AgriStability Coverage

June 10, 2020

Agricultural Producers Association of Saskatchewan

Celebrating 20 years

AgriStability is not working

The Agricultural Producers Association of Saskatchewan (APAS) is advocating for increased AgriStability coverage levels to help producers better manage income volatility and increased risks in the current operating environment. Specifically, **APAS is asking federal and provincial governments to immediately increase AgriStability margin coverage levels and eliminate the Reference Margin Limit for the 2020 program year.**

AgriStability is a risk management program that was originally meant to help cushion farm income in difficult years. However, producer enrollment in Saskatchewan has dropped below 50% in Saskatchewan due to a lack of meaningful and predictable coverage. We are now facing more difficult times and cannot depend on AgriStability as a financial backstop.

AgriStability Program

Each year, expenses are subtracted from revenue to develop a program year income margin. An average of the previous five years of margins is used to establish what is known as a "reference margin". When a program year's margin drops below 70% of the historical reference margin, a payment may be triggered to cover the shortfall.

AgriStability is a federal and provincial program that is cost shared on a 60-40% (federal-provincial) basis. Enrolment fees are relatively modest, although APAS members have reported incurring significant third-party accounting fees to satisfy the administrative requirements. In some cases, these compliance costs have exceeded expected benefits of enrolment. In other instances, AgriStability coverage levels are so low that the business would be insolvent at the income levels required to trigger a claim.

Reference Margin Limit

AgriStability coverage can be further reduced if previous years' average expenses are lower than the reference margin. The Reference Margin Limit (RML) was introduced to ensure that AgriStability payments would not exceed producer expenses. However, this change made coverage more unpredictable and difficult to understand while disproportionately reducing support for farms on the basis of their cost structure. This change has a greater impact on the cow-calf and livestock sectors, producers with both crops and livestock in mixed operations, and those relying on family labour, as these sectors are most likely to have coverage reduced by the RML.

$7.16/bu Canola Example

In 2019, APAS worked with an agricultural accounting firm to estimate how AgriStability would cover a drop in canola prices resulting from trade-related market disruptions. The analysis shows how the cuts to AgriStability and the introduction of the RML have combined to drastically reduce income support for producers facing margin declines.

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The analysis used a 35% drop in canola prices (from $11.00 to $7.16 per bushel) as the main cause for a decline in revenue. Average yields, production expenses and regional prices were used to calculate a historical reference margin of $399,642. The decline in canola price from $11.00 to $7.16 per bushel caused the farm's margin to fall $186,329, resulting in a program year margin of $213,313 (47% of the reference margin).

Payment Calculations

AgriStability support for the $186,329 margin shortfall was calculated at three coverage levels:

- 70% coverage with the Reference Margin Limit applied (2020 program)
- 70% coverage with no Reference Margin Limit
- 85% coverage with No Reference Margin Limit (2013 program)

COMPENSATION CALCULATION FOR $186,329 SHORTFALL				
	LIMITED MARGIN	**NO MARGIN LIMIT**		
% coverage	**70%**	**70%**	**85%**	
Payout threshold	**$195,824**	**$279,749**	**$339,696**	
2019 MARGIN	**$213,313**	**$213,313**	**$213,313**	
Difference	**+$17,489**	**-$66,436**	**-$126,383**	
% compensation	**70%**	**70%**	**70%**	**80%**
Compensation	**$0.00**	**$46,505**	**$41,962**	**$53,149**
	2020		***2013***	

Observations

- The farm did not receive AgriStability benefits in the 2020 program due to the Reference Margin Limit, despite a 47% decline in their reference margin.
- The farm would have received $95,111 in benefits at the 85% level. So, the 2013 cuts reduced AgriStability coverage for this farm by almost $100,0000.
- With coverage based on 70% with no Reference Margin Limitation applied, the farm would have received $46,505 in assistance to cover a shortfall of $186,329.
- At 2020 program coverage levels, the price of canola would need to fall to **$6.35 per bushel** to trigger an AgriStability payment of $2,799 to cover a shortfall of $207,816.
- The fact that AgriStability does not adequately backstop a price decline of this magnitude highlights the urgent need for program improvements.
- A $6.35 per bushel canola price represents a 42% decline in prices, which would result in over $2 Billion in lost revenue for Saskatchewan producers alone.

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Conclusion

- The AgriStability program does not meet the needs of producers due to the lack of meaningful coverage.
- Administrative barriers, like the RML, add unnecessary complexity to the program and further reduce support. The coverage cuts from 2013 levels have severely undermined the credibility of the program.
- The recently announced extension of the enrolment deadline to July 3, 2020, and enhanced access to interim payments at 75% are first steps, but they are likely not enough to get producers back into the program.
- Increased margin coverage levels and the elimination of the Reference Margin Limit are two straightforward changes that would help restore confidence in the program, encourage enrolment, and ensure the program is capable of providing a predictable financial backstop that farm businesses can rely on.

For more information, visit apas.ca.