Next Generation
of Agriculture and Agri-Food Policy

Economic Backgrounder:
Canadian Business Risk Management Programs

The Next Generation of Agriculture and Agri-Food Policy – A Federal, Provincial, and Territorial Initiative

For additional copies of this publication or to request an alternate format, please contact:

Publications Section
Agriculture and Agri-Food Canada
Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario K1A 0C5

Telephone: (613) 759-6610 or (toll-free) 1-800-635-7943 (Canada and U.S.)
TTY: 1 800 465-7735
Fax: (613) 759-6783 or (toll-free) 1-800-565-7757 (Canada and U.S.)
E-mail: publications@agr.gc.ca

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Canadian Business Risk Management Programs

Purpose

This Economic Backgrounder provides historical information on Business Risk Management Programming under the Agricultural Policy Framework (APF), including a description of the programs, spending trends and changes that have been made to respond to industry concerns.

Business Risk Management Programming Under the Agricultural Policy Framework

Canada's Business Risk Management (BRM) programs were designed to protect Canadian agricultural producers from income declines and loss of production caused by circumstances beyond their control. Since the introduction of the APF, there have been a mix of new and continuing programs aimed at assisting producers manage business risk: margin-based income stabilization based on a producer's past performance, crop insurance that protects against crop failure, province based programming aimed at addressing specific issues within a province, and special measures when extraordinary events occurred in the industry. As well, spring and fall cash advance programs provide advances at reduced interest costs to assist with cash flow pressures.

Specifically, the programs that have been in place over the period of the APF are as follows:

1. Ongoing National Programs
   - Canadian Agricultural Income Stabilization program (CAIS)
   - Production Insurance program (PI)
   - Cash advance programs
2. Special Programs
   - Industry support programs including the Transitional Industry Support Program (TISP), the Farm Income Payment Program (FIPP), the Grain and Oilseed Payment Program (GOPP), and Provincial Initiatives
   - Bovine Spongiform Encephalopathy (BSE) programs
3. Province Based Programs

Federal/Provincial/Territorial Cost Sharing of BRM Programs

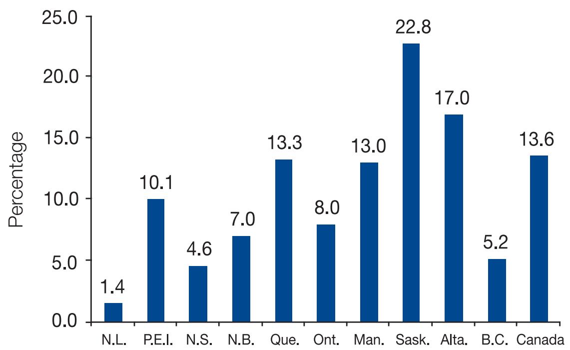
A fundamental principle of national BRM programs is that they be cost-shared between the federal and provincial or territorial governments. The Agricultural Policy Framework stated that the federal government contributes 60% of the funding required for cost-shared programs while the provinces and territories contribute 40%.

CAIS and Production Insurance have been cost-shared programs, while the cash advance programs have been federally funded only. The special programs represented a mix of federal-only and cost-shared programming, while the provincial based programs were funded in part by the federal government through transition funding.

BRM Funding Profile

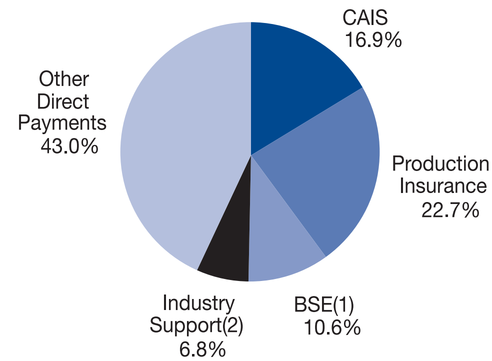
In total, BRM programming represents an important contribution to farming income, making up 13.6% nationally of Farm Cash Receipts for the 2003-2005 period.

Figure 1: Program payments as a share of farm cash receipts, 2003-2005



Source: Statistics Canada, Farm Cash Receipts and Net Farm Income, May 2006.

Figure 2: Total program payments to agriculture producers 2003-2005 ($15 billion)



Source: Statistics Canada, Net Farm Income, May 2006.
Advance payment programs are excluded.

(1) The total BSE payments consist of the Fed Cattle Set-Aside Program, the Feeder Calf Set-Aside Program, the Cull Animal Program and the BSE Recovery Program, and include the TISP - Direct and FIPP - Direct payments.

(2) Industry Support programs include only the FIPP - General and the TISP - General payments.

(3) All payments are on a cash basis.

In the 2003-2005 period, direct government payments on a cash basis under all federal and provincial programs totalled $14.7 billion. A large portion of the payments, $5.8 billion, came from the CAIS and Production Insurance programs. A significant amount of support, $1.7 billion, came from two special programs funded by the federal government: the 2004 TISP and the 2005 FIPP. A further $755 million was provided in 2006 under GOPP.

BSE programs between 2003 and 2005 provided $858 million in direct support on a cash basis to producers of cattle and other ruminants for income losses incurred as a consequence of the discovery of BSE in the Canadian cattle herd. These producers also received payment from the TISP and FIPP programs, both of which made general payments and specific payments to those affected by the fallout from BSE. Direct payments to BSE-affected producers totalled $1.6 billion. There was additional indirect assistance through the CAIS program and additional support from provinces both direct and indirect.

The CAIS Program

The CAIS program was designed as a joint federal/provincial/territorial BRM initiative that integrated income stabilization and disaster protection into a single program. The objective was to help protect producers of both small and large farm against incomes losses regardless of cause. CAIS was based on the concept of the whole-farm production margin, calculated as the difference between agricultural sales and direct production expense for the entire farming operation. CAIS payments were calculated as the difference between the current-year production margin and the average production margin for the recent historical period, referred to as the reference margin. The farmer was not compensated for the entire margin loss; rather, the actual level of payment was based on a series of percentages related to the severity of the margin loss, with deeper losses reimbursed at higher rates by governments. The maximum coverage rate by government was 80% for the disaster portion, i.e., from 0% to 70% of the income covered. The minimum is 50% if the margin fell in the range from 85% to 100%. In order to respect World Trade Organization rules, the overall assistance provided by Governments did not exceed 70% of the margin decline.

Originally, a deposit requirement was in place but was later eliminated and replaced with a small fee. The producer chose a level of coverage and placed a deposit or paid a fee related to coverage level selected. More than 90 percent of producers who had signed up for the program chose the maximum coverage level.

One of the concerns with CAIS was the predictability of program payments and the program's ability to provide assistance during years of price declines. A significant driver of these concerns was the method used to value inventory under the program. The original methodology did not consider changes in price during the year in the inventory valuation calculation. For the 2006 stabilization year, an improved methodology has been introduced that takes changes in inventory value into consideration and will improve the predictability and responsiveness of program payments. Quebec, however, has always used this method of inventory evaluation. In order to facilitate the change to the new methodology, the federal government provided $900 million for the CAIS Inventory Transition Initiative (CITI). Using the new methodology, CAIS payments were recalculated for 2003 to 2005 and producers entitled to more received a top-up payment.

The CAIS program provided farmers with between $1.4 and $1.6 billion annually on a stabilization year basis during its first three years (2003-2005).

CAIS Payments by Province

CAIS payments varied across provinces and farm sizes, with the larger agricultural provinces receiving higher shares of the total payment.

For the 2005 stabilization year, the total CAIS payment is forecast to be $1.6 billion, ranging from $0.5 million paid to producers in Newfoundland and Labrador, to $421 million for producers in Saskatchewan. CAIS payments were based on producers' income tax data and were made after a producer's tax year. That is, payments for the 2003 program year were received in the 2004 calendar year.

Table 1: Estimates of Total CAIS Payments, by Province and Stabilization Year[1]

Province	2003	2004	2005
	$ millions		
British Columbia	51.9	59.5	79.2
Alberta	420.8	398.1	368.2
Saskatchewan	477.2	441.8	421.0
Manitoba	125.6	158.5	311.8
Ontario	177.4	200.9	238.2
Quebec	218.6	190.0	172.4
New Brunswick	18.3	28.6	17.3
Nova Scotia	10.5	6.9	9.4
Prince Edward Island	20.2	22.6	12.5
Newfoundland & Labrador	0.5	0.5	0.5
Canada	**1,521.0**	**1,507.4**	**1,631.0**

Source: AAFC.

[1] Payments reflect benefits provided, based on the margin loss incurred in the year of stabilization and not the calendar year.

CAIS Payments by Farm Size

It has been true for many years that a relatively small number of farms produce most of the country's agricultural output. There are many smaller farms who account for a small portion of the production. For example, 15% of all farms earned more than $250,000 in revenues in 2004, generating 74% of agricultural receipts.[1] Not surprisingly, this pattern is repeated when one looks at the relationship between farm size and CAIS payments. (Table 2)

[1] Based on Statistic Canada's 2004 Taxfiler data.

Table 2: Forecast CAIS Payments by Farm Revenue Class, 2005 Stabilization Year

Farm Revenue Class (2004)	No. of Participants	CAIS Payments: Total ($ millions)	CAIS Payments: Average Payment[1] ($)
$0 - $9,999	11,200	92.6	13,500
$10,000 - $49,999	40,900	271.6	12,900
$50,000 - $99,999	25,800	204.9	18,170
$100,000 - $249,999	30,600	301.1	27,834
$250,000 - $499,999	14,300	204.9	48,825
> $500,000	9,600	572.0	172,149
Total	**132,400**	**1,647.1**	**28,660**

Source: AAFC July 2006 CAIS forecast
[1] For producers receiving a payment.

Table 3: Percentage of CAIS Reference Margins Protected by CAIS, 2005 Stabilization Year

Province	All Farms	All Farms exc. Supply-Managed
Newfoundland & Labrador	7%	24%
Prince Edward Island	74%	98%
Nova Scotia	40%	63%
New Brunswick	58%	85%
Quebec	93%	92%
Ontario	63%	91%
Manitoba	79%	85%
Saskatchewan	98%	100%
Alberta	95%	100%
British Columbia	46%	64%
Canada	**82%**	**96%**

Source: AAFC calculations

CAIS Participation Rates

Grain and oilseed producers and beef producers had higher rates of participation in the CAIS program than producers of other types of commodities, particularly those with supply-managed commodities. (Supply managed commodities are dairy, egg, and poultry, and only receive the disaster component under CAIS). CAIS program participants accounted for 82% of the reference margins of all farms, including farms producing supply-managed commodities.

- CAIS participation, measured as the level of reference margin covered by the programs, ranged from less than 10% in Newfoundland and Labrador to more than 90% in Alberta, Saskatchewan and Quebec. (Table 3).
- Large farms are more likely to have participated in the CAIS program than other farms. There is less participation by smaller farms in the CAIS program. Some of the reasons for this include producer reliance on off-farm income, and a significant number of retirement or lifestyle farms in this group.
- Fewer supply-managed farms participated in the CAIS program as their income was generally more stable than on other types of farms. Supply-managed commodities were eligible only for disaster coverage under CAIS, representing income losses of more than 30%. Their income stability implied that supply-managed farms were also less likely to trigger disaster payments. Supply-managed farms that also produced other commodities were eligible to include those commodities for full coverage under CAIS.
- Provinces with a relatively large number of smaller farms, such as British Columbia and Nova Scotia, exhibited low participation rates compared to other provinces.

Table 4: Percent of Farms with Increasing, Decreasing and No Change in Reference Margins, 2004-2005

	Type of Reference Margin Change[1]		
	% Decreasing	% No Change	% Increasing
Cattle	67	11	22
Dairy	17	6	77
Fruit & Vegetable	37	10	53
Grains & Oilseeds	47	11	43
Greenhouse & Nursery	32	9	59
Hogs	19	9	72
Livestock Combinations	61	10	29
Mixed	52	10	38
Other	53	10	37
Potato	48	12	40
Poultry & Eggs	28	9	63
Tobacco	65	8	27
Canada	**49**	**10**	**41**

[1] Results are based on September 2006 CAIS forecast.

Reference margins are the base from which producer payments are calculated. They tend to fall when production declines or under difficult market conditions, reducing future payments. Even under difficult market conditions in 2004-2005, more than one-third of producers experienced increased reference margins, reflecting improved financial performance. Overall, about half of the producers in CAIS experienced a decline in reference margins from 2004 to 2005, while over 40% experienced an increase.

The percentage of producers facing increasing or decreasing reference margins varies by sector. The cattle sector had the largest percentage of producers experiencing a decline in reference margins. About half of the grains and oilseeds producers experienced declining reference margins, but reference margins increased for almost 43 percent of the producers in that sector.

The hog and dairy sectors had the largest number of producers with increases in reference margins.

Production Insurance

Production Insurance is a program that provides crop producers with financial protection against the effects of production losses due to perils such as weather, pests and diseases. Production Insurance is funded by government contributions and producer premiums that are calculated on an actuarially sound basis.

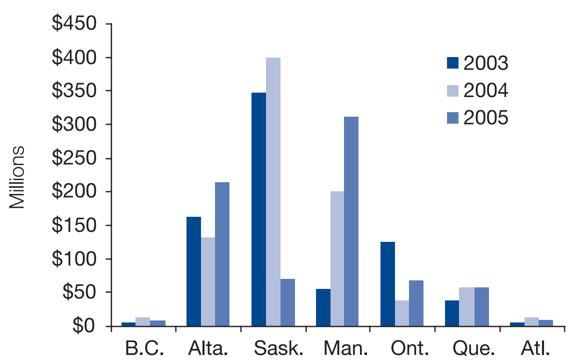
Table 5: Production Insurance Participation Levels, Acres Insured, 2005

	Field Crops		Forage and Pasture	
	Acres Insured ('000)	% of Acres Covered	Acres Insured ('000)	% of Acres Covered
Newfoundland & Labrador	0.4	10.4	-	0.0
Prince Edward Island	135	47.8	94	45.0
Nova Scotia	20	25.5	4	1.2
New Brunswick	71	45.4	-	0.0
Quebec	1,821	73.5	1,394	47.0
Ontario	4,262	66.3	481	9.8
Manitoba	8,602	90.3	858	12.1
Saskatchewan	24,940	69.9	3,665	18.4
Alberta	11,672	61.5	8,364	29.6
British Columbia	215	40.8	181	3.9
Canada	**51,738**	**69.8**	**15,039**	**21.9**

Source: AAFC calculations.

The Production Insurance program is administered and delivered by provinces. Payments made to farmers totalled $924 million in 2005. In the 2005/06 fiscal year, producer premiums made up 34% of the program costs while 66% came from government contributions. Government contributions are cost-shared 60/40 between the federal and provincial governments, respectively. Production Insurance indemnities or payments vary by year and across provinces and depend on the local growing conditions.

Figure 3: PI indemnities by province, for crop years 2003-2005



Source: AAFC

Characteristics of farms participating in Production Insurance

The 2005 Farm Financial Survey provides information about the characteristics of Production Insurance participants:

- Large grain and oilseed farms are more likely to participate in Production Insurance compared to small farms.
- Farmers in the prairie provinces exhibit high participation rates due to the large share of grain and oilseed farms in the prairie agricultural sector relative to other regions.
- Farms in which the operator's family income is mainly obtained from sales of agricultural products tend to participate more heavily in the Production Insurance program.
- Also, farms participating in other programs, such as CAIS, are more likely to participate in the Production Insurance program.

Advance Payment Programs

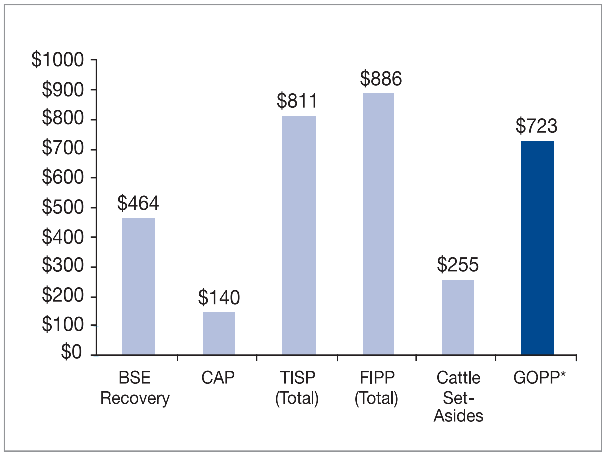
There have been two cash advance programs, the Spring Credit Advance Program (SCAP) and the Advance Payments Program (APP). These programs were designed to provide up to $250,000 in loan guarantees and interest-free loans on up to the first $50,000 advanced to assist in financing the spring seeding and the fall harvest and storage. These programs were not cost shared with the provinces. Federal funding covered the interest costs of these programs, the administrative costs, and the defaults on the repayment of the loans. Budgeted federal costs were $60 million annually for SCAP, and $40 million annually for APP in 2005.

A new Advance Payment Program, announced by the Minister of Agriculture and Agri-Food, as part of the 2006 Federal Budget, is currently under development. The new program will be implemented for the 2007 crop year and will combine the two current programs, increase the loan and interest free limits to $400,000 and $100,000 respectively, as well as expand the programming to allow loans on additional commodities, including livestock. In the interim period, the Enhanced Spring Credit Advance Program (ESCAP) will provide interest free loan guarantees on the first $100,000 advanced to producers.

Special Programs

Governments introduced a number of special programs to address specific problems such as the impact of BSE on the livestock sector and acute financial stress in the grain and oilseed sector. These fall primarily into two categories, the BSE programs and the industry support programs (TISP, FIP, GOPP and Provincial Measures).

Figure 4: Special program payments, 2003-2006 ($ millions)



During the 2003 to 2005 period, a series of BSE programs were implemented to provide support to cattle producers in response to the BSE crisis. They were: the Fed Cattle Set-Aside Program, the Feeder Calf Set-Aside Program, the Cull Animal Program (CAP) and the BSE Recovery Program. These initiatives were cost shared with the provinces but not all provinces participated in all programs. Provinces also implemented provincially funded programming to deal with specific impacts in their provinces.

In addition, the two federally funded industry support programs, TISP in 2004 and FIPP in 2005, also provided direct support to the cattle sector, as well as providing general support to the other sectors. Total payments under all of these programs equalled $2.6 billion over the 2003-2005 period.

More recently, the federal government provided up to $755 million in financial assistance specifically to grain and oilseed producers under the 2006 Grain and Oilseed Payment Program (GOPP).

The federal government also provided $900 million to producers under the CAIS Inventory Transition Initiative to facilitate the transition to an improved method of valuing inventory under the CAIS program.

There was no cost sharing of the federal initiatives (TISP, FIPP, GOPP, CITI) and these programs were available to producers in all provinces. Provinces also took specific measures in their province that were not cost shared with the federal government. An exhaustive list of all of these programs is not provided in this backgrounder, however, some examples are Self Directed Risk Management in Ontario, Reference Margin Pilot Program in Alberta and the *Programme d'assurance-stabilisation des revenus agricoles* in Quebec.

Provincial BRM Programs

Province-based programs were part of the previous federal/provincial/territorial safety net framework. The province-based programming comprised of, but not limited to, research and innovation, enhancements to the core Business Risk Management (BRM) programs, as well as some commodity-specific price support programs. The Agricultural Policy Framework Initiatives (APFI) programming for Newfoundland and the three territories also provided for enhancements to non-BRM programs.

In order to facilitate a smooth transition to the current suite of APF programs, it was agreed that existing province-based programs could continue through the three-year transition period ending March 31, 2006. The transition period was provided to: modify programs so they were consistent with APF programming, roll programs into the four non-BRM areas or phase out the federal funding for any programs that were inconsistent with APF principles. APFI programming in Newfoundland and Labrador, Nunavut, Northwest Territories and Yukon Territory is available for the entire implementation period.

Total federal funding for province-based programming including APFI programming during the three year transition period amounted to a total of $399 million ($127.8 million for 2003-04, $111.3 million for 2004-05 and for 2005-06 $159.9 million).

How much do typical farms receive in Government Program Payments?

Program payments vary across sectors, but a sample of benchmark farms shows how much program payments have contributed to the incomes of typical farms. The table below provides a look at selected farms over the 4-year period 2003-2006.

- The $23,700 in program payments received by the PEI potato benchmark farm represents 8% of its total cash receipts, with the special programs (TISP and FIPP) providing the highest proportion of program payments.
- For the Ontario grain and oilseed benchmark farm program payments were $44,500, representing 15% of farm receipts. The largest program payment was from a provincial program called the Market Revenue Insurance program (MRI), part of the "Other Programs" category in the table below.
- The Saskatchewan grain and oilseed benchmark farm's program payments were $48,100, or 15% of total cash receipts. The CAIS program was the principal source of program payment, representing 58% of total payments received.
- The Ontario and Saskatchewan grain and oilseed farms receive a similar level of overall program payments, but the source of the payments differ.
- During the 2003-2005 period, which coincides with the BSE crisis, Alberta Beef farms benefited relatively equally from the CAIS program, industry support programs, and from the BSE programs designed specifically to restore the income levels of cattle producers. The typical Alberta beef farm received a total of $55,400 in program payments, representing 14% of their revenue.

Benchmark Farms[1], Average 2003-2006

	PEI Potato	Ontario Grain and Oilseed	Sask. Grain and Oilseed	Alberta Beef
		- dollars -		
Total Receipts	307,083	288,200	326,562	389,585
Net Cash Income, after Programs	12,504	50,080	16,712	29,770
		Program Payments (Cash Basis)		
Production Insurance	4,286	4,916	9,298	5,755
CAIS	6,937	7,622	27,942	16,833
TISP / FIPP / GOPP	7,529	7,952	10,843	12,823
Other Programs	4,956	24,028	0	19,961
Total Program Payments	**23,708**	**44,518**	**48,083**	**55,372**
Program Payments as a % of Total Receipts	**8%**	**15%**	**15%**	**14%**
Program Payments as a % of Net Cash Income	**190%**	**89%**	**288%**	**168%**

Payments do not include NISA disbursements.

[1] The benchmark farm represents a typical farm producing primarily the specified commodities within the specific region. All benchmark farms are based on actual farms that receive between $250,000 and $500,000 in gross revenues.

BRM Improvements and the Next Generation of Agricultural Policy

Significant progress has already been achieved in the last ten months on a new suite of BRM programming in response to producer concern.

Vast improvements have been made to what is becoming a new income stabilization program. The changes address many of the needs expressed by industry representatives and include significant delivery and design improvements such as:

- More accurate assessment of losses by improving the way inventory is valued. (This method has been used in Quebec from the beginning.)
- Better protection through expanded negative margin coverage.
- Easier participation requirements, based on a fee rather than a deposit.
- Targeted advances to provide faster payments during a disaster.
- The availability of interim payments for all provinces so producers can access some of the estimated payment early.
- Simpler sign up and less paperwork.
- More flexible deadlines for applying.
- More accurate online calculators to estimate payments available in some provinces.
- Secure electronic filing in most provinces
- Improved service standards for processing applications.
- More informative statements for producers.

In addition, at their November 2006 meeting, Agriculture Ministers agreed in principle on a new Disaster Relief Framework that would provide structure and clarity to when and how governments respond to disaster situations. Government officials have been tasked with developing options for how the framework can be implemented.

Ministers are also looking at options for the expansion of production insurance to livestock and improving coverage on horticulture crops. A general approach to insuring livestock has been developed as a starting point that will be refined and enhanced based on needs of producers in each province and the availability of data. The expansion of horticulture coverage is based on an acreage loss model that is working well in British Columbia, Saskatchewan, Manitoba and Quebec. The model provides coverage based on the cash inputs rather than value of crop and is triggered when damage is severe and the crop is not worth harvesting. With the approach, administrations do not have to collect annual yield and market price information which allows plans to be developed for a larger number of specialty crops that are not widely cultivated.

At the same time, the federal government is moving forward with the changes to the Advance Payments Program to expand the coverage to additional commodities, including livestock, as well as increasing the loan and interest free limits to ensure that they reflect current farm sizes.

At their November 2006 meeting, Ministers acknowledged that more work still needs to be done to identify and address gaps and make improvements in the business risk management programs within the context of affordability. For this reason, consultations on BRM are continuing in conjunction with the next generation policy development process.