

Business Risk Management Review & Opportunities

Policy Priorities for Agriculture Conference



2018 APAS Policy Mid-term Update
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BRM Review

- At the request of industry, federal and provincial governments conducting a **review of business risk management programs**
 - Findings and recommendations to be tabled at July 2018 Ministers' meeting
- **Expert Advisory Panel (Government)**
 - Producers, academia and global experts
- **Ag Growth Coalition (Industry)**
 - CFA, GGC, CCGA, GFO, NSN, CHC

BRM Review



Expert Panel Terms of Reference

- Program Objectives, Principles, and Trade-Offs*
- Current & Emerging Risks*
- Program Effectiveness*
- Link to Innovation and Growth
- International Comparison

Through a cost neutral lens...

Canadian Agricultural Partnership

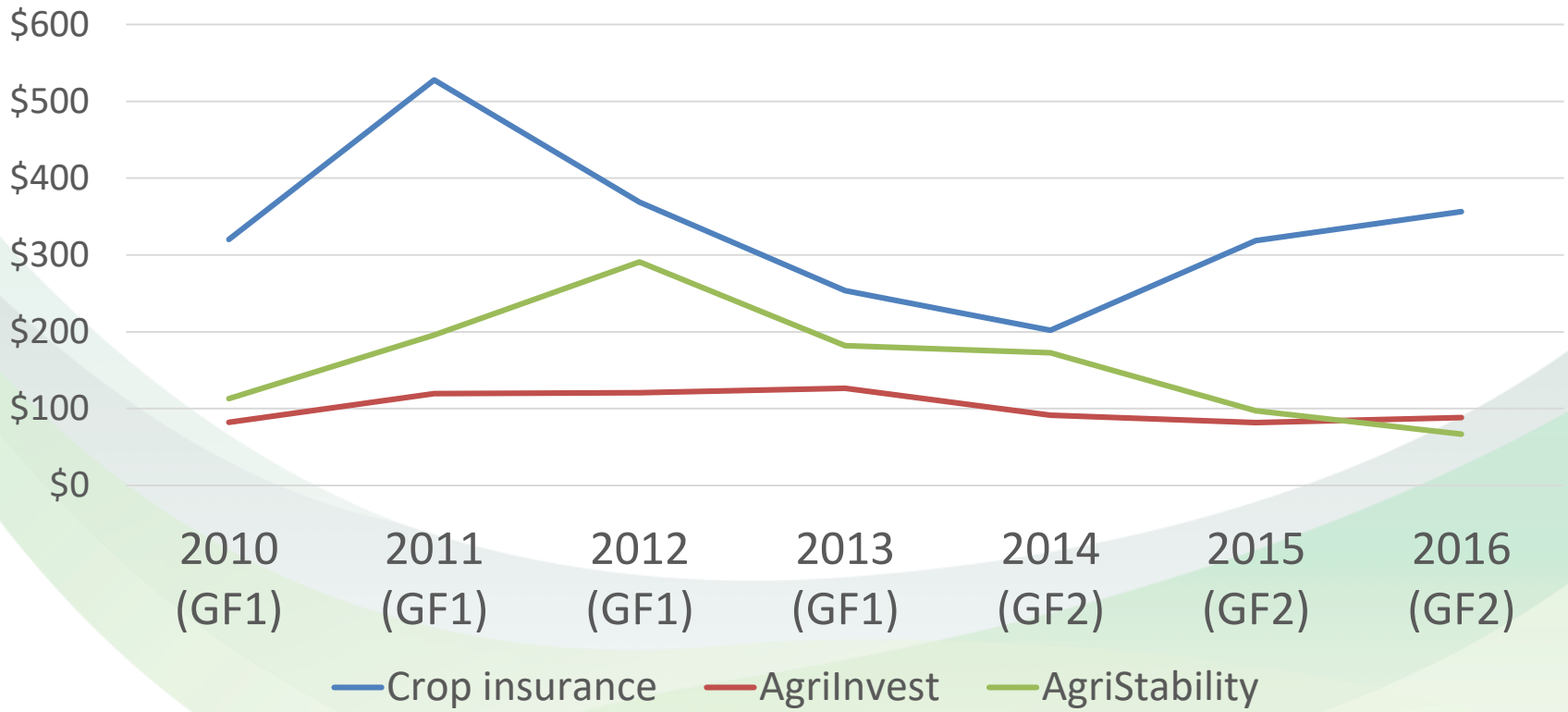
Canadian Agricultural Partnership

- **Five-year, \$3 billion investment by federal, provincial and territorial governments**
 - 60/40 fed-prov cost share
 - April 1, start
- **Bilateral Agreements – Strategic Initiatives**
 - Environmental Farm Planning ,Farm and Ranch Water Infrastructure Program, Provincial Research Program, etc.
- **Business Risk Management**
 - \$  **AgriStability:** Adjustment in Reference Margin protection (reduced impact of allowable expense margin limits)
 - \$  **AgriInvest:** Reduction in matching government contribution to \$10,000, from \$15,000

Growing Forward Programs (Context)

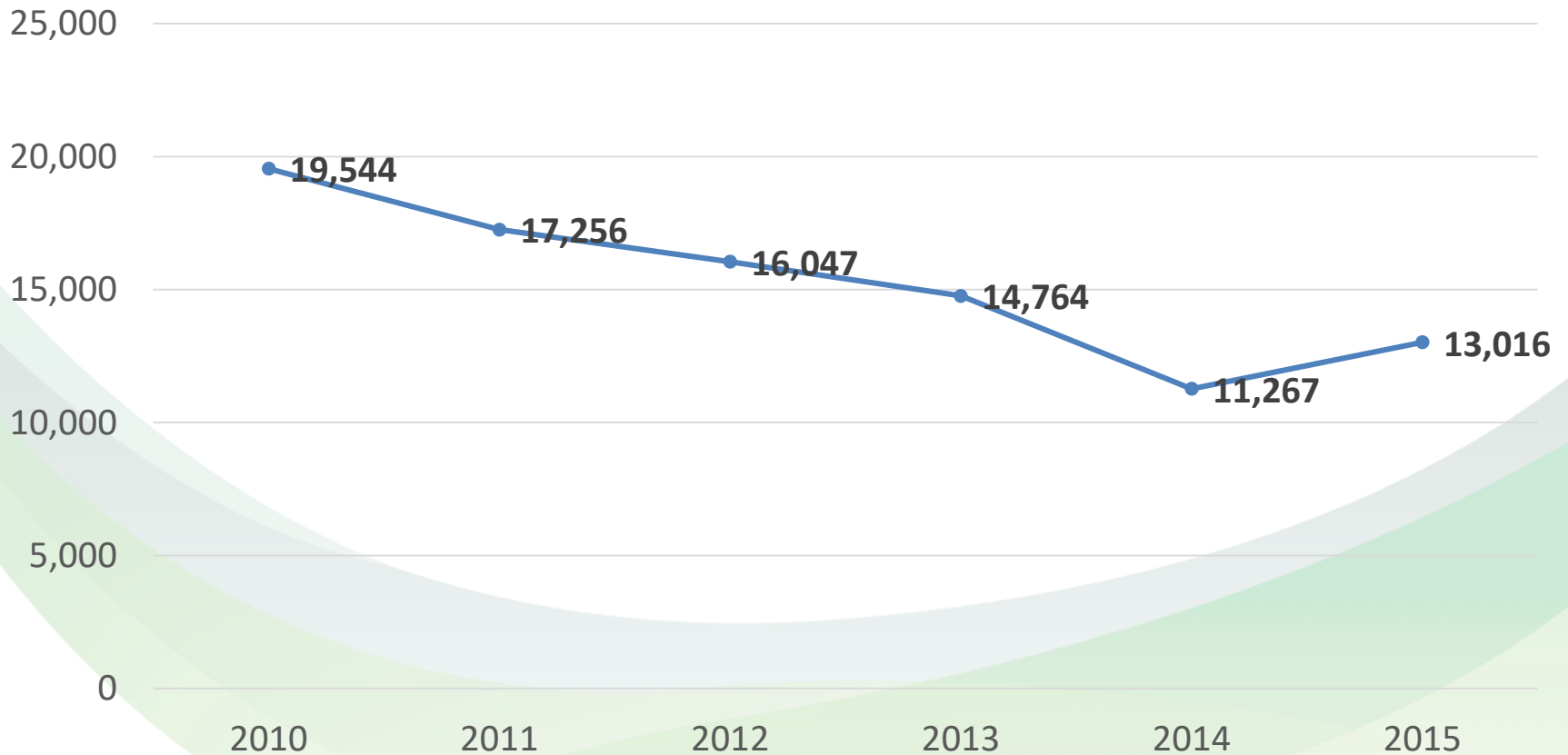
Growing Forward BBMs

**Growing Forward BRM Program Payments
(\$ millions)**



Growing Forward 2 BRMs

SK Agri-Stability Applications Processed



Source: Saskatchewan Crop Insurance Corporation Annual Reports: 2009 - 2014

Growing Forward 2 BRMs

SCIC Total Insured Acres by Crop (% of Stats Can Estimates)

Crop	Insured acres	% of total
Canola	10,239,091	80%
Hard Red Spring Wheat	4,784,803	75%
Lentils	2,927,270	75%
Durum	2,818,846	69%
Field Peas	1,544,268	71%
Barley	1,399,391	60%
Oats	836,734	50%
Flax	637,727	71%

Growing Forward 2 BRMs

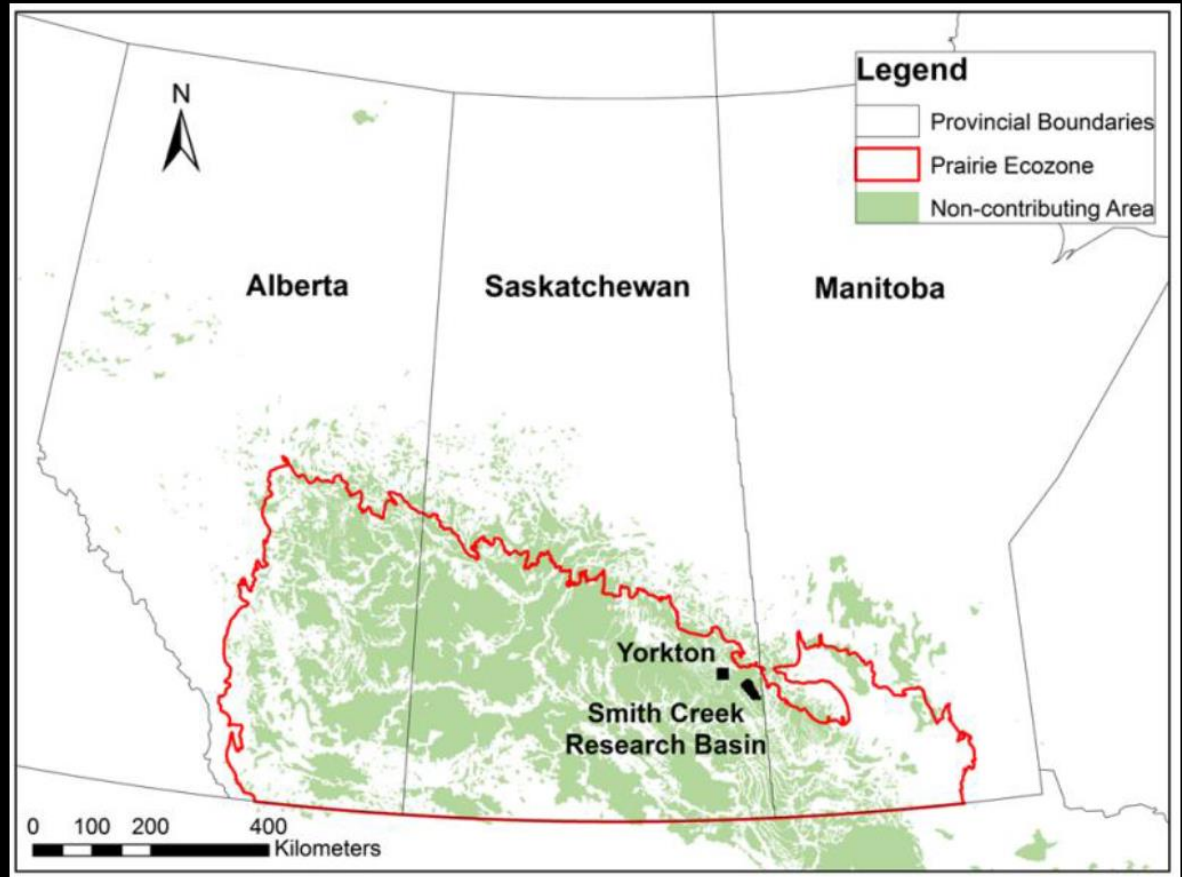
Western Livestock Insurance Program (Sask)

<u>Date</u>	<u>Participating Producers</u>	<u>Calves Insured</u>	<u>Feeder Cattle Insured</u>	<u>Fed Cattle Insured</u>
31-Mar-15	1,799	123,000 or 15%	58,000 or 8%	850 or 1%
31-Mar-16	2,152	123,000 or 15%	15,000 or 2%	900 or 1%
31-Mar-17	2,554	96,000 or 12%	16,000 or 2%	7,100 or 7%

Current and Emerging Risks

Weather Volatility

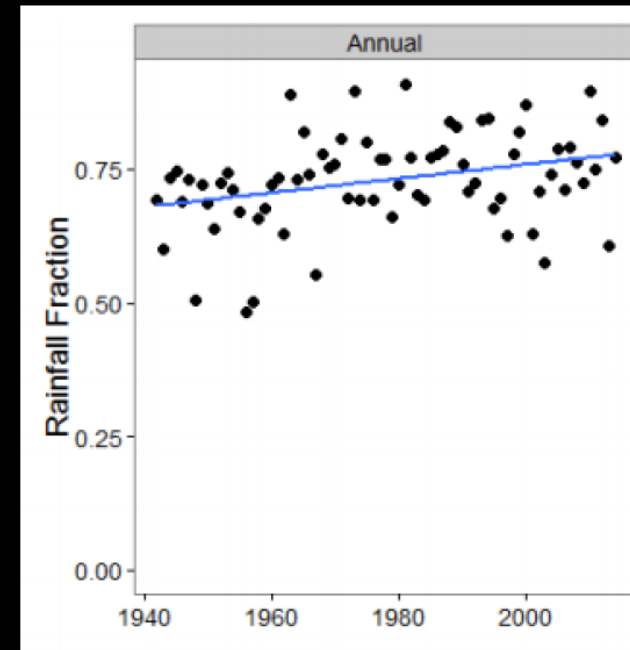
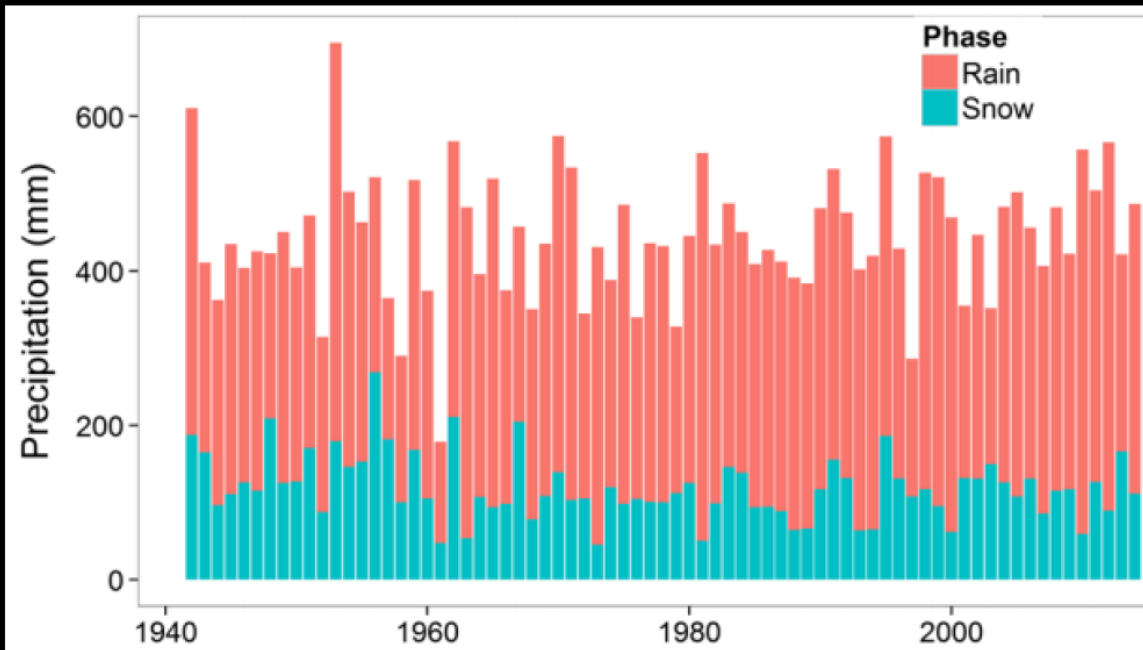
What are we observing already?
As a case study, consider Smith Creek Research Basin (60 km SE of Yorkton).



Dumanski, Stacey, John W. Pomeroy, and Cherie J. Westbrook. "Hydrological regime changes in a Canadian Prairie basin." *Hydrological Processes* 29.18 (2015): 3893-3904.

Weather Volatility

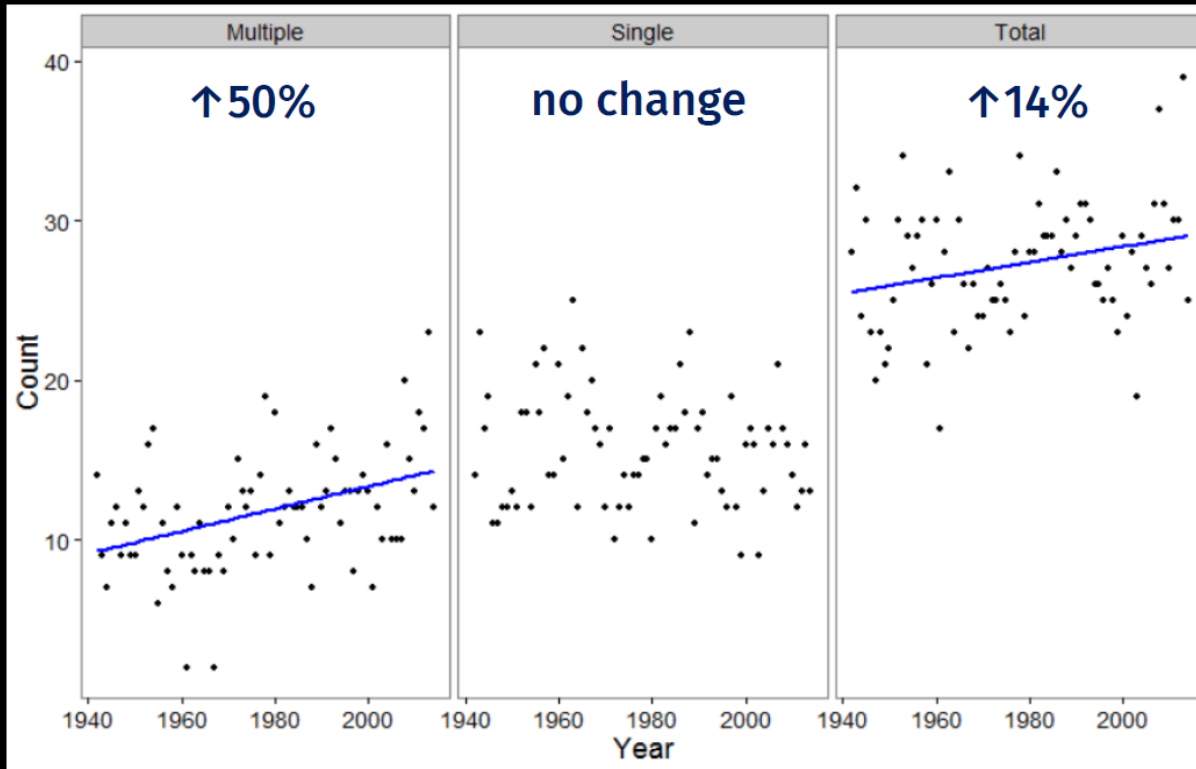
Due to the increasing temperatures, the phase of precipitation has shifted — more rain, less snow. This may raise the risk of flooding.



Dumanski et al. 2015

Weather Volatility

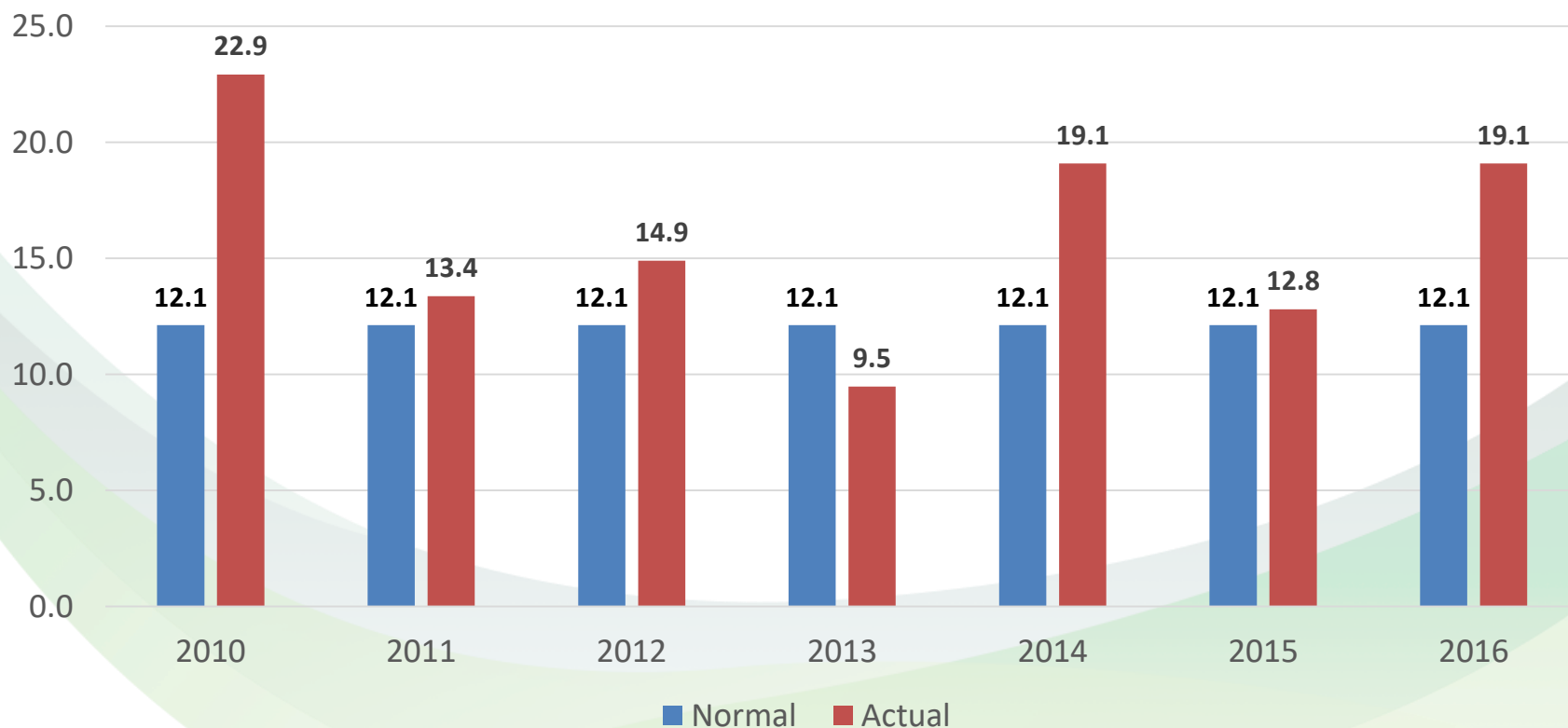
More multiple-day rainfall events have been observed (i.e. a more “clustered” rainfall pattern)



Dumanski et al. 2015

Weather Volatility

Growing Season Precipitation 1981 - 2010 Normal (12 inches) vs. Actual:
Wynyard Weather Station



Weather Volatility

Top 10 Driest Nov – Sept periods on record:

Regina

1. **2017 = 125.4 mm**
2. 1885 = 136.7 mm
3. 1894 = 146.0 mm
4. 1961 = 177.2 mm
5. 1893 = 179.5 mm

Moose Jaw

1. 1988 = 173.3 mm
2. 1929 = 193.4 mm
3. **2017 = 194.8 mm**
4. 1980 = 214.3 mm
5. 1984 = 214.8 mm

Swift Current

1. **2017 = 133.4 mm**
2. 1937 = 178.6 mm
3. 2001 = 184.7 mm
4. 1914 = 207.7 mm
5. 1973 = 222.0mm

Yorkton

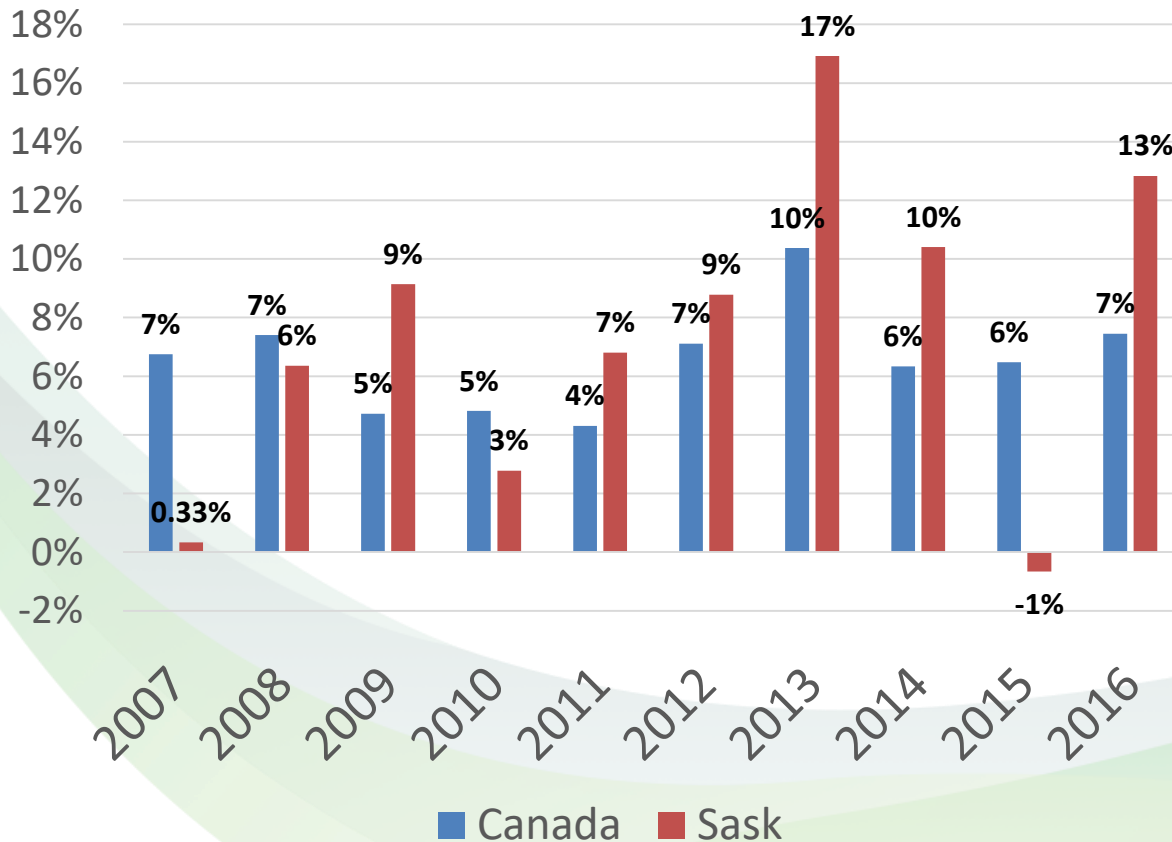
1. 1961 = 225.8 mm
2. **2017 = 244.1 mm**
3. 1960 = 264.7 mm
4. 2001 = 267.6 mm
5. 1979 = 273.1 mm

Saskatoon

1. 2001 = 168.9 mm
2. 1998 = 220.3 mm
3. **2017 = 222.4 mm**
4. 2003 = 222.5 mm
5. 1952 = 224.3 mm

Farm Debt: Sask vs Canada

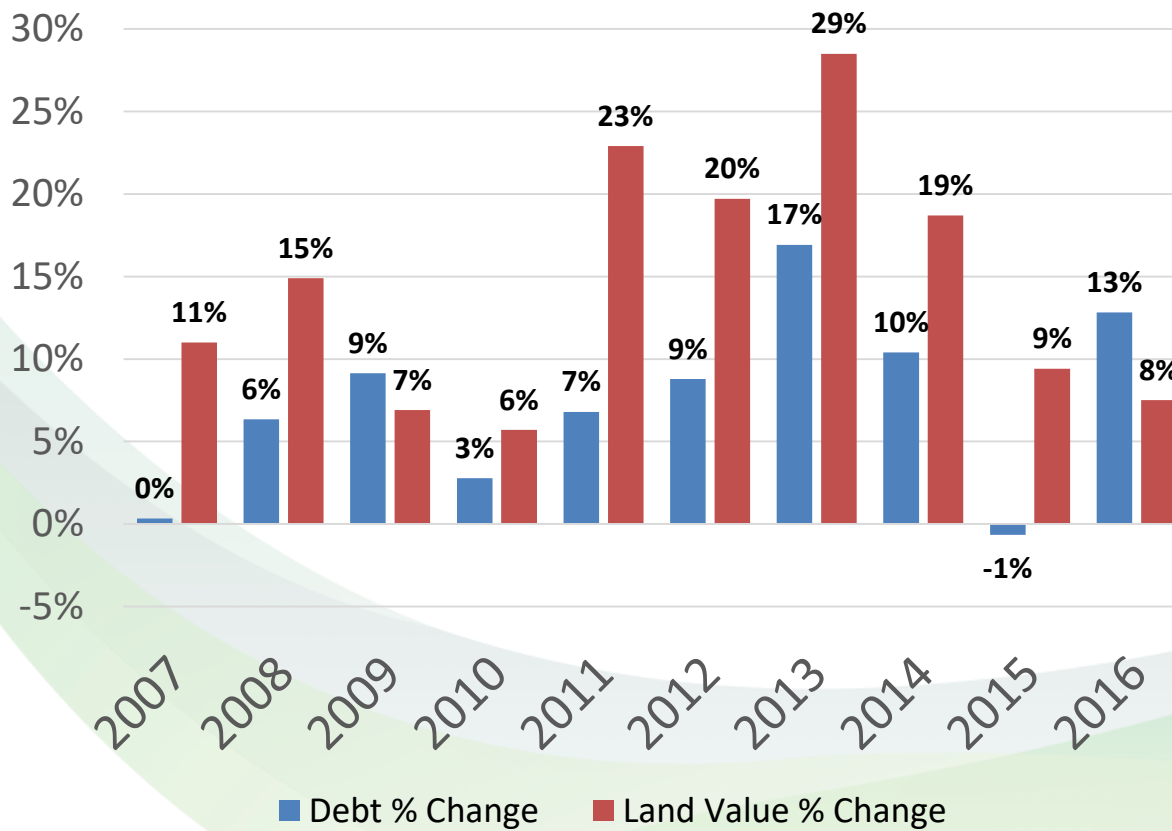
Year over year debt % change



- Saskatchewan farm debt increasing faster pace than rest of Canada

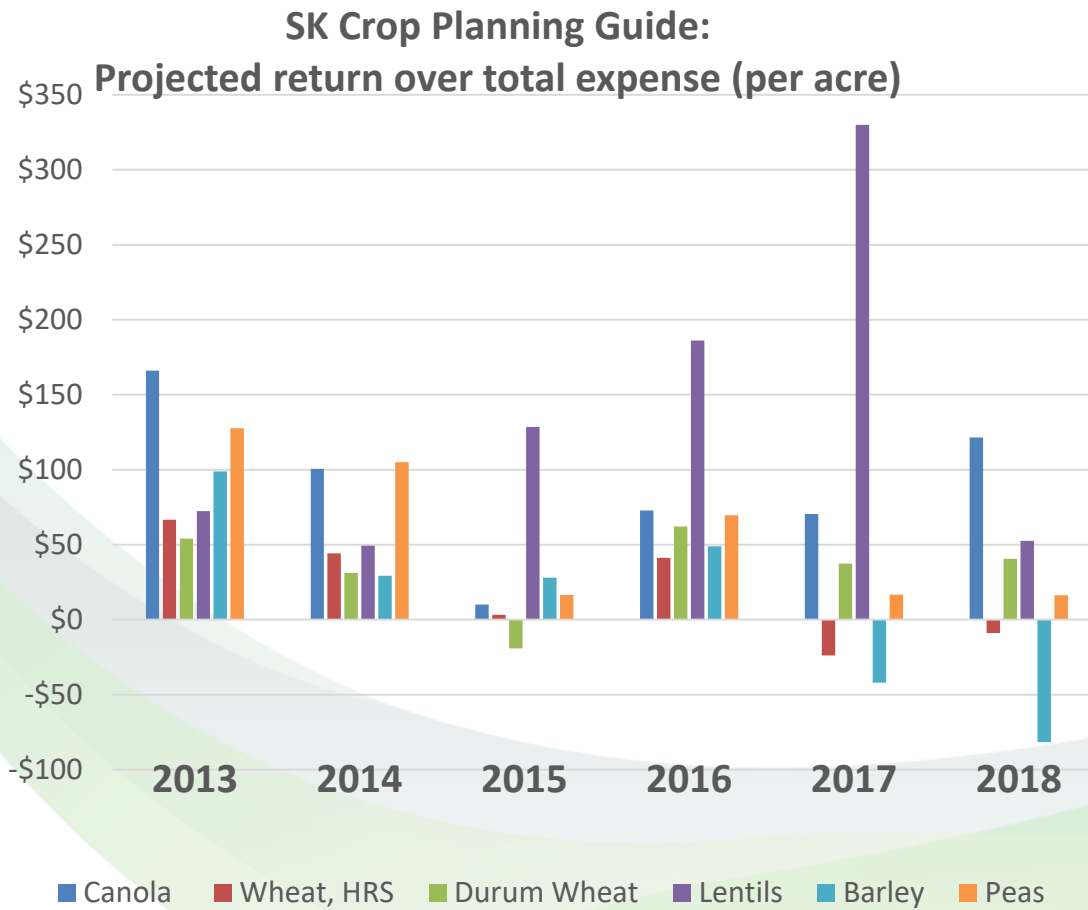
Farm Debt vs Land Values

Debt vs Land Value - % Change



- Land appreciation has outpaced debt increases in all years since 2010, except 2016

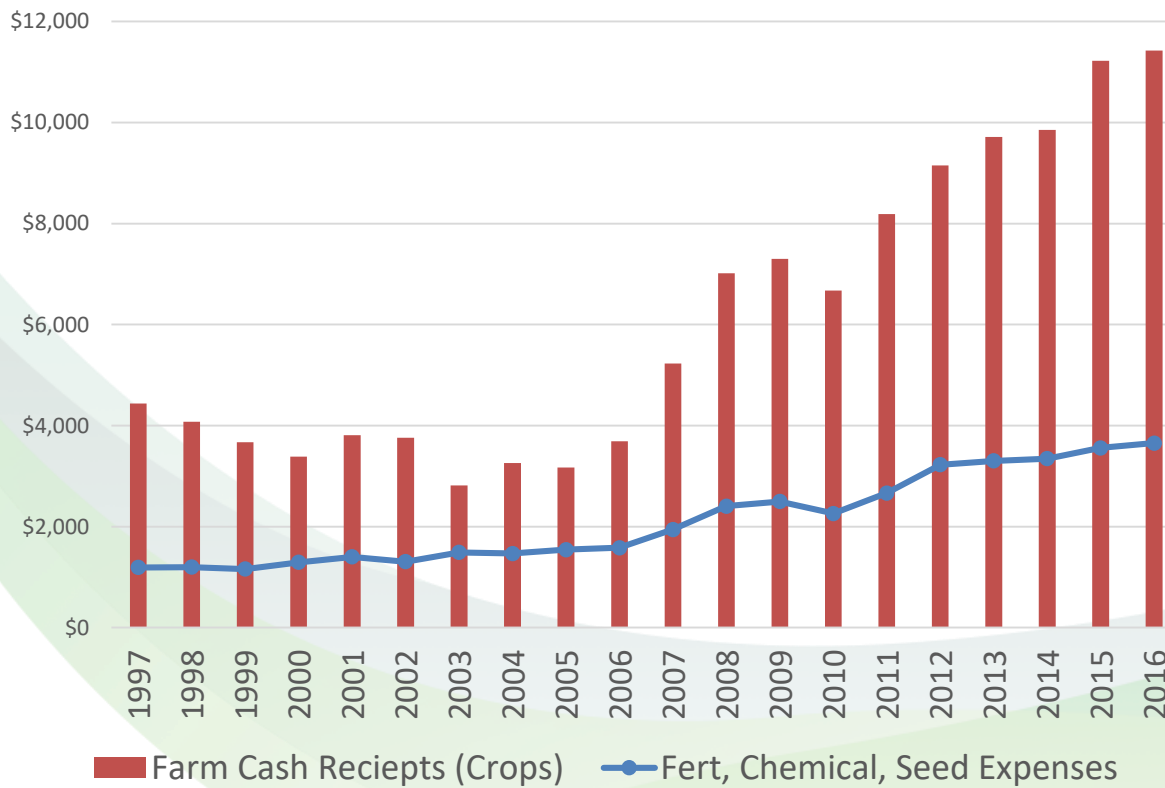
Crops: Market Risk



- Growing Forward 2 programs implemented during period of relatively stable price and cost indices for principal field crops
- More volatility in recent years, limiting profitable crop choices.
- Significant price declines in key crops, such as cereals and pulses.

Crops: Market Risk

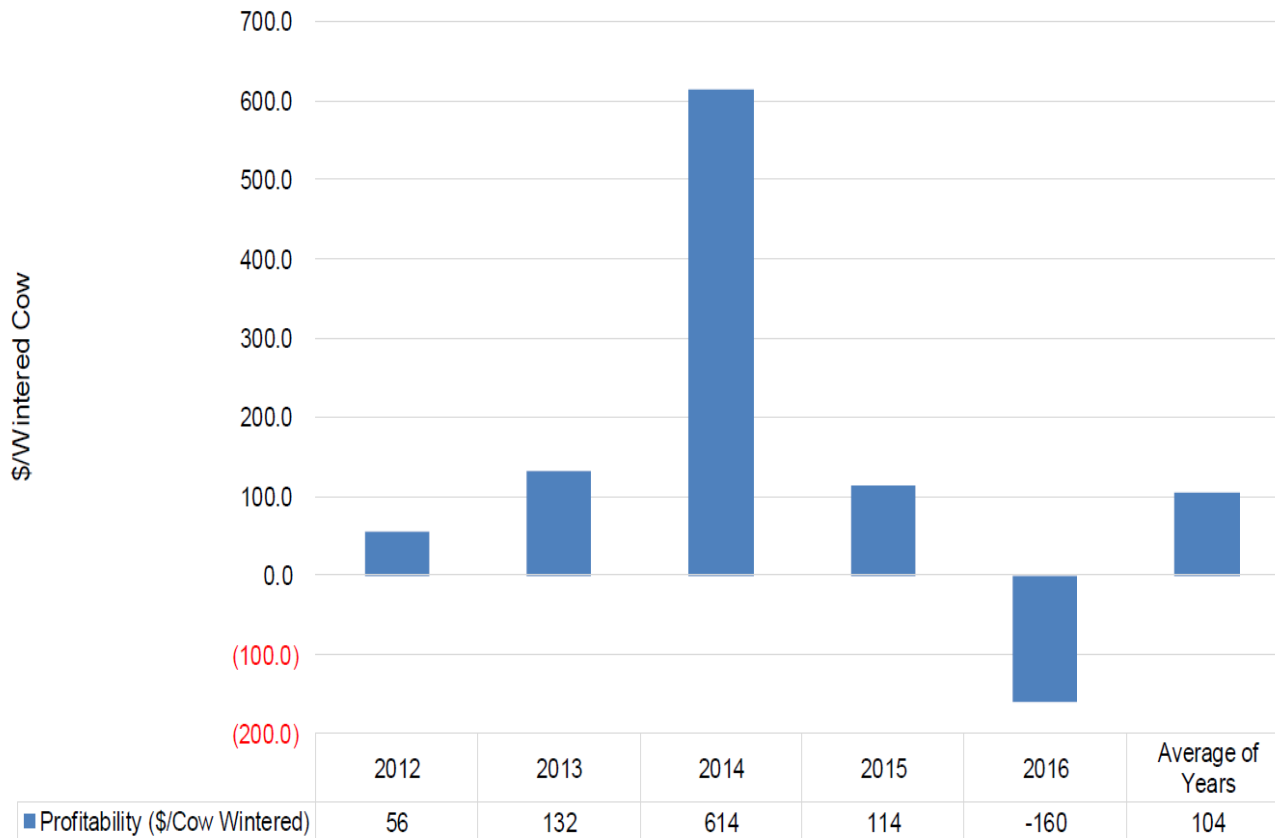
Sask Crop Receipts vs. Input Expenses
(\$ millions)



- Investment in fertilizer, seed and chemicals expenses have increased at a faster rate than cash receipts.
- From 1997-2016, crop receipts increased 157%, while farm input expenses increased 207% over the same period.

Livestock: Market Risk

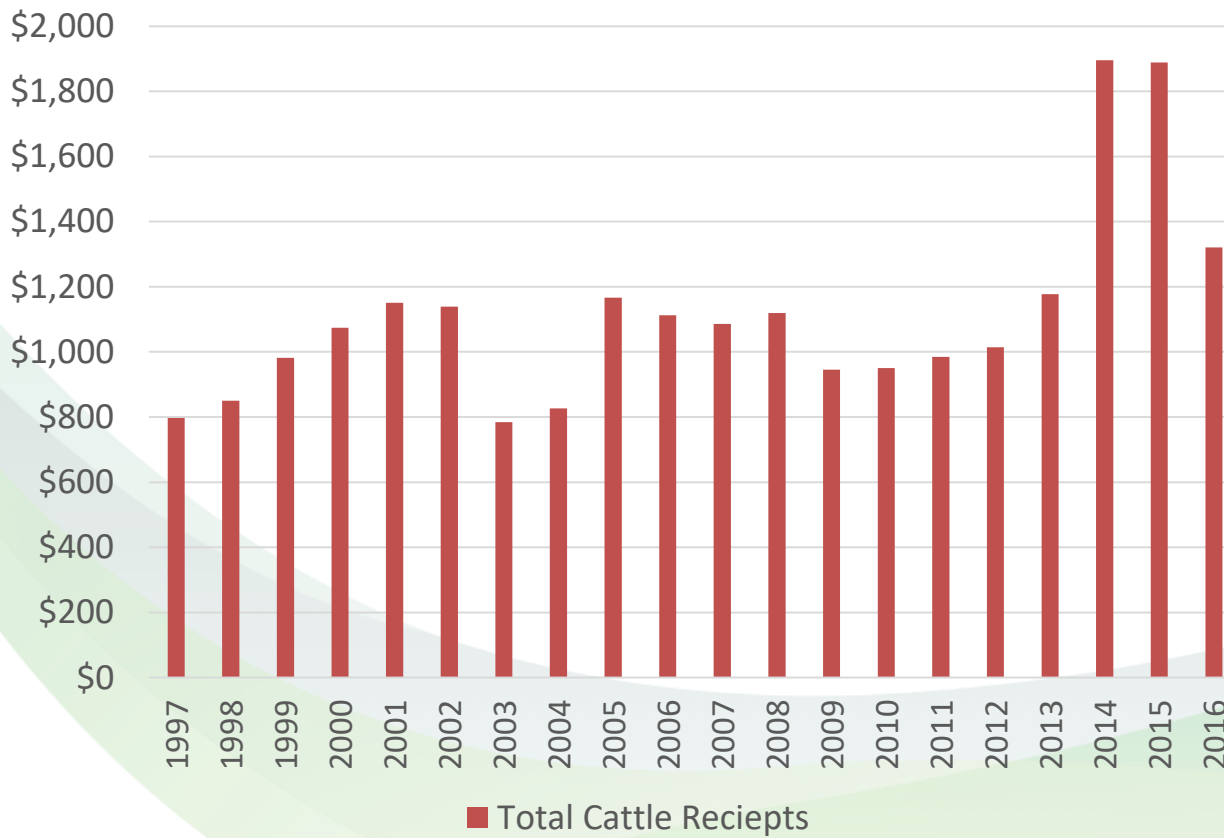
Figure 5. Profitability



- Cow-calf operations in a loss position when all expenses (variable and fixed) are factored into the equation
- New numbers (2017) available in May

Livestock: Market Risk

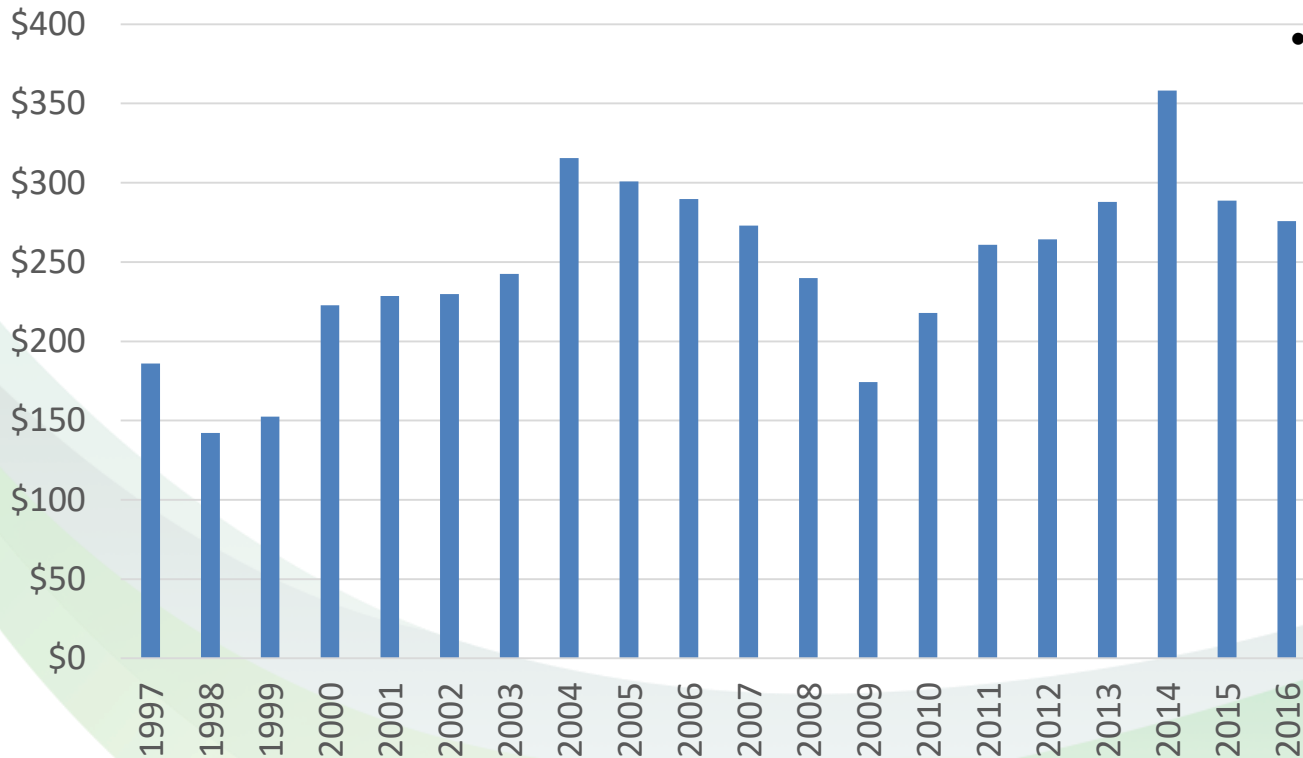
Sask Cattle Receipts (\$ millions)



- Receipts from livestock show significant volatility
- Income prone to fluctuations due to disastrous events (BSE) and market volatility (2015/16)
- Huge fluctuations in cattle receipts over last 20 years; need more research into recent market volatility.

Livestock: Market Risk

Sask Hog Receipts (\$millions)



- Receipts from hogs also show significant volatility; patterns of decline (2004 - 09) and recovery (2010 -14)

Risk Assessment: Summary

- Farm debt has increased consistently year over year, with Sask debt increasing at faster rate than rest of Canada
- Farm program design (GF2) implemented during time of rising land prices, increasing farm debt, and strong commodity prices
- Upfront investment in farm inputs has increased, raising the financial stakes
 - More competition nationally and internationally
- Producers need **credible** risk management support to navigate these uncertainties
 - Future investment in sector
 - Stable economic and social contributions

Conditions for Satisfaction

Conditions for Satisfaction

APAS Policy Committees and Board:

- Economics & Trade Committee
- Crops & Transportation; Livestock Committees; Young Ag Producers

APAS Farm Program Survey:

- 268 Respondents
- Agri-Invest, Agri-Stability, Agri-Insurance
- Agree / Disagree:
 - Are coverage levels adequate?
 - How predictable is coverage at beginning of production season?
 - Do expect to benefit from enrolment in program?
 - Are fees/premiums worth enrolment?
 - Would you recommend the program to others?

Conditions for Satisfaction

- 1. Increased support levels for Sask farmers**
- 2. More equitable treatment of farm types**
- 3. Improved program predictability**
- 4. Reduced administrative burden,**
- 5. Timeliness of payment**

Increased Support Levels for Sask Farmers

Farm Program Survey: Are coverage level adequate?

Agri-Stability	
No	65%
Yes	15%
No opinion	20%
Crop Insurance	
No	47%
Yes	29%
No opinion	24%

Increased Support Levels for Sask Farmers

APAS Farm Program Survey Highlights

- 47% of respondents did not feel that crop insurance coverage was adequate
- 63% of Agri-Stability respondents did not see Agri-Stability as providing a benefit or future benefit to their operations
- Obtaining financial advice about enrolment in farm programs did not appear to increase likelihood of Agri-Stability retention.

Increased Support Levels for Sask Farmers

Key Takeaways:

- Producers leaving programs due to lack of perceived benefit (likelihood of payment), represents unnecessary risk for the sector
- BRM Review must be **comprehensive** to address this challenge
- Programs in need of a “re-set” to restore credibility

More equitable treatment of farm types

- a) “AgriStability doesn’t work for mixed farms”
- b) Discriminatory definitions of “Allowable” vs “Non Allowable” expenses; all farms have different cost structures (fixed vs. variable costs)
- c) Glen Mumey (February 10, 2017 Country Guide):
“For the potential users, it [AgriStability] needs to be regarded as just one part of a risk control program, valuable on some farms and not so good on others.”

More equitable treatment of farm types

Allowable Expenses:

- Commodity Purchases
- Containers and Twine
- Fertilizer and Lime
- Pesticides
- Insurance Premiums (crop production)
- Veterinary Fees, Medicine, A.I. fees
- Minerals and Salts
- Machinery (gasoline, diesel fuel, oil)
- Electricity
- Freight and Shipping
- Heating Fuel
- Arm's Length Salaries
- Storage/Drying
- Prepared Feed
- Insurance or Other Premiums for Allowable Income and Expense Items
- Commodity Futures Transaction Fees
- Commissions and Levies
- Trucking (eligible commodities to market or eligible inputs to the farm)

Non-Allowable Expenses:

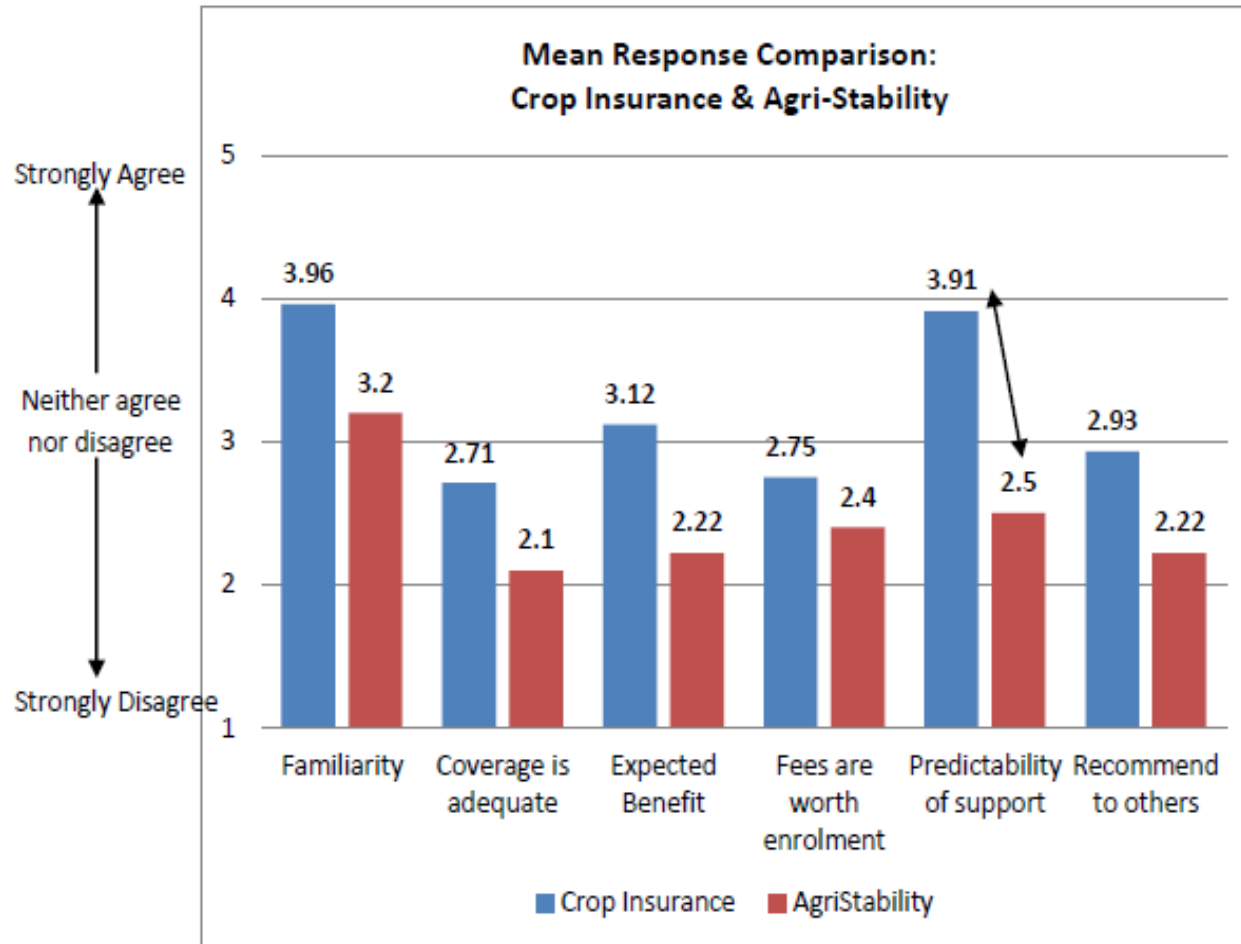
- Machinery Repairs
- Agricultural Contract Work
- Advertising and Marketing costs
- Building and Fence repairs
- Other Insurance Premiums
- Memberships/Subscription Fees
- Legal and Accounting Fees
- **Non-Arm's Length Salaries**
- Office Expenses
- Motor Vehicle Expenses
- Small Tools
- Soil Testing
- Licenses/Permits
- Telephone
- **Machinery Lease/Rental**
- Land Clearing and Draining
- **Interest (real estate, mortgage, other)**
- Property taxes
- **Rent (land, buildings, pastures)**
- Quota Rental (tobacco, dairy)
- Gravel
- Purchases of Commodities Resold

More equitable treatment of farm types

Key Takeaways:

- Programs must strive to be commodity neutral in their design
- Programs should encourage (rather than penalize) pro-active forms of risk management
- Take into consideration different farm types, different stages of farming careers

Improved program predictability



55% of respondents could not predict AgriStability coverage level at the beginning of the production season

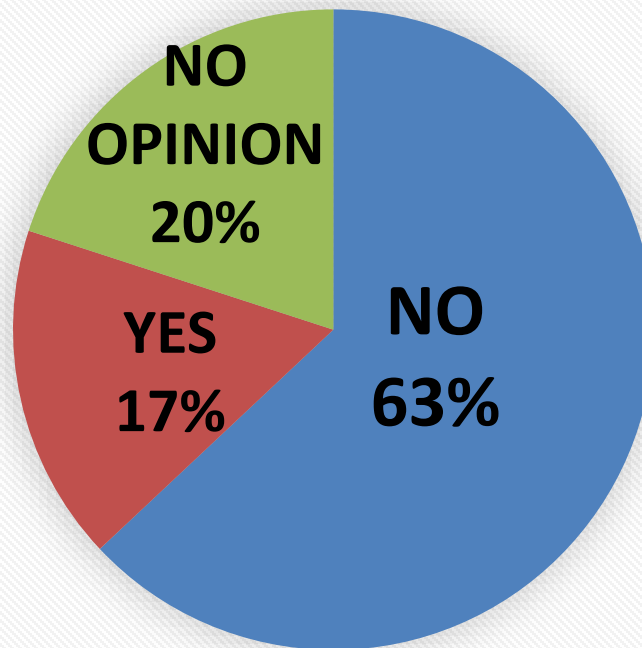
Improved program predictability

Key Takeaways:

- **Bankable and predictable** critical benchmarks for effective program design
- Predictable support (backstop) needed to navigate uncertainties and risk

Reduced administrative burden

AgriStability:
Are administrative costs / fees worth enrolment?



Reduced administrative burden

Key Takeaways:

- Administrative burden (incl. accounting fees) have direct impact on program participation
- Is there a better, simpler way of administering these programs?
 - We need a jurisdictional scan (interprovincial and international) of application and enrolment requirements

Timeliness of Support

Agri-Stability Performance Benchmarks....

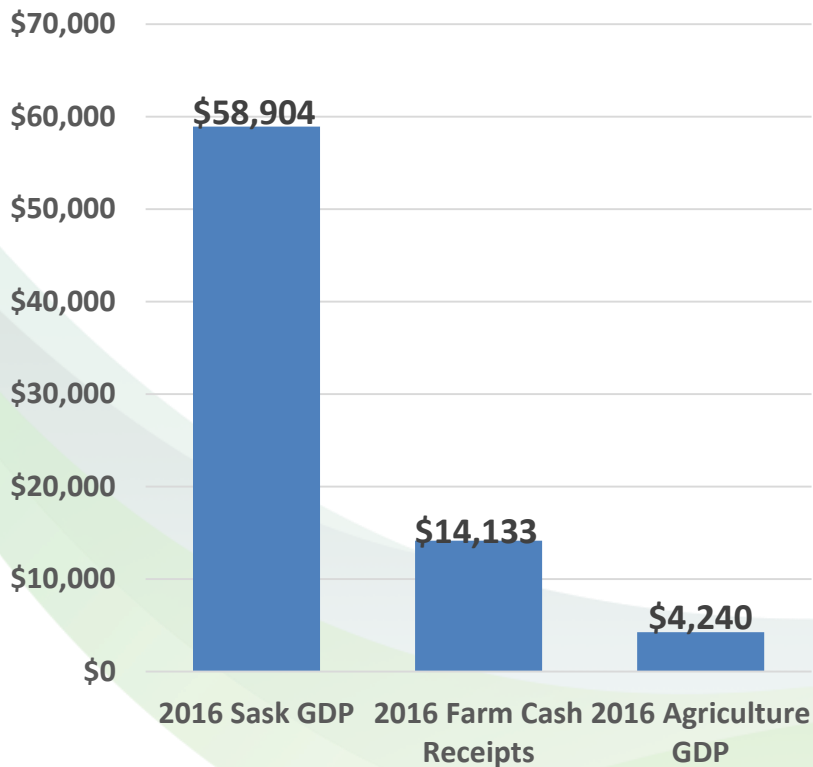
Target	Existing	Proposed
Processing time of final applications	75% of final applications are processed within 75 calendar days	75% of final applications are processed within 45 calendar days.

Timeliness of Support

- The lag time between disaster occurrence and financial support is critical, programs must be responsive to producers' needs
 - Wildfire in SW Sask (2017), Snow event during October harvest (2016), TB Quarantines (2016)
 - Exorbitant interest on input loans...

Ag Contribution to Sask Economy

Economic Contributions (\$ millions)



Measurable Contributions:

- Primary agriculture (employment)
- Wholesale Trade (farm products, agricultural supplies, machinery and equipment)
- Services to primary agriculture (employment)
- Farm machinery manufacturing (establishments, employment, payrolls, sales)
- Food processing (establishments, employment, payrolls, sales)
- Farm products wholesalers (establishments, employment, payrolls, sales)
- Capital investment (fixed and movable assets) in agriculture sector
- Employment in truck transportation (include grain trucking)
- Employment in warehousing and storage (includes grain terminals)
- Sales of chemical manufacturers (would include Yara)

Breakout Sessions

Discussion Questions

Are we on the right track?

- Risk Assessment
 - Volatile Weather
 - Farm Debt
 - Market Risks
 - Operating Costs / Farm Cash Receipts

Discussion Questions

Are we on the right track?

- Conditions for Satisfaction:
 - Increased support levels for Sask farmers
 - More equitable treatment of farm types
 - Improved program predictability
 - Reduced administrative burden,
 - Timeliness of payment

Discussion Questions

- Do Business Risk Management programs need a “re-set” to remain relevant into the future?
- Should the government wind Agri-Stability down and divert funds to other programming areas (enhanced crop insurance, Agri-Invest)?
- Do you think AgriStability’s credibility can be restored through enhancements, like increased coverage levels, or should we be looking at designing an entirely new margin protection program?
- Do you feel there are opportunities for a greater role in private sector risk management program? (e.g. GARS) If so, what role could governments play in encouraging participation?

Discussion Questions

- What do you think about the following principles?
 - The BRM review should result in recommendations that maintain crop insurance with enhancements to deal with climate change and technological innovations (satellite mapping, etc).
 - Any future changes to AgriStability that allow producers to pay more to “top-up” coverage, must also provide gradual increases in margin coverage when producers are not in a claim position.

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