Agri-info

Agricultural Policy Framework

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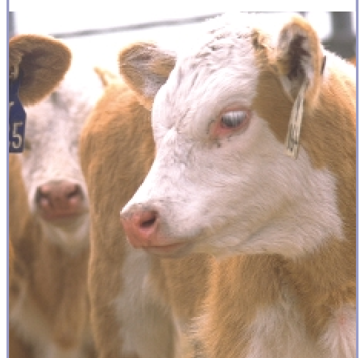
Inside



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New milestones mark progress of APF

The coming months will bring many new programs for farmers under the Agricultural Policy Framework (APF), a national plan to strengthen Canada's agriculture sector. The goal is to make this country the world leader in food safety and quality, environmentally responsible production and innovation, while improving business risk management and fostering renewal.

These priority areas were described in the first issue of *Agri-info*, delivered to farmers in April. Since then, Quebec and Prince Edward Island have signed the framework accord, meaning all ten provinces and two territories are now on board. By mid-July, Newfoundland, New Brunswick, Alberta, British Columbia and the Yukon had signed the bilateral agreement with the Government of Canada required to begin program delivery.

Meanwhile, the discovery of a BSE-infected cow in Canada in May, and the closing of export markets for Canadian beef and cattle that followed, underscored the importance of not only maintaining but enhancing and promoting the integrity and safety of this country's agricultural production systems, a key objective of the APF. Federal, provincial and territorial governments on June 18 announced a national program of up to $460 million in temporary assistance to the cattle and beef industry to help it continue to operate until borders reopen. These temporary measures will help bridge the gap until producers can access new business risk management programming under the APF.

This second issue of *Agri-info* focuses on business risk management programming. It explains how the proposed income stabilization and protection program responds to income declines, targets funds to those in need during crises and offers the convenience of integrating into one program income stabilization and assistance for severe losses.

Subject to agreements between the federal government and the provinces, the proposed new program will provide income stabilization and protection for the current crop year. Farmers will not have to make any decisions regarding the program, however, until at least the fall.

This issue of *Agri-info* also looks at other developments under the APF: a new program allowing farmers to plant a greener future, new business services to assist producers in renewing their operations and seizing opportunities, and the government-industry round-table process.

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System to provide comprehensive protection

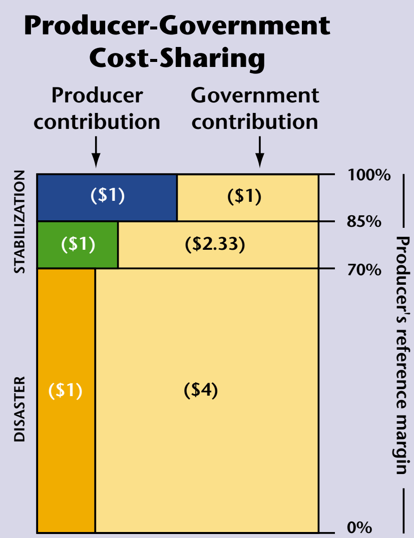
A new income stabilization and protection program, which would establish the first permanent system for disaster assistance, has been designed to offer Canadian farmers comprehensive and equitable protection for both large and small income declines.

The proposed program, undertaken as part of the Agricultural Policy Framework (APF), would provide affordable levels of coverage that producers could tailor to their particular circumstances. The Canadian Agricultural Income Stabilization Program (CAISP) would target government funds effectively to those in need, while conveniently combining in one program both income stabilization and disaster assistance.

Producers of different commodities in all parts of Canada would have a common program to provide more effective stabilization and protection. CAISP, which requires signed agreements by federal and provincial and territorial governments in order to come into effect for the current production year, will make it easier for farmers to plan for the future and thrive in the competitive global environment. The program would also provide strong protection from trade challenges.

It is one of two core business risk management programs whose costs would be shared by federal and provincial or territorial governments under the APF. The other proposed program would provide expanded production insurance that includes more commodities and more options than the current crop insurance program. While some provinces have already begun introducing additional production insurance plans, most of the work will be done over the next two years.

Under the proposal to integrate income stabilization and disaster protection, farmers would be spared the uncertainty of relying on the ad-hoc emergency assistance programs which have been put together in various forms every few years. The new program would cover margin losses no matter what factors are involved and allow farmers to fit their coverage to their individual needs, giving them flexibility to decide each year how much risk protection to secure.



Graph A *illustrates the three tiers of cost-sharing under the integrated income stabilization and protection program. The first 15 percent of a drop in income below the historical reference margin would be cost-shared equally between government and the producer. The next 15-percent loss would bring $2.33 from government for every farmer dollar. The portion of decline below 70 percent of the reference margin, considered an income disaster, would bring $4 from government for each farm dollar.*

Governments and farmers would share in the costs of replacing lost income. For smaller losses, farmers and governments would share the burden equally. As losses steepen, an increasing portion of the costs would shift to government, with its share becoming four dollars to every one dollar provided by the producer when income declines reach more than 30 percent (see Graph A).

Subject to agreement by provincial governments, CAISP would be in place for this production year. However, farmers wouldn't have to make any decisions until at least the fall, after they receive a letter inviting them to participate in the new program and to select a level of protection from income declines for the 2003 production year. Farmers in such sectors as dairy and poultry, who are governed by the supply management system, would be eligible only for the component of the program providing protection for losses exceeding 30 percent.

NISA (the Net Income Stabilization Account program) and CFIP (the Canadian Farm Income Program), which are to be supplanted by the new integrated program, remain in force for the 2002 production year. Farmers will retain ownership of the funds currently in their NISA accounts, including the portion provided by government. Producers would have up to five years to withdraw all the money from their NISA accounts, which allows them to spread out their tax liability.

See the next two pages for more details. *For additional information about the proposed new program, please visit the APF Web site at www.agr.gc.ca/puttingcanadafirst, or call 1-800-665-6472.*

How the program would work

The proposed new income stabilization and protection program would operate like this:

- The Canadian Agricultural Income Stabilization Program is based on a farm's production margin, or farm revenue minus expenses. Only expenses directly related to a commodity's production—such as fuel, fertilizer, pesticide and feed costs—will be deducted. This makes the program more responsive to rising input costs and makes the production margin larger than the "gross margin" calculation currently used in the NISA program. The result of this change is more support for farmers in a major downturn.
- Payments are to be triggered when the current year's margin falls below the farmer's reference margin, calculated by taking the margins of the previous five years, removing the best and worst years, and then determining the average of the remaining three.
- To get coverage, the farmer must make a deposit at a bank or other participating financial institution. The refundable deposit is not a premium. It belongs to the farmer. In the event of a margin decline, the farmer would make a withdrawal from the deposit, triggering a government payout to help boost his or her income toward the reference margin (see Graphs B and C). If no margin decline occurred, the deposit could be rolled over for coverage

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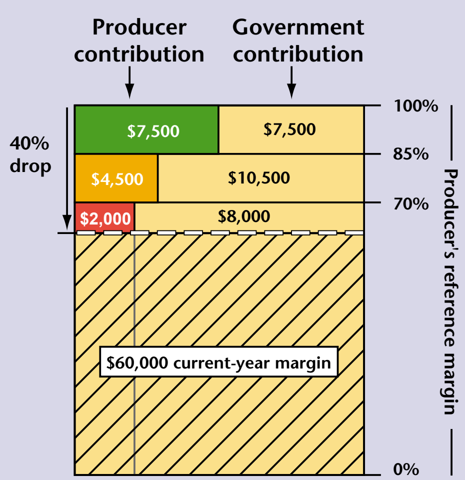
Farmer selects minimum protection

Producer's margin drops 40 percent

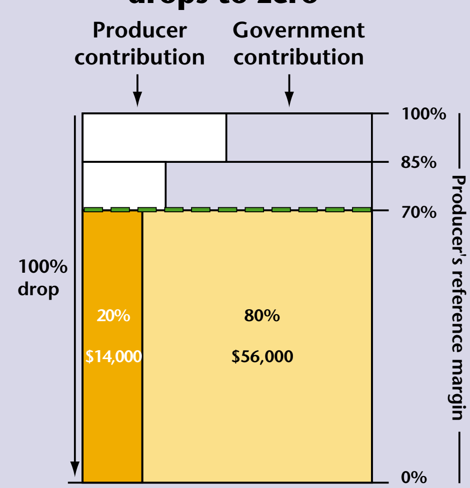


Producer share of payout
($2,000 + $4,500 + $7,500) = $14,000
+ Government share
($8,000 + $10,500 + $7,500) = $26,000

Total from program = $40,000
+ Current-year margin = $60,000

Margin is returned to $100,000

Producer's margin drops to zero



Producer share of payout = $14,000
+ Government share = $56,000

Total from program = $70,000
+ Current-year margin = $0

Margin is returned to $70,000

Graph B *illustrates how the program would work for a farmer with a reference margin of $100,000 who selects the minimum protection by making a deposit equal to 14 percent of the historical margin ($14,000). If this farmer's margin then drops by $40,000, that leaves $10,000 of the decline in the disaster range, where government provides $8,000 for $2,000 the farmer withdraws from deposit. In the middle tier, government provides $10,500 and the farmer $4,500. The rest of the income drop is shared equally, at $7,500 each. So the farmer draws down all $14,000 on deposit and receives a total of $26,000 from government, fully replacing the $40,000 loss.*

Graph C *illustrates how payouts would be calculated to give the producer the greatest possible government contribution. Cost-sharing always begins at the deepest part of the loss, where the government share is largest. In this graph, the margin of the farmer in Graph B falls to zero. The producer's minimum deposit is applied first to the portion of the loss below the 70 percent mark, where one farmer dollar attracts $4 from government. The producer therefore generates $56,000 from government by withdrawing the entire $14,000 deposit. This boosts the farmer's margin to 70 percent of the $100,000 reference margin.*

Assistance package for cattle industry

Business risk management programming under the Agricultural Policy Framework (APF) would provide dependable support, helping producers to manage small and large fluctuations in income caused by any number of risks, including those posed by Bovine Spongiform Encephalopathy (BSE).

The loss of export markets for the cattle and beef industry following the discovery of a single cow with BSE in Alberta, however, required a national response prior to the new programming coming into effect. Federal, provincial and territorial ministers of agriculture announced temporary measures on June 18 to help bridge the gap until producers can access the new business risk management programming.

The assistance of up to $460 million to help offset the impact of border closures will be cost-shared by the federal government and participating provinces and territories on a 60–40 basis. The package has two key elements:

- Measures allowing producers to receive payments for cattle owned as of May 20, 2003, that have subsequently been sold for slaughter in Canada. The assistance will help compensate producers when the price of cattle falls below a reference price, based on market value in the United States. Details are being worked out to extend the program benefits to producers of other ruminants.
- Incentives to processors to sell or otherwise move out of inventory surplus meat cuts of low value that have little domestic demand, which were produced after May 20. This will free up storage space, restoring the capacity of processors to serve the domestic market.

Payments will be treated as farm income and included in the producer's reference margin under the business risk management programming.

Producers and processors in participating provinces and territories can receive more information on how to access the assistance package's funding by contacting the local agriculture office of their provincial or territorial government.

How the program would work *continued from page 3*

the following year, or adjusted if the farmer wanted a different level of coverage.

- Each year the farmer is able to choose how much protection to get by deciding on the size of the deposit.
- To ensure effectiveness of the program, a minimum level of risk protection has been established. Producers who participate would have to commit to a deposit equaling at least 14 percent of their reference margin. This would fully cover income drops of up to 40 percent of the reference margin, while returning 70 percent of the reference margin if the margin fell to zero in the claim year.
- Maximum protection, guaranteeing full coverage for margin declines of up to 65 percent and returning 92 percent of the reference margin if the claim-year margin falls to zero, could be obtained for a deposit of 22 percent of the reference margin.

Making coverage affordable

Farmers would secure effective coverage for income declines from the first day they make a deposit. To make protection even more affordable, particularly for beginning farmers, the proposed program includes an option allowing producers to put only one-third of their required cost-share on deposit for their first two years of participation, or in the two years immediately following a serious margin drop. The producer wouldn't be expected to have the full deposit on account until the third year. These arrangements offer protection for back-to-back disasters and would allow a farmer with a $100,000 reference margin to deposit as little as $4,667 to gain entitlement to up to $56,000 from government.

Farmers will receive updates about the new program through the mail and in workshops and information sessions as agreements with the provinces and territories are finalized.

International Recognition

Co-operation vital in facing BSE threat

The discovery of a BSE-infected cow has underlined the importance of a sector-wide response to critical challenges facing Canada's agricultural industries.

The beef industry, whose members have a track record of working together, was the first sector to launch the new government–industry round-table process aimed at maximizing the benefits of progress achieved under the Agricultural Policy Framework (APF) and at collaborating on emerging issues.

The 30-member round table—made up of representatives from across the supply chain, including input suppliers, producers, processors, traders, retailers, exporters and federal and provincial executives—first met in January to discuss government–industry action that will lead to improved market success. When the BSE case was reported in May, the round table was quickly pulled together to discuss the joint government-industry approach to resolving the crisis.

Timeliness and co-operation are key to resolving issues of this magnitude. The round table provides an excellent forum to quickly set in motion strategies to preserve and enhance Canada's longstanding reputation as a world leader in beef production.

Similar round tables have also been established in such sectors as pork, cereal grains, special crops and seafood. Other sectors will soon launch discussions on how they, too, can best collaborate on emerging issues and challenges.

Environment

New program sows seeds for greener Canada

Farmers are planting more than crops this growing season—they're also planting the seeds of a greener future. Under the land conversion component of Agriculture and Agri-Food Canada's Greencover Canada program, farmers can now apply for financial assistance to convert environmentally sensitive crop land to forage, trees and shrubs.

Greencover Canada is a five-year, $110-million federal program designed to promote sustainable land use and to expand the land base covered by perennial forage and trees. The program—developed with producer groups, provinces, industry and other partners—supports the Agricultural Policy Framework (APF) by fostering environmentally responsible use of Canada's agricultural land resources.

The conversion component targets lands that have severe limitations for growing annual crops, or are severely degrading due to wind and water erosion, salinization, or loss of organic matter. To be eligible for the program, land must have been in annual crop production as of July 1, 2002.

An environmental sensitivity index (ESI) is used to help identify the most sensitive land for eligibility to ensure the maximum environmental benefit. The ESI considers soil quality, air quality, landscape, proximity to water and wildlife implications.

To qualify for payments, farmers must meet minimum standards for seed selection and quality, as well as seeding practices. Participating producers will receive a one-time payment for seeding and a subsequent one-time payment upon signing a land-use agreement. This agreement, which commences once the forage or trees are established, ensures the land remains in perennial cover for at least 10 years.

Details on the three other components of Greencover—technical assistance, the management of critical areas near water, and the planting of shelterbelts—will be announced later this year.

For more information on Greencover Canada, or for a copy of the application form, visit our Web site at www.agr.gc.ca/greencover-verdir, or call 1-866-844-5620.

New services help farmers to excel

New business advisory services and Internet tools aimed at helping Canadian farmers excel and increase their profitability are being provided under the renewal element of the Agricultural Policy Framework (APF).

And as a further step in the drive to ensure producers have access to critical information they need to thrive, the Government of Canada is providing $12.5 million over the next five years to enable the Canadian Farm Business Management Council (CFBMC) to expand its services.

It's all part of the renewal element's objective to give farmers the tools and services they need to keep pace with change and succeed in a competitive and knowledge-intensive industry.

Canadian Farm Business Advisory Services (CFBAS), the cornerstone of renewal programming, will assist producers in setting and meeting their goals and increasing their profits. Farmers in Newfoundland, New Brunswick, Alberta, British Columbia and the Yukon – all of which have signed the agreement with the federal government required to begin APF program delivery – have gained access to some of these services or soon will.

The Internet program, Benchmark for Success, complements these services, providing information that can help farmers make prudent business decisions. The program, available to farmers in all provinces and territories, allows producers to compare their farms to similar operations and gain a better grasp of their individual financial situation. The tool is simple to use. It's just a matter of entering figures into the provided spreadsheet. The results are automatically calculated and presented in a benchmark report, which can help farmers to gauge their relative strengths and, with their advisors, identify areas where improvements can be made or where future opportunities may lie. The information entered by farmers to generate the benchmark report is **not saved at any point**, so there is no possibility of this information being used by anyone else.

Other Internet tools include links to additional benchmark indicators, farm management tools and articles on best management practices.

Farmers across the country can access all of these tools at www.agr.gc.ca/compare. A CD-ROM version will also be available at the end of August by calling 1-866-452-5558.

Meanwhile, the new federal funding to expand CFBMC services will be targeted at informing producers about advances in science and technology, increasing understanding of business risk management, and providing tools and services to beginning farmers. The money will also be used to create a national directory of educational resources and maintain and expand the CFBMC's Web site.

More information on the CFBMC's services is available at its Web site, farmcentre.com, or by calling 1-888-232-3262.

For more information on CFBAS and other renewal services and programs, consult the renewal Web site at www.agr.gc.ca/renewal.

Producers will also find extensive Web-based information on agricultural programs and services available to them in each province at www.agr.gc.ca/renewal/services.