

Improving Risk Management for Agriculture Producers

Issue: Current risk management programs are not meeting the changing needs and requirements within agriculture and the lack of education and awareness around risk management strategies is limiting the growth and success of agriculture producers.

Background

Less than 1% of Canadians are farm operators, with the number of farms in Canada declining and the land base of each farm increasing. Add to this the increases to average inputs per acre, increased labour and fixed costs and a declining net income and the result is that the dollar value for risk is substantially more than it used to be. As a result, producers require risk management solutions to create greater certainty and mitigate risk in order to improve farming options and opportunities. However, both government and producers groups have identified that improvements to agricultural risk management solutions and tools are needed. With federal priorities focused on agriculture and agri-food, there is a need to work directly with agriculture producers and industry stakeholder groups to help meet the outcomes and objectives desired and to hear first-hand about potential opportunities and areas for improvement.

Government's Role

A December 2019 news report from *Food in Canada*¹ stated that federal, provincial, and territorial Ministers of Agriculture met face-to-face to initiate action on a number of key proposals to improve support to Canadian producers, following what has been a difficult year for many producers due to a series of impacts including bad weather, the CN work stoppage, and market access issues. Further compounding the agriculture sector is the COVID-19 pandemic which has also added pressures on the agriculture industry with the need to modify work processes.

Ministers recognized that the risks facing producers have changed, particularly with respect to climate and international trade, and that current programs may need to evolve to meet their needs. To start to address these changing risks, Ministers made targeted improvements to the AgriStability program and Ministers asked officials to change the treatment of private insurance for the 2020 program year.

In addition, understanding that administrative burden is an issue for many, in particular for smaller producers, Ministers agreed to launch a pilot in select jurisdictions to make applying for support easier, by using tax return information to simplify the application process.

Ministers' engagement on key business risk management programs signaled a direct response to the changing risks faced by producers. The business risk management programs aim to provide producers with tools to ensure the viability of their operations and to manage risks largely beyond their control. As a result, officials are to develop options to make the programs more effective, agile, timely, and equitable for producers. In particular, officials are to evaluate the impact of changes to the reference margin limit and changes to eligible expenses under AgriStability.

¹ Ministers outline improvements for AgriStability program, December 18, 2019: <https://www.foodincanada.com/food-in-canada/ministers-outline-improvements-to-agristability-program-143373/>

In the mandate letter of the Federal Minister of Agriculture and Agri-food², there was specific guidance to work in collaboration with the provinces and territories to undertake a review of risk management programs, with a special focus on AgriStability in order to help producers manage environmental and business risks by providing faster and better adapted support, drawing from lessons from recent trade disputes and evidence-based research.

Producer Concerns

Less than 1% of Canadians are farm operators, with the number of farms in Canada declining and the land base of each farm increasing. Add to this the increases to average inputs per acre, increased labour and fixed costs and a declining net income and the result is that the dollar value for risk is substantially more than it used to be.

As a result, producers require risk management solutions to create greater certainty and mitigate risk in order to improve farming options and opportunities. However, there is much needed improvement required to agricultural risk management solutions and tools offered, as identified by both government and producer groups.

Current programs are limiting and don't allow for new opportunities such as the ability to expand intercropping. As there is a lack of insurance coverage for these opportunities, it prevents diversification through new cropping opportunities.

In addition, current programs often require specific fertility, seed treatment and irrigation levels, without taking into account the producers management practices. Modern farming practices and management systems often require lower inputs to produce a crop than more traditional practices. By having minimum input levels built into the program without consideration of the producers farming practices, it can mean higher costs, and restricts the producers ability to follow best practice farming methodology.

Limiting in programs has also left collateral damage because liabilities were going up and the Government's concerns over costs resulted in significant impacts to producers.

In addition, there have been significant changes to weather patterns, incidences of drought, amount of moisture and extreme weather events, requiring a need to adjust with them, taking into consideration seasonality and length of time draught happens, along with overall impacts of rain and whether there are benefits or negative implications as a result³. While clients may choose one, two or three weather stations to best represent conditions on their farm, and within proximity of their land base, weather station information may be subject to change and weather systems are also changing. Therefore, more emphasis should be placed on the use of various technology tools to assess crops and pastureland to increase accuracy in the assessment and assist producers in addressing weather events.

Since AgriStability is a margin based program that provides whole farm protection⁴, there are also limits to this. Under the Canadian Agriculture Program, there have been improvements to the Margin Limit with it being adjusted now to ensure a more equitable level of support for participants impacted by the limit. However, participants are subject to limiting of at least 70 per cent of their calculated Olympic Average Reference Margin, known as the Adjusted Reference Margin Limit. The reference margin limit impacts about one third of participants to varying degrees. The reference margin used to calculate benefits (the applied reference margin) is the lower of the Olympic and the average adjusted expenses for the same three picked years as the Olympic. Therefore, if a producer's average adjusted expense for those three years was \$200,000, the applied reference margin (used for calculating benefits) would be \$200,000, which

² Minister of Agriculture and Agri-Food Mandate Letter <https://pm.gc.ca/en/mandate-letters/2019/12/13/minister-agriculture-and-agri-food-mandate-letter>

³ Agriculture Adaptation to Climate Change in Alberta Focus Group Results, 2005: <https://www.canadianfga.ca/wp-content/uploads/2013/12/AAFRDAdaptationfinalreport.pdf>

⁴ AgriStability program: <https://afsc.ca/income-stabilization/agristability/>

may only actually end up being 40% of their Olympic average. This type of example may seem extreme, but we have seen situations where limiting has impacted producers by a substantial amount.

Another limit is livestock price insurance. Currently, there are few truly effective risk management instruments that allow Western Canadian livestock producers to manage their risk. Cattle and hog producers in western Canada face volatile market prices and the Western Livestock Price Insurance Program is designed to be market driven to reflect the risks a producer in Western Canada faces when selling livestock. Livestock producers are typically 'price takers', with prices varying greatly year to year, due to many factors impacting the market. Having a tool available to help protect against the unknowns of the market and associated price volatility can assist a producer with being more profitable⁵. While the current program helps with the risk at the time of selling, there is currently no program to help protect the producer against the unknowns of the market at the time of purchase. A reverse of the current program, allowing producers to lock in a ceiling price at the time of purchase, would go a long way to help alleviate the impacts of market volatility throughout the livestock ownership period.

There is also concern over claims processing, timelines for claims, adequate and educated staff resources for processing claims and the often long window of time from application to reimbursement, which often has an impact on financial yearend timelines for producers.

Another impact affecting availability of alternate risk management solutions is the application of a premium tax and fire prevention tax, which is applied by the provincial government on private agriculture risk management insurance products, exempting provincial agriculture insurance and AgriStability programs. This tax treatment is inequitable and creates an unfair playing field and disincentive for producers to obtain the best risk management solutions available to them.

With federal and provincial priorities focused on agriculture and agri-food, there is a need to work directly with agriculture producers and industry stakeholder groups to help meet the outcomes and objectives desired and to hear first-hand about potential opportunities and areas for improvement.

The Canadian Chamber of Commerce recommends the Government of Canada:

1. Consult with industry and stakeholder organizations to determine improvements and solutions for all agriculture risk management options;
2. Create greater simplicity in risk management programs and ensure equitable coverage across all producer types;
3. Provide education tools for the creation of risk management strategies through toolkits, workshops, webinars and online sessions;
4. Provide education on the cost of production per acre by providing a cost of production toolkit to producers;
5. Provide transparency in risk management solutions and budgets, disclosing how much is made available for claims;
6. Provide more flexibility and options in risk management solutions to allow for new cropping and diversification opportunities;
7. Remove requirements that force specific treatment plans that may not be needed, assessing outcomes based on results of the producer's implementation plans;
8. Utilize various technology methods to assess crops and pastureland in a more localized method in order to create greater accuracy in assessments;
9. Remove 'limiting' on AgriStability program or increase the reference margin up to 85% for all crops and cattle;
10. Provide livestock producers with an insurance tool similar to the Western Livestock Price Insurance Program to lock in a ceiling price when purchasing livestock.

⁵ Western Livestock Price Insurance Program Handbook: <https://afsc.ca/wp-nfs/wp-content/uploads/2020/01/WLPIP-Handbook-2019.pdf>

11. Re-evaluate pasture and perennial programs to create equity in the crop insurance programs available;
12. Provide better response time in assessments, claims and processing through service level agreements, ensuring adequate staffing levels and contracting third party adjusters and verifiers to assist where needed;
13. In order to minimize year end impacts resulting from payments at the end of a fiscal year, take into consideration financial requirements of producers and year end timelines when processing payments, providing the option to defer insurance claims and AgriStability payments to the next fiscal year;
14. Remove the premium tax on private insurance to create a level playing field in risk management options.

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