



Agriculture and
Agri-Food Canada

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Canada's Agricultural Business Risk Management Programs

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the Agricultural Sector

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Canada 

Purpose

- To provide an overview of the Agriculture Business Risk Management (BRM) programs operated in Canada
- BRM programming helps to stabilize producers' farm income against losses due to circumstances beyond their control

Canada's Agriculture Sector -Facts

- Canada's agriculture and food sector contributes 9% of Canada's Gross Domestic Product (GDP), 2.2% derived from primary production
- Fourth largest exporter of agri-food products in world, the value of Canada's exports have almost quadrupled between 1990 and 2008 to \$39 billion
 - Major export markets include the USA, EU, Japan, Mexico and China
- The five largest commodity sectors (as a percentage of farm cash receipts) are:
 - Grains and Oilseeds 32%, Red Meats 21%, Dairy 12%, Horticulture 12%, Poultry and Eggs 7%
- 2008 total farm cash receipts for Canadian farmers was \$46 billion
- 229,000 census farms in Canada in 2006 farming 167 million acres of agricultural land

Canada's nationally available, decoupled whole farm programs evolved to address trade rules, control costs, focus farmers on profitability and value added production

- Starting in 2007, Canada's Agricultural Risk Management Programs consisted of:
 - **AgriStability** - a whole-farm, income program to help producers with larger margin declines (15% or greater)
 - **AgriInvest** - producer savings accounts for smaller margin declines (15% or less),
 - **AgriInsurance** – production loss insurance for crops and livestock
 - **AgriRecovery** - a disaster relief framework to ensure rapid assistance for producers hit by natural disasters

AgriStability Overview

- Provides individual income protection for larger income declines (more than 15 percent of a historical average)
- Offers immediate income protection for newly established farms
- Assistance based on “whole-farm” income, rather than commodity-specific support
- Targeted to need, assistance available depends on the magnitude of a producer’s loss
- Linkages exist with other programs to avoid paying for production losses twice
- Governments’ share of payments varies with the severity of the loss and is cost shared with provincial jurisdictions on a 60:40 basis

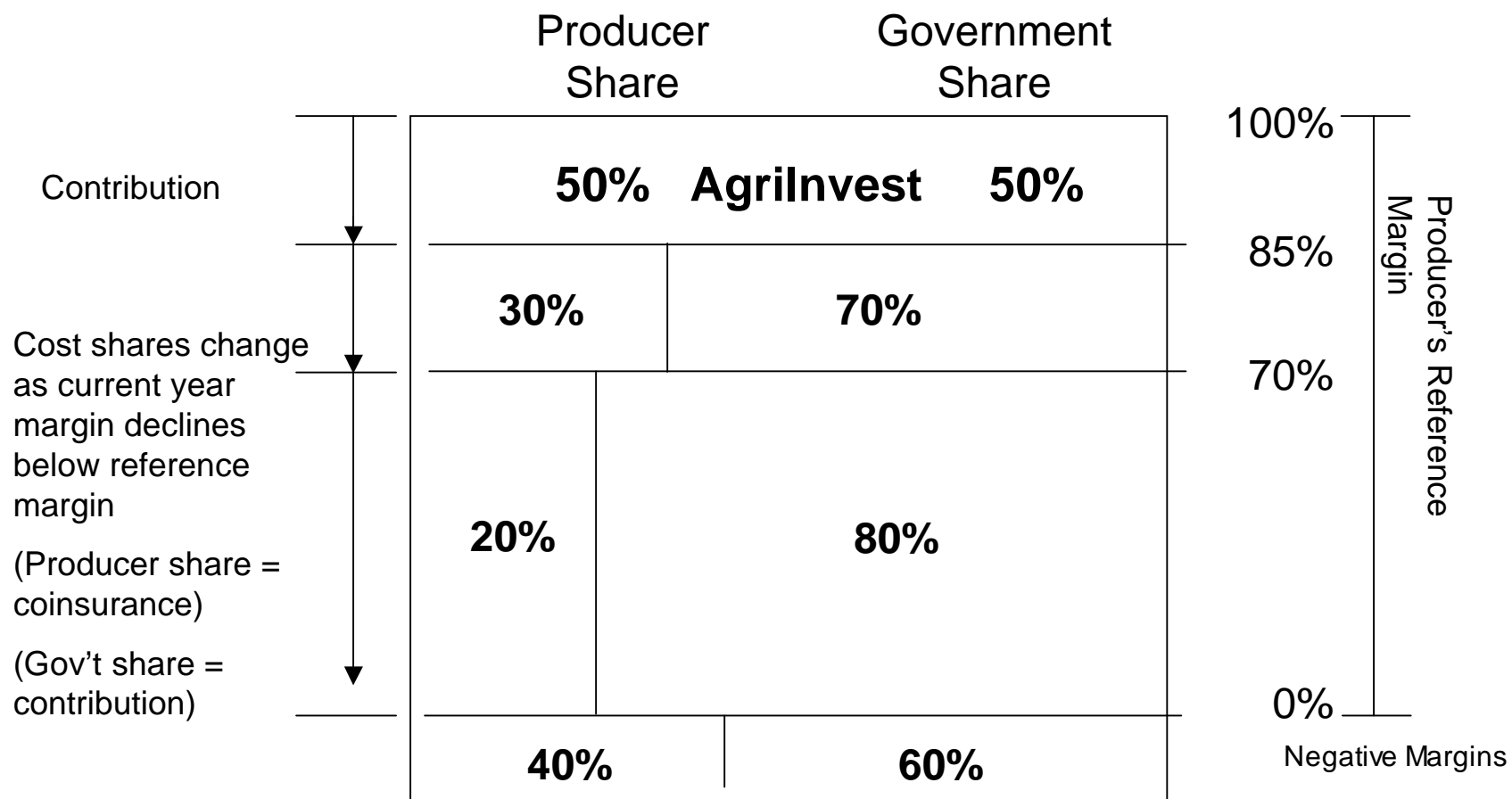
How AgriStability Works

- Income is defined as “Production Margin”
- Production margin = allowable farm revenues - allowable expenses in a given year
 - Allowable expenses limited to those directly related to production (variable costs)
 - “Cash” revenues supplied for income tax purposes are also adjusted for changes in inventory/receivables/payables
- Payments are made to producers when their Production Margin for the current year falls below their historical “Reference Margin”
- Reference Margin = “Olympic average” the last five years’ Production Margins with the highest and lowest years dropped

AgriStability – Reference Margins Example

- A producer's Production Margins for the last five years were:
 - 2004 - \$50,000 (lowest year)
 - 2005 - \$90,000
 - 2006 - \$150,000 (highest year)
 - 2007 - \$110,000
 - 2008 - \$100,000
- Dropping the high (2006) and low (2004) years and averaging the remaining 3 years gives the producer a Reference Margin of \$100,000
- This is, in effect, the producer's level of support going into the 2009 program (income tax) year

AgriStability / AgrilInvest – Producer / Government Shares



AgriStability – Payments Example

- If the producer's 2009 Production Margin:
 - Declined by \$15,000 There would be no payment, the AgrInvest program provides producers with funding which could be used to address small margins declines
 - Declined by \$30,000 A government payment of \$10,500 (i.e., 70% of the \$15,000 loss between 85% and 70% of their Reference Margin) would be triggered
 - Declined by \$100,000 A government payment of \$66,500 (i.e., 70% of the \$15,000 loss between 85% and 70% of their Reference Margin and 80% of the \$70,000 loss between 70% and 0%) would be triggered

AgriStability Annual Participation Process

- Producers pay a fee (based on a percentage of their Reference Margin) by the April 30 deadline
- Submit the AgriStability/AgriInvest Harmonized Form by September 30th
- Two mechanisms are available to ensure producers have timely access to program payments
 - Producers may apply for an Interim Payment when it is clear that they have suffered an income decline
 - The administration can offer a Targeted Advance Payment where a sector or region is in difficulty
 - Industry averages are used to calculate the impact on the individual farm
 - Assistance is proactively offered to producers

AgriStability Payments

as of February 7, 2010

	2007	2008
Number of Producers	24,564	13,374
Payments	\$669.4 million	\$570 million

AgrilInvest Overview

- Implemented for 2007, AgrilInvest is:
 - a predictable / bankable vehicle to address small income declines (margin declines up to 15%)
 - similar to the Net Income Stabilization Account (NISA) program (1990-2000)
- Producers make an annual deposit to a saving account based on producers' Allowable Net Sales (ANS), matched by Governments
 - ANS equals sales of agriculture commodities less commodities purchased
- Producers decide when and how much to withdraw
 - Allows flexibility to address income declines or make investments on the farm

AgrilInvest...cont'd

- Annual deposit and contribution rate of 1.5% of their ANS to a maximum ANS of \$1.5 million
 - Maximum \$22,500 each for producers and governments
- An averaged-sized farm has an ANS of about \$120,000 resulting in an annual government contribution of \$1,800
- Account size limited to 25% of a three year average ANS
- Starting for 2009, producers will make deposits at the Financial Institution of their choice

No. of Accounts	Value of Funds in Accounts (as of Feb 7, 2010)
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147,852

\$550.4 million

AgrilInsurance Overview

- 2009 is the 50th Anniversary of this program, available in all provinces for 35 years (previously known as Production and Crop Insurance)
- Provincial governments (Insurance Agencies) responsible for program design and delivery (10 Provincial Programs)
- Covers most commercially-produced crops in all provinces (90% of the value of all crops grown in Canada are insurable)
 - 65% to 70% of crop acres grown are insured, less for forage
 - 50% to 55% of Canadian farmers are insured
 - Average coverage level purchased was 75%

AgrilInsurance Overview

- Purpose:
 - Minimizes income losses resulting from production and asset losses caused by uncontrollable natural hazards (i.e. drought, frost, excessive rain or heat, flood, wind, losses from uncontrollable disease, insect infestations and wildlife)
- Participation:
 - Participation is voluntary
 - Producers must buy insurance before a commodity is planted or any damage is possible
 - Producers select the commodities they wish to insure, the type of insurance plan, the coverage level and the insurable value from the options available in their province
 - Producers are always responsible for the first loss (deductible), keeps premium and administration costs affordable and reduces moral hazard

AgrilInsurance Administration

- Provincial governments are responsible for the delivery of AgrilInsurance to farmers
- Premiums are calculated on a provincial basis for each agricultural product, each premium rate methodology independently certified as actuarially sound
- Methods for determining coverage for agricultural products are independently certified as reflecting the productive capabilities or values of the insured population
- Governments pay all administrative costs and about 60% of total premiums (cost-shared (60:40 Fed/Prov basis). Three premium subsidy levels exist (100%, **60%**, and 33%) levels depend of the severity and frequency of losses for each type of plan/benefit
- Government and producer premiums pooled into one provincial account to pay indemnities.
- Federal government develops national standards for determining premium rates, projected yields, insured values, level of coverage and insurable benefits and offers reinsurance to provinces.

AgrilInsurance Annual Participation Process

- Producers select from a range of program options provided by provinces:
 - the crops to be insured
 - livestock mortality insurance is available in 2 provinces
 - insurance plan types
 - protection/coverage level
 - Crops – usually 70-80% of farmer's projected yield (50%, 60%, 85% and 90% available)
 - Livestock – maximum coverage level equals 1- (long term average loss rate)
 - insurable values – normally based on forecast or historical market prices, but costs of production or replacement value available
 - additional benefits for crops include hail spot loss, quality loss, unseeded acreage, reseeding and perennial plant/tree/vine loss protection,
- Producers pay their premium for crops after the seeding is completed and as soon as insurance takes affect for livestock
- Producers must notify insurer as soon as a loss becomes apparent.

AgrilInsurance -Plan Types

Crop Specific

Individual Yield Based (protection based on a producers historic and payment on actual yield)

- Multi-peril or Single peril plans (offsetting production for all acreage grown)
- Spot loss peril or acreage loss
- Proxy Crop (payment based on the measured loss for a like crop)

Area Yield Based

- Collective (payment % for area identical, based on sampled yields)
- Weather Derivatives (payment % for area based on percentage of rainfall or heat units)
- Satellite Imagery (payment % for area based on percentage of vegetative growth)

Basket of Crops

- (Protection = Sum of (producer's acres X projected yield X insurable price of each crop). Payments trigger when Sum of (producer's harvested production X insurable price for each crop) is below the protection value of basket of crops)

Livestock

Mortality/Asset loss (due to named diseases)

Income/yield loss (loss of yield or income in current production cycle resulting from death)

AgrilInsurance –Participation Levels

	2007	2008	2009
Participating Farmers	84,205	83,366	81,409
Acres Insured	61.1 million	64.7 million	64.3 million
Value of Insurance	\$9.191 billion	\$11.907 billion	\$11.895 billion
Total Premiums	\$0.949 billion	\$1.364 billion	\$1.366 billion
Indemnities	\$0.645 billion	\$0.616 billion	\$1.089 billion

AgriRecovery Framework

- Process for governments to implement programming to assist producers in recovering from weather or natural disasters, disease events and threats to food security **that cannot addressed by other programming**

Framework provides:

- A disaster definition to indicate when a response should be considered
- A protocol to review of disasters with the affected industry and to implement a response (normally 60:40 federal provincial)
- Principles and guidelines to guide event-specific responses
- Responses implemented will:
 - Assist with immediate recovery from a disaster and quickly resume operations
 - Enable short-term actions to minimize/contain the impacts of the disaster on producers
 - Assist producers with transition into new production where long-term restrictions occur due to a disease or pest situation
- Since 2007, a total of 11 programs have been put in place resulting in payments of \$33 million to more than 6,000 producers

Future Directions of BRM Programming in Canada

- Agriculture Ministers have announced a Strategic Review of BRM programming to ensure that programs are effective in meeting producers evolving needs
- Officials are examining
 1. The performance of current programming to date
 2. Challenges facing the sector currently and in the future
 3. Roles and responsibilities of governments, producers and industry in business risk management
 4. Potential directions for future BRM programming
- Industry consultations are expected to begin this spring



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