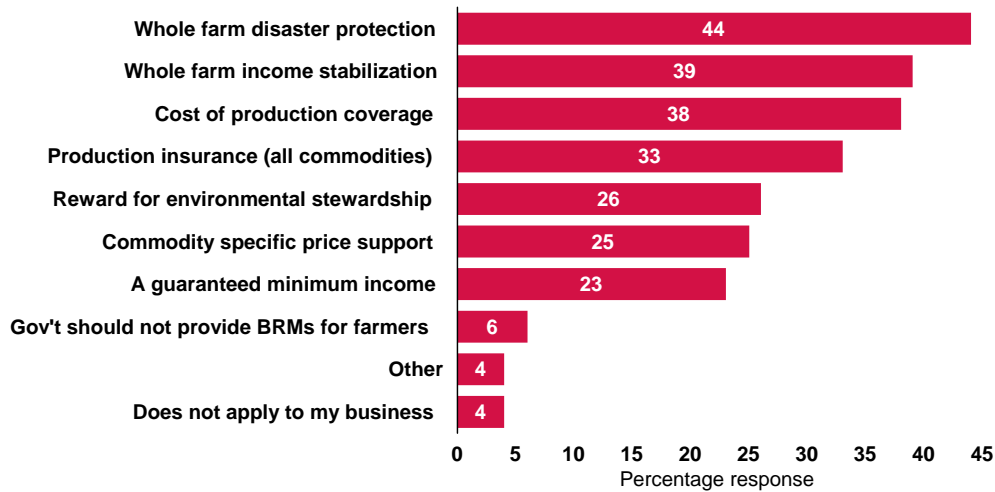
Nationally, 44 per cent of CFIB's agri-business members believe a government BRM program should provide whole farm disaster protection. Whole farm income stabilization and cost of production coverage were cited by close to 40 per cent of respondents. Thirty-three per cent favoured a production insurance model and 1-in-4 members believe governments should reward environmental stewardship (see Figure 2).

By Sector:

- ▶ Fruit, Vegetable and Horticultural growers cited whole farm disaster protection (53 per cent)
- ▶ Field crop farms were most supportive of a cost of production model (46 per cent)
- ▶ Livestock operations selected whole farm disaster (41 per cent) and cost of production (38 per cent)

Figure 2:

### What do you believe a government BRM program should provide for your agri-business?



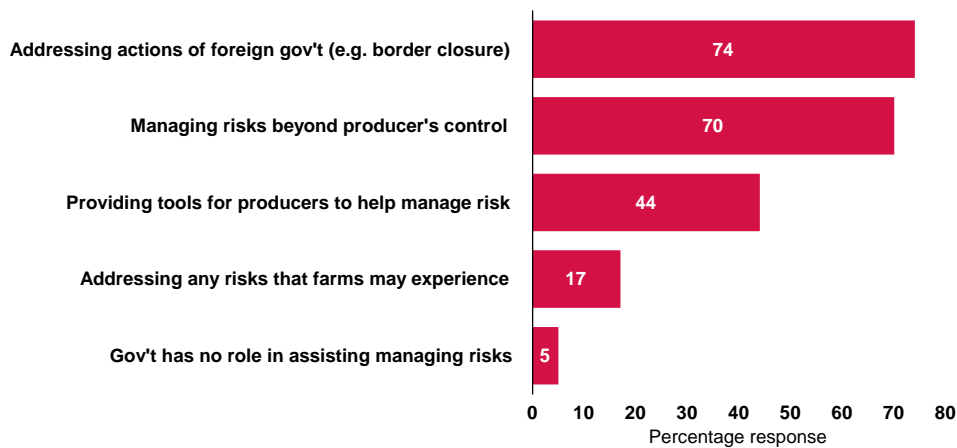
Source: CFIB, Point of View: AgriStability National Survey, January 2010, 1,081 responses

## What is Government's role?

One of the goals of CFIB's survey was to determine what role government should play in providing BRM programs and assisting producers in managing risk. Seventy-four per cent of members said the government should address actions of foreign governments (e.g. border closure) and 70 per cent believe the government should assist in managing the larger risks a farm may experience that are beyond a producer's control. Forty-four per cent believe government should provide tools for producers to help them manage risk. Only 17 per cent said government should address any risks their farm may experience (see Figure 3).

Figure 3:

### What role should government play in assisting producers in managing risk?



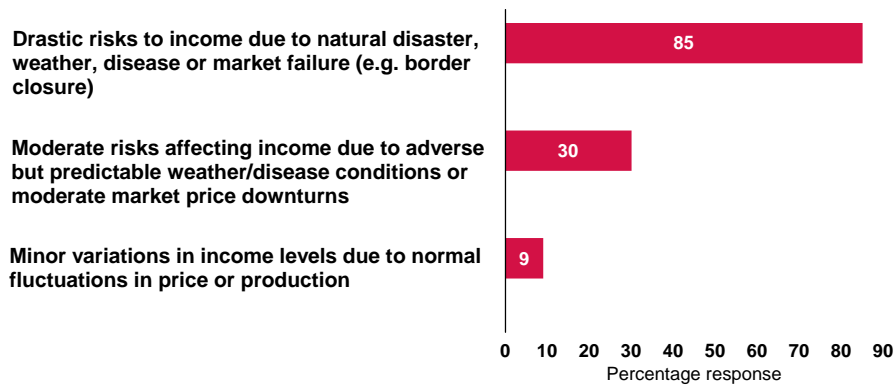
Source: CFIB, Point of View: AgriStability National Survey, January 2010, 1,081 responses

## What types of risk should government help address?

A strong majority of members (85 per cent) believe government should help address drastic risks to income due to natural disaster, weather, disease, or market failure (e.g. border closure). Less than 1-in-3 said government should address moderate risks affecting income due to adverse but predictable weather/disease conditions or moderate market price movements. Only nine per cent of respondents believe government should address minor variations in income levels due to normal fluctuations in price or production (see Figure 4).

Figure 4:

### What types of risk does government have a role in helping producers address?



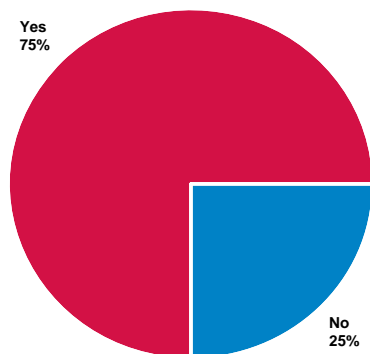
Source: CFIB, Point of View: AgriStability National Survey, January 2010, 1,081 responses

## Participation in AgriStability

CFIB had been hearing from many members who contacted CFIB’s Business Counsellors directly about their concerns and experiences with the AgriStability program.

Figure 5:

### Are you currently participating in the AgriStability program?



Source: CFIB, Point of View: AgriStability National Survey, January 2010, 1,081 responses

When asked if they were currently participating in AgriStability, 75 per cent of respondents said yes and 25 per cent were not participating (see Figure 5).

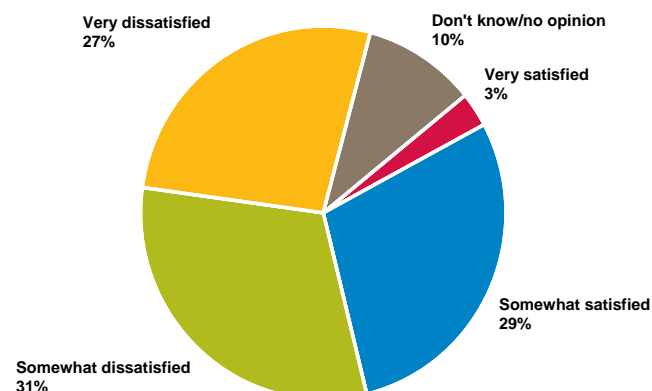
Participation rates are highest in the Field Crops and Combination Farms sector at 90 per cent, followed by Fruit, Vegetables and Horticultural Specialties sector at 78 per cent. The participation rates are lowest in the Livestock sector at 70 per cent. This leaves the question – why is it the farms that need the assistance the most have the lowest participation rate?

## Level of Satisfaction with AgriStability

The level of satisfaction with the AgriStability program is not very high. In fact, 58 per cent of those participating in AgriStability said they are somewhat or very dissatisfied with the program. Only 32 per cent were somewhat or very satisfied with the AgriStability program (see Figure 6).

It is interesting to note that this level of dissatisfaction is identical to results from CFIB's 2005 survey on the CAIS program where 58 per cent of those participating in CAIS were also dissatisfied with the program.

Figure 6:  
How satisfied are you with the AgriStability Program?



Source: OFMO #17, Preliminary Results, January-April 26, 2010, 609 Respondents

## Problematic areas within AgriStability

In October 2008, CFIB released a national report, *Growing Forward - For Some, Not All*. There were many unanswered questions from our agri-business members including:

- ▶ Will the programs be more responsive and available in a timely manner?
- ▶ Will these new programs be less complicated?
- ▶ Will the new programs be more predictable?
- ▶ Are reference margins the best measure?
- ▶ Will customer service improve?

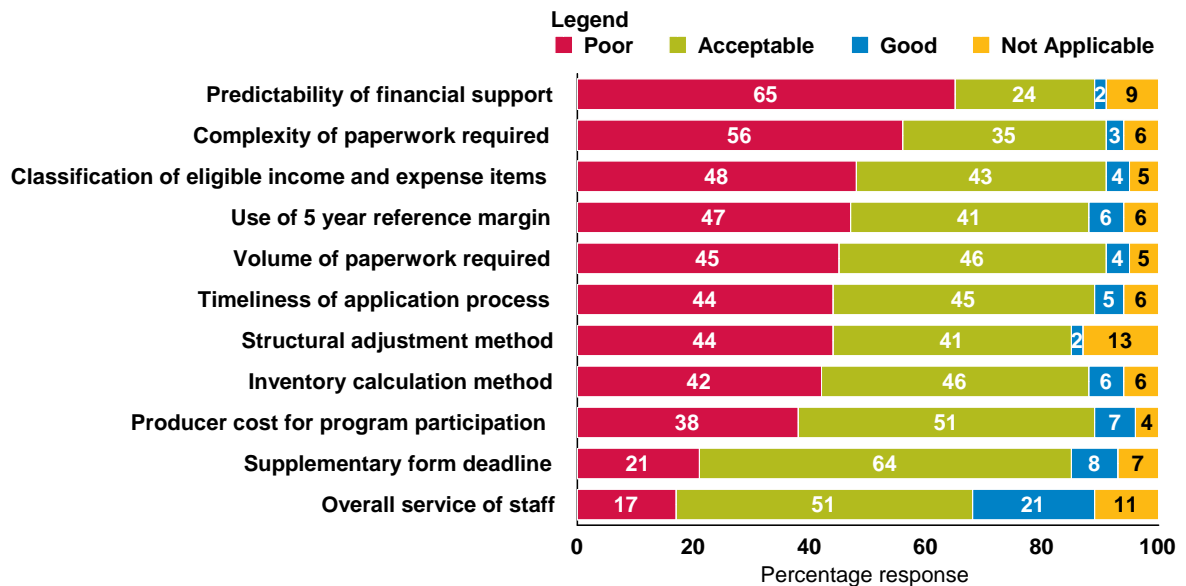
Therefore, in this latest survey on AgriStability, CFIB asked its agri-business membership to rate various aspects of the AgriStability program to answer some of the above questions. It is evident there are many areas that still need improvement. Poorest ratings were assigned to the following (see Figure 7).

- ▶ Predictability of financial support for my agri-business (65 per cent rated Poor)
- ▶ Complexity of paperwork required (56 per cent)
- ▶ Classification of eligible income and expense items (48 per cent)
- ▶ Use of 5 year Olympic average "Reference Margin" (47 per cent)
- ▶ Volume of paperwork required (45 per cent)
- ▶ Timeliness of application (44 per cent)
- ▶ Structural adjustment method (44 per cent)

While customer service ratings were not as poor as other aspects of the program, this is an area that needs attention. Hundreds of member comments from the survey indicate customer service continues to be a significant issue for farmers dealing with front-line staff.

Figure 7:

**AgriStability Report Card: Please rate the following aspects of the AgriStability program**



Source: CFIB, Point of View: AgriStability National Survey, January 2010, 1,081 responses

**CFIB Member Comments – Problematic Areas within AgriStability**

*Predictability:*

*“It’s got to be **faster**, more **predictable**! I should be able to calculate my payment when I complete the forms. **The program is sufficiently complex to confuse even those who administer it.** Also, farm management has become an exercise in trying to guess what the program will pay out. It is tricky planning a path if you don’t know how the program will respond. You can easily end up further behind than you started. It’s a black box program few fully understand.”*

CFIB Member, Livestock and Animal Specialty Farms, Ontario

*Complexity of paperwork:*

*“The **calculations are so complicated** that even the agents at the Financière agricole are not able to explain to us how the program works!”*

CFIB Member, Fruit, Vegetables and Horticultural Specialties, Quebec

*“**Paperwork is quite burdensome.** Never know how much your application will refund to you in a given year, therefore **difficult to predict** and plan accordingly.”*

CFIB Member, Fruit, Vegetables and Horticultural Specialties, Ontario

*Classification of eligible income and expenses:*

*“It’s **not easy to classify** the expenses and income admissibility in this program.”*

CFIB Member, Livestock and Animal Specialty Farms, Quebec

*“Yearend or fall purchase or application of inputs must be redefined to include a **consistent** pattern as acceptable. **Arbitrary applicability rules** can lead to **confusion, arguments, and massive recalculations.**”*

CFIB Member, Field Crop and Combination Farms, Manitoba

### Use of 5 year reference margin:

"We have had a steady decline in income over the last few years due to drought and prices. Our margins have been declining without triggering a payout. **Our margins are now so low they are the new average and no longer cover the cost of production.** The program as it exists does not cover continual disasters and steady declining income."  
CFIB Member, Livestock and Animal Specialty Farms, Saskatchewan

"Margin calculations should be done on a crop specific basis. The current methodology **penalizes** diversified farms."  
CFIB Member, Field Crop and Combination Farms, Nova Scotia

### Timeliness:

"Apparently more staff or better trained staff are required as the **length of time** to process an application is **unacceptable**. The information required is unnecessarily **complicated** and **costly** to provide. The whole process needs to be **simplified**."

CFIB Member, Fruit, Vegetables and Horticultural Specialties, Alberta

"There needs to be a **hard and fast timeline**. Producers fill out the forms and then wait an **unreasonable** length of time to get a response and even longer for a payment. **Banks have zero tolerance** when it comes to getting their money and put excessive pressure on the farmers."

CFIB Member, Ag Services, Manitoba

"Payments are made **2 years after the losses are recorded**. We have to borrow money to compensate this revenue decline while we have to pay more taxes when the payment arrived because our revenue is considered higher. The payment should be received the year of the loss."

CFIB Member, Fruit, Vegetables and Horticultural Specialties, Quebec

"Just like everything else that the government does - it is **not very timely**. If you have a bad year you won't receive the help until well into the **next year or maybe even later**. I am sure that they could respond **quicker**."

CFIB member, Field Crop and Combination Farms, Saskatchewan

### Customer service issues:

"Recently I called AgriStability and was told I was not the person on file so they could not release information to me. I explained that the person they had on the file retired in 2004 and that for the past 5 years I had been handling our AgriStability. I was required to send in legal documentation to prove that I was now a director in the company and was authorized to do this. This was a month ago. I am **still waiting for them to process the paperwork**. The system is so **complicated, jurisdiction changes from federal to the provinces, and vice versa and even the people I speak with on the phone who work at AgriStability seem confused by the system.**"

CFIB Member, Fruit, Vegetables and Horticultural Specialties, Ontario

### One-size fits all approach not working:

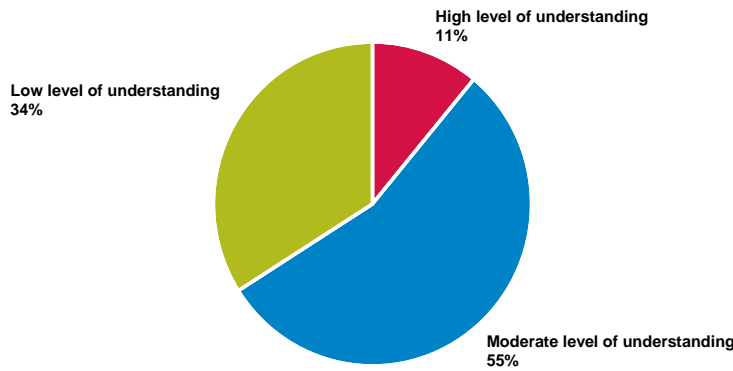
"More specific for nursery growers; **'one size/price fits all' doesn't work**. Smaller operations have more diverse products that don't fit well with a program set up for large amounts of the same product."

CFIB Member, Fruit, Vegetables and Horticultural Specialties, British Columbia

## Complexity Issues and Level of Understanding

Figure 8:

**How would you rate your level of understanding of the AgriStability program?**



Source: Point of View: AgriStability National Survey, January 2010, 1,081 responses

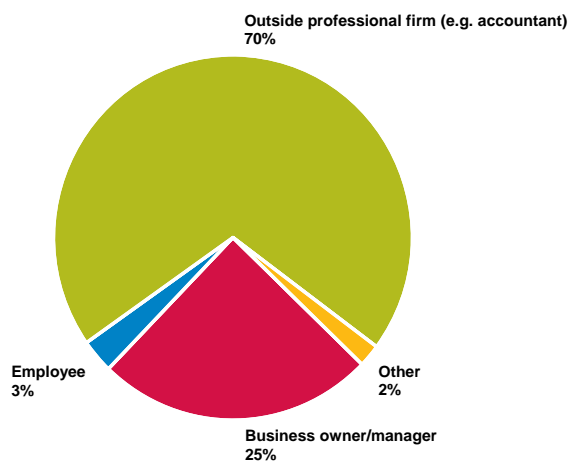
As mentioned in the previous section, CFIB members identified predictability, complexity and volume of paperwork as some of the key concerns with AgriStability. It is not surprising to learn members do not rate their level of understanding of AgriStability as particularly high. In fact, only 11 per cent rate their level of understanding of AgriStability as high, another 55 per cent have a moderate understanding of the program and 34 per cent rate their level of understanding as low (see Figure 8).

## Professional Expertise Required

Accountants are a very important part of many farm businesses and play a key role in the overall management plan. However, due to the complexity of the AgriStability program and the fact that only 11 per cent of agri-business respondents rate their level of understanding of the program as high, it is no surprise agri-businesses must rely on professional expertise to complete their AgriStability forms and paperwork.

Figure 9:

**Who is mainly responsible for the completion of the AgriStability application form for your agri-business?**



Source: Point of View: AgriStability National Survey, January 2010, 1,081

When asked who is mainly responsible for the completion of the AgriStability application form for their business, 70 per cent of respondents said they relied on an outside professional firm (e.g. accountant). Twenty-five per cent of the respondents said the business owner/manager was responsible and three per cent said an employee completed the paperwork required for the AgriStability application (see Figure 9).

*“Make the calculations transparent and consistent. I have no idea how some of the numbers are being generated and neither does my accountant.”*

*CFIB Member, Fruit, Vegetables and Horticultural Specialties, Ontario*

## The Cost of Participation

CFIB agri-business members report a significant cost to their business in the form of accountant fees, lawyer fees, and staff salaries to participate in AgriStability. When asked how much did their agri-business spend in the past year to apply for the AgriStability program (excluding the deposit requirement), CFIB members report spending an average of \$1,984.00 (see Figure 10).

### Average Cost for Producers to Apply for the AgriStability Program in January 2010 = **\$1,984.00**

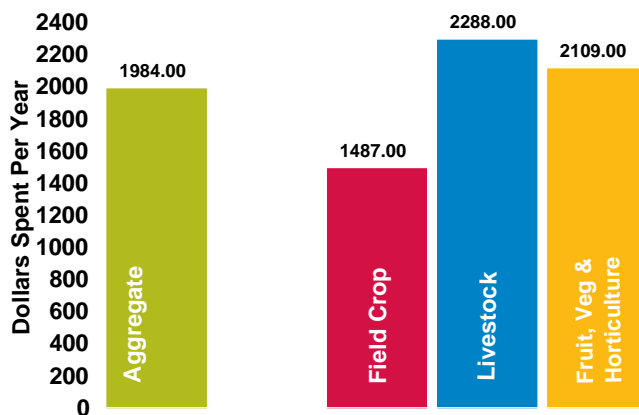
This figure is almost double what producers were spending to participate in the CAIS program. According to CFIB's survey data from 2005, agri-businesses were spending about \$997.60.

### Average Cost for Producers to Apply for the CAIS Program in November 2005 = **\$997.60**

## Sectoral Differences:

Figure 10:

**Not including the deposit requirement, how much did your agri-business spend in the past year to apply for the AgriStability program?**



The results also show the cost of participation in AgriStability varies by agri-business sector (see Figure 10). Field crop farm businesses spend an average of \$1,487.00 to participate in AgriStability. Fruit, Vegetable and Horticultural farms spend an average of \$2,109.00 and Livestock operators spend an eye-popping \$2,288.00 to participate in the program.

Source: Point of View: AgriStability National Survey, January 2010, 1,081 responses

## Effectiveness of AgriStability

Just over half of CFIB agri-business respondents have received a payment from AgriStability:

- ▶ 54 per cent received an AgriStability payment
- ▶ 46 per cent did not receive an AgriStability payment

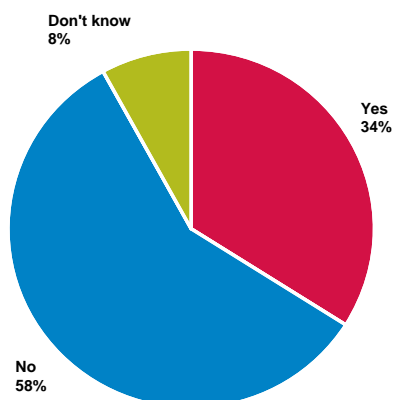
These results reveal the AgriStability program is demanding a great deal of time and money from farmers who participate; yet only about half of them received a payment. There continues to be much debate about the adequacy of the payments received by producers.

Of those CFIB members who received an AgriStability payment, only about one third (34 per cent) of respondents said it enabled their agri-business to handle the margin loss for the year. Fifty-eight per cent of CFIB members said the payment was not adequate to handle the margin loss for the year (see Figure 11). The ineffectiveness of the program varies widely by sector with 72 per cent of respondents in the livestock sector saying the payment was inadequate compared to 53 per cent in the Field Crop and Combination Farm sector and 45 per cent in the Fruit, Vegetables and Horticultural sector. Considering the challenges in the livestock sector in recent years, it is evident AgriStability, as currently designed, is not providing an adequate long-term solution to Canadian producers.

It is interesting to note in CFIB's study of the CAIS program, 45 per cent said the payment enabled their agri-business to handle the margin loss for the year (11 per cent higher than those responding to this survey on AgriStability).

Figure 11:

**Did the AgriStability payment enable your agri-business to handle the margin loss for the year?**



*"Currently - it is designed for the larger farm and does not suit all smaller producers or their commodities. It really does not live up to the ideas that it projects nor does it provide needed support - it is a tiny band-aid on a huge wound."*

*CFIB Member, Livestock and Animal Specialty Farms, Ontario*

Source: Point of View: AgriStability National Survey, January 2010, 1,081 responses

## Summary of Key Survey Findings

The work done in this report is not intended to be a definitive review of the AgriStability program. Rather, it serves to add a quantitative analysis to the existing anecdotal observations regarding AgriStability and the need for a concrete plan to address those areas that are not working within the program. Not unlike the CAIS program, CFIB agri-business members have identified several problematic areas within AgriStability. Changes must be made as the one-size-fits-all approach is not working.

- ▶ **FPT governments do have a role to play** especially in addressing the actions of foreign governments and managing risks beyond the producer's control (e.g. border closure).
- ▶ **Participation rate in AgriStability is lowest in the livestock sector.** Many of these producers are the ones who need the help most and the livestock producers who are participating in the program are also spending more on professional expertise to apply for the program (\$2,288).
- ▶ **On average, producers are spending \$1,984 to participate in the AgriStability program,** which is almost double what they were spending to participate in the CAIS program in 2005.

- ▶ **The level of dissatisfaction is identical to results from CFIB's 2005 CAIS Survey**, where 58 per cent of respondents were dissatisfied with the program.
- ▶ **Due to the volume and complexity of paperwork**, only 11 per cent rate their level of understanding as high. The classification of eligible income and expenses are also key contributors to this lack of understanding.
- ▶ **AgriStability payments are inadequate**. Only 34 per cent of respondents said the payment enabled their agri-business to handle the margin loss for the year (11 per cent drop since 2005 survey on the CAIS program).
- ▶ **AgriStability is demanding a great deal of time and money** from farmers but is not helping those producers who really need the assistance.
- ▶ **Customer service issues are in need of immediate attention by FPT governments**. Timeliness, complexity, and the overall service of staff need to be addressed as soon as possible.
- ▶ **AgriStability, as currently designed, is not providing an adequate long-term solution to Canadian producers**. The 5 year reference margin model is not working for those sectors mired in a long-term downturn in the economy (e.g. livestock sector).

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## Time for action

In July 2008, FPT Agriculture Ministers “agreed to undertake a strategic review of BRM programs over the coming year to ensure programs meet evolving needs.” At the July 2009 meeting, Ministers of Agriculture directed officials to “identify potential objectives and principles for future BRM programs, the roles and responsibilities of industry and governments in managing risk; and the range of possible program design options.” At the FPT Ministers of Agriculture meeting on Feb 5, 2010, the Ministers discussed the BRM strategic review and promised consultation with producers and Ag groups in the future. It is CFIB’s hope these consultations will produce meaningful results for producers.

CFIB believes it is time to take action and its latest survey results on AgriStability can enhance these discussions around BRM programs and help to define the roles and responsibilities of industry and government in risk management.

Feedback from CFIB members also indicates AgriStability is not working and it appears that meaningful changes are required to help those producers who really need assistance during long downturns in the market (e.g. livestock sector). It is clear CFIB members believe that government has a role to play in addressing the most drastic risks due to natural disaster, weather, disease, or market failure (e.g. border closed to exports). CFIB members would prefer to garner their profit from the marketplace and AgriStability is really a program of last resort. When AgriStability is needed, it must be transparent, accessible, predictable and timely.

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## Recommendations

CFIB agri-business members believe many changes could be implemented to improve the way AgriStability is delivered to producers. CFIB recommends the following be used to ensure AgriStability and future programs are more accountable and responsive to farmers’ evolving needs:

- ▶ **Review government approach in providing BRM programs:** CFIB members believe that government has a role to play in addressing the most drastic risks at the farmgate such as natural disasters, extreme weather, unexpected disease outbreak or market failures (e.g. border closure). Governments must continue to address actions of foreign governments – a top priority for CFIB members especially in the livestock sector. CFIB members believe that all governments must continue to address bilateral and multilateral trade matters (e.g. country-of-origin labelling (COOL)).

- ▶ **Extensive industry consultation:** The effectiveness of any long-term safety net program will be determined by extensive agri-business participation in program design and development. All agricultural industry stakeholders must be consulted so as to construct a program that suits the varying needs of Canada's vastly diverse agriculture industry. While CFIB welcomes the upcoming consultations, we hope the Ag Ministers are serious about making some fundamental changes.
- ▶ **Implement customer service standards:** All ministries and program administrators of the AgriStability program should adopt a Service Commitments and Standards Code. Program administrators of the Growing Forward suite of programs should be subject to customer service standards with the overarching goals of:
  - Reducing the volume and complexity of paperwork
  - Improving the timeliness of the application process (e.g. guaranteed turnaround time for a producer's application)
  - Improving customer service
- ▶ **Address the most problematic aspects of AgriStability:** CFIB members have identified several areas that need significant improvement:
  - Predictability of financial support
  - Classification of eligible income and expense items
  - Use of 5 year Reference Margin
- ▶ **Minimal regulatory burden:** Any long-term safety net program generated by government will have a certain amount of paperwork associated with it; however, excessive quantities of complex paperwork reduce farmers' productivity, growth and overall competitiveness. Therefore, long-term safety net programs must not require excessive amounts of paperwork and regulatory requirements to participate.
- ▶ **Transparent design:** Government support programs must be designed to be understandable, easy to comply with, and all program rules, requirements, calculations and ongoing changes must be clearly communicated. Additionally, the programs' administrative staff must proactively and clearly inform participants of any changes made to their applications.
- ▶ **Responsive design:** Government programs must address the needs of farmers in a timely manner. This includes both a responsive program design and expeditious administrative processing.
- ▶ **Review FPT Government Tax and Regulatory Policy:** Governments can also look at other ways to make the agriculture industry more competitive and dynamic including:
  - Reduce the regulatory and paper burden on agri-business owners
  - Reduce the total tax burden
  - Implement policies to assist with agri-business succession

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## Appendices

### Provincial-Specific Results:

- ▶ AgriStability Backgrounder - British Columbia
- ▶ AgriStability Backgrounder - Alberta
- ▶ AgriStability Backgrounder - Saskatchewan
- ▶ AgriStability Backgrounder - Manitoba
- ▶ AgriStability Backgrounder - Ontario
- ▶ AgriStability Backgrounder - Quebec
- ▶ AgriStability Backgrounder - Atlantic
- ▶ CFIB Agri-business Members' Views of AgriStability - Do you have any suggestions for how to improve the AgriStability program?