

Business Risk Management Programming for Ontario Agriculture

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Representing Edible Horticulture, Livestock and Grains & Oilseeds

1.0 INTRODUCTION

The Growing Forward Agreement, to which the federal government and all provinces are signatories, outlines a vision and strategic outcomes for the agriculture and food sector. Any new or modified business risk management program needs to contribute to achieving this Vision and Strategic Outcomes:

VISION:

A profitable and innovative agriculture, agri-food and agri-based products industry that seizes opportunities in responding to market demands and contributes to the health and well-being of Canadians.

STRATEGIC OUTCOMES:

- A competitive and innovative sector
- A sector that contributes to society's priorities
- A sector that is proactive in managing risk

A Business Risk Management Program (BRMP) for Ontario which builds on the experience gained through the Grains and Oilseeds Risk Management Program (RMP) Pilot would contribute in a very positive way to the Vision and Strategic Outcomes of Growing Forward.

A Business Risk Management Program (BRMP) provides a basic level of market risk certainty for producers which will allow them to make the investments needed to innovate and seize new opportunities. AgriStability, in its current form, is not seen as providing either the short term predictability or the long term bankability required to support innovation and investment. By providing participating producers with the knowledge that they will realize gross revenues which are at least equal to an insured percentage of their cost of production, producers as well as lenders will have the confidence to invest in new technologies, new market opportunities, and new skills.

Producers who are focused on survival from one month to the next are in no position to innovate or respond to changing market opportunities. Not only will a new BRMP support innovation among existing agriculture businesses, it will also provide business planning predictability for better access to the loans and investment capital innovative entrepreneurs need to start economically viable farm businesses.

A BRMP also supports the efforts of both the Ontario and the federal government to promote economic opportunities, healthy eating and reduced greenhouse gas emissions through greater consumption of domestically produced food products.

The Ontario food processing and retail sectors would be enhanced by a greater level of certainty of supply from Ontario producers. A BRMP would ensure the Ontario food processing sector remains strong and economically sustainable. The farm-level predictability of BRMP would provide better assurance of supply, in turn mitigating risk from the processors' perspective. The current situation in pork and beef processing within Ontario demonstrates the economic danger of uncertainty for producers, processors and retailers. Declines in the volume of livestock going to slaughter leads to declines in slaughter capacity, yielding a downward spiral across the agri-food sector.

A BRMP applied to a sustainable volume of domestic production would allow all links in the value chain to have greater certainty, provide a stable base of processing capacity, and lead to the development of innovative retail products to meet the needs of Ontario consumers for safe and healthy local food.

A BRMP also promotes proactive risk management on the part of producers. The current AgriStability program is seen as discouraging proactive risk management best practices by producers, particularly around managing market risk through diversification. Since AgriStability is a whole farm margin based program, producers who diversify their production or otherwise reduce their exposure to market downturns or input price increases may receive fewer program benefits in any one year than producers who do not.

This can be seen as running counter to the Growing Forward strategic outcome of promoting proactive risk management and runs counter to the best management practices being promoted through non-BRM programs.

A BRMP which is based on market conditions within each sector will remove this anomaly, and producers who effectively manage individual business level risks in both their market returns and their input costs would realize the gains from those management decisions.

2.0 BRMP AS A MANAGEMENT TOOL FOR NEW AND EXISTING PRODUCERS

2.1 Predictability and Bankability

One of the primary benefits a business risk management program brings to farmers across the country is the ability to formulate business plans that take into consideration the minimum price support that they can expect from their stabilizing programs.

At present, the current primary support program of Canada's farmers, AgriStability, provides substantial support to producers in some scenarios but falls short in its ability to provide support in a predictable fashion. Put another way, Canadian farmers are unable to predict with any degree of reliability the actual support payment that they will receive from the program in a given year. The impact of this variability is that farmers are unable to effectively use AgriStability in the formation of long-term business plans, and subsequently, run the risk of having difficulties securing credit.

A BRMP, similar to the pilot project used for grains and oilseeds in Ontario and ASRA in Quebec, has the benefit of being predictable from year to year. Farmers will be able to leverage the predictability of the program into both short and long-term business planning.

2.1.1 Beneficiary: Existing Producers

A Business Risk Management Program would provide long-term stability for existing producers. The volatility of a global market, unpredictable events with significant impact on normal market signals (e.g. H1N1 in the spring of 2009 on the hog sector) and other fundamental shifts in market conditions that may be the result of government policy, require an additional support program for Ontario and Canada's farmers. A BRMP, in addition to the current suite of programs, would help fill the gaps that exist to stabilize the first link in the agri-food chain.

2.1.2 Beneficiary: New Entrants into Agriculture

Given that the average age of farmers now rests in the early to mid 50s across the country, there is the need for government to play a role in encouraging the transition that will occur over the next decade.

The predictability and bankability of a BRMP could be used as a cornerstone of viability tests when business plans are developed by a new entrant into agriculture. This could then be used by the new entrant to secure start-up capital from Canada's major lending institutions or Farm Credit Canada. A long-term BRMP will help facilitate generational change in the agriculture sector.

3.0 AGRISTABILITY LINKAGE

BRMP complements AgrilInsurance and AgriStability to provide an effective risk management package for farmers. Each program addresses different risks:

- AgrilInsurance provides coverage against adverse weather and other insured perils impairing a farmer's individual production performance.
- AgriStability provides support to farmers experiencing a greater than 15 percent decline in their individual whole-farm production margin when compared to their individual whole-farm reference margin.
- BRMP provides coverage against province-wide, average commodity market prices falling below province-wide support prices based on estimates of cost of production for efficient producers.

3.1 Program Participation

To participate in BRMP farmers must also participate in the AgriStability and AgrilInsurance programs (where applicable) for the corresponding program year. By participating in all three programs producers take full advantage of the protection available from risk management programs. BRMP payments count as an advance on a producer's AgriStability benefit for the corresponding program year. If the BRMP payment is greater than the AgriStability benefit, the participant will keep the excess.

Depending on weather and/or market conditions a grain and oilseed producer could receive an AgriStability benefit, an AgrilInsurance claim, and/or a BRMP payment in a given year.

For BRMP and AgriStability, corresponding program years are determined by the producer's year-end in AgriStability. If the AgriStability year-end falls between September 1 and December 31, BRMP and AgriStability have the same program year.

If the AgriStability year-end falls between January 1 and August 31, the BRMP year corresponds to the following AgriStability program year (e.g., 2009 BRMP and 2010 AgriStability).

To be considered participating in AgriStability, BRMP participants must secure AgriStability coverage by paying the AgriStability fee for the corresponding program year.

All partners in a partnership must secure AgriStability coverage except for landlords who are enrolled in Production Insurance under the Shared Equity Option (SEO), but who don't have allowable income or expenses under the rules of AgriStability. These landlords do not have to participate in AgriStability for the SEO arrangement to be eligible for BRMP.

If a participant receives a BRMP payment and does not pay the AgriStability fee, the participant will be required to repay the full amount of the BRMP payment received.

3.2 BRMP and AgriStability Payment Calculation

BRMP payments are counted as an advance on the participant's AgriStability benefit for the corresponding program year. Participants keep the greater of either the BRMP payment or AgriStability benefit. In either case, the final statement will show what portion of the payment is attributed to AgriStability and what portion to BRMP.

4.0 TRADE FRIENDLINESS

A key principle of the Growing Forward agreement is that BRM programs should minimize countervail risk. A BRMP can be designed in ways that make the program less susceptible to countervailing and anti-dumping trade actions.

Staff from Agriculture and Agri-Food Canada (AAFC) explained to the Ontario Agriculture Commodity Council (OACC) that “green” farm support programs no longer exempt a program from countervailing duties. Today a program can be considered countervailable if it meets the following conditions:

- A subsidy has been provided which confers a benefit;
- The subsidy is considered “specific”;
- The amount of the subsidy is not *de minimis*; **AND**
- The subsidized goods causes “material” injury in the importer’s market

Specific subsidies include:

- Export subsidies
- Regional subsidies
- Subsidies limited in law to certain sector(s)
- Subsidies that are limited in use by certain sector(s)

A subsidy is viewed as regional if federal funds are targeted toward specific provinces or if provincial funds are targeted to certain regions within the province. A BRMP could therefore not be viewed as regional if it only received provincial funds.

At the OACC meeting AAFC staff were asked the question whether a BRMP would be less countervailable if it were made available to a wide cross section of agriculture rather than just a few commodities. The answer was yes; it would become much less countervailable because it would be less likely to be viewed as limited in law.

In Quebec the ASRA program functions as an advance on AgriStability. This is viewed by the Quebec government as another means to make their commodity specific program less countervailable.

In order to avoid countervailing duties a BRMP should be made available to as many commodities as possible and maintain a link to AgriStability.

Some commodities have expressed concerns about publishing cost of production estimates publicly, which would likely be required under a cost of production program. Those commodities could be excluded from the program if it was viewed as necessary.

5.0 THE POTENTIAL FOR EXPANSION

A properly designed BRMP will stabilize farm income. As such, it runs the risk of encouraging increased production. This has program cost and potential trade implications. Industry recognizes this possible consequence and is prepared to entertain ways and means of avoiding or mitigating such outcomes.

If an industry expands rapidly because of a BRMP, the cost of the program could increase dramatically, depending on market price levels. If the industry expands and becomes more reliant on exports, the industry also runs an increased risk of triggering countervail action.

Commodities are not all subject to the same risk of rapid expansion in response to government programs. With only a fixed amount of productive agricultural land available, traditional grain and oilseed crops will not see a dramatic increase in aggregate acreage planted. However, BRMP may have the undesirable outcome, from an environmental perspective, of encouraging producers to employ marginal land.

More intensive agricultural operations (shorter production cycle) such as livestock or greenhouse operations may see a more dramatic response to a cost based support program.

Industry acknowledges this potential consequence and is interested in working with governments on ways and means to mitigate the impact of the BRMP on production decisions.

5.1 Program Volume Eligibility (Criterion)

Policies to limit the volume of any commodity covered under a BRMP based on an agreed target level of production will ensure that total program costs are controlled. Industry would be willing to engage in discussion with government on reasonable and sustainable target levels of production for coverage by the BRMP. The targets would need to take into account the ability to service the market, physical limitations (land area, etc.) processing infrastructure, domestic and export demands and market potential and, most importantly, our overall objectives for economic development across rural Ontario.

Once targeted levels are agreed they will regularly be compared to production volume. If actual production exceeds target levels, program benefits will be reduced accordingly over all production, thus reducing incentives to expand.

For example, if the government chose to limit program coverage to 5.1 million hogs annually and producers participating in the program had 5.5 million hogs, both premiums and benefits would be multiplied by a factor of 0.927 (5.1 divided by 5.5). This

volume stipulation could also be applied at the farm level. In this way, individual expansion would not be rewarded by the program.

The targeted level of production should be reviewed periodically as market conditions, economic development aspirations and other considerations fluctuate over time. This will ensure maximum benefit to the economy as a whole.

6.0 BRMP IMPLEMENTATION AND INTERIM MEASURES

The positive contribution the BRMP can make to the vision and strategic outcomes of the Growing Forward framework should be realized as soon as possible.

BRMP commodity plans should be implemented as soon as they are developed. Ontario's experience gained from running the RMP three-year pilot program (2007 to 2009) for Grains and Oilseeds can be leveraged to offer a permanent BRMP Grains and Oilseeds plan commencing with the 2010 year.

Meeting the producer demand for BRMP plans, not yet developed and available, is essential. Market conditions in 2009 have demonstrated the urgent need for BRMP in many commodities. Interim measures should be implemented to compensate producers with payments to offset losses incurred in 2009. The level of compensation should be in line with the support a 2009 BRMP plan for the commodity would have provided.

7.0 FRAMEWORK FOR RISK MANAGEMENT PLANS

The purpose of this document is to identify the elements which would shape all Business Risk Management Plans in order to establish a basis for uniformity across commodities/sectors to the extent possible and to identify where design features must differ because of issues unique to the commodity/sector.

BRMP Elements	Grains/Oilseeds	Horticulture	Livestock
Eligibility - who	Ontario resident Production in Ontario	Ontario resident Production in Ontario	Ontario resident Production in Ontario
Eligibility - what	As per G&O RMP	Edible horticultural crops	Species or subspecies identified by sector
Enrolment criteria	Voluntary, but must enroll all crops grown with coverage under G&O RMP	Voluntary, but must enroll all crops grown with BRMP plans in place	Voluntary. If a producer elects to enroll any of their livestock in the plan, they must enroll all livestock, of the same species and class, which they own.
Cost of Production	As per G&O RMP	Developed in consultation between OMAFRA and sector org's for major crops; for all others use a specific proxy from list of major crops; use G&O RMP as guidance	Developed in consultation between OMAFRA and sector org's Use G&O RMP as guidance
Actuarial base - ie cost and price data needed to establish premiums	10 years	10 years	10 years price vs prior year cost
Payment periods	2	Annual	Quarterly
Coverage levels	100%, 95%, 90%, 85%	100%, 95%, 90%, 85%	Pork 100%, 95%, 90%, 85%; Beef and Veal 100%
Market price	Ave price for the payment period Combination of futures and spot prices	Ave price for the payment period	Ave price for the payment period

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Payment calculation	As per G&O RMP	Support level/lb to reflect 10 year ave acre cost divided by 10 year ave yield in lbs; Payment if annual price is below support level based on coverage selected	Pork and Veal - Floor Price (ie. Prior year COP) – Industry Average Market Price. Beef - quarterly COP - quarterly price for lbs sold Payment if difference is positive.
Premiums	To reflect actuarial assessment of program cost and coverage level Cost shared 30:70 producer:government	To reflect actuarial assessment of program cost and coverage level Cost shared 30:70 producer:government	To reflect actuarial assessment of program cost and coverage level Cost shared 30:70 producer:government
New entrants	Use of county average to replace ave farm yield in payment calculation	Use provincial average yields in payment calculation	Estimated current year production, provincial average weights.
Cross compliance	AgriStability AgriInsurance	AgriStability AgriInsurance with conditions	AgriStability
Sign up term	Annual, however, if fail to sign up, will be excluded for the two subsequent years	Annual, however, if fail to sign up, will be excluded for the two subsequent years	Annual, however, if fail to sign up, will be excluded for the two subsequent years
Non compliance	Unable to participate in the program for the two program years following the year of non compliance	Unable to participate in the program for the two program years following the year of non compliance	Unable to participate in the program for the two program years following the year of non compliance