APAS
Agricultural Producers Association of Saskatchewan

Next Policy Framework Discussion Paper

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TABLE OF CONTENTS

NEXT POLICY FRAMEWORK TASK FORCE

The Agricultural Producers Association of Saskatchewan launched a Task Force in fall 2021 to prepare recommendations to federal and provincial consultations on the Next Policy Framework (NPF). The Next Policy Framework will result in a new 5-year federal-provincial agricultural funding agreement to replace the current Canadian Agricultural Partnership in April 2023.

Since October, the NPF Task Force has gathered information and met with stakeholders to review current programs and develop recommendations for Saskatchewan producers. This Discussion Paper highlights their findings and recommendations in advance of the multilateral agreement that is expected this summer. **Phase 1** of the Task Force has focused on multilateral programs, such as business risk management, federal trade, market development, research, and environmental program areas. **Phase 2** will focus on Provincially administered programs delivered through the cost-shared agreement between the federal and provincial government.

APAS Guiding Principles

The Task Force developed the following principles to help guide policy discussions and evaluate future proposals:

- Focus on primary agriculture: The Next Policy Framework must respond to the needs and realities of primary producers, with priority on initiatives that support growth and stability in the primary production sector

- Regional Strengths and Provincial Flexibility: The NPF should contribute towards a long-term vision for agriculture while building on regional strengths through a framework that allows for provincial flexibility and the capacity to respond to emerging needs.

- Equitable Program Access: Policy frameworks should provide equal access to programs for all primary commodities and recognize the unique needs of diversified operations. The NPF is an opportunity to identify what is working well in the sector and apply those lessons to other commodities and program areas.

Increasing the funding envelope was an important consideration raised in consultations with members and partner organizations. Agriculture is a strategic sector that is increasing in scale and prominence, yet funding levels have remained constant since 2013. The NPF represents a new five-year investment in agricultural programs that needs to keep pace with rising costs, inflation, and the addition of new priorities and policy demands on the sector.

FPT Guelph Statement:

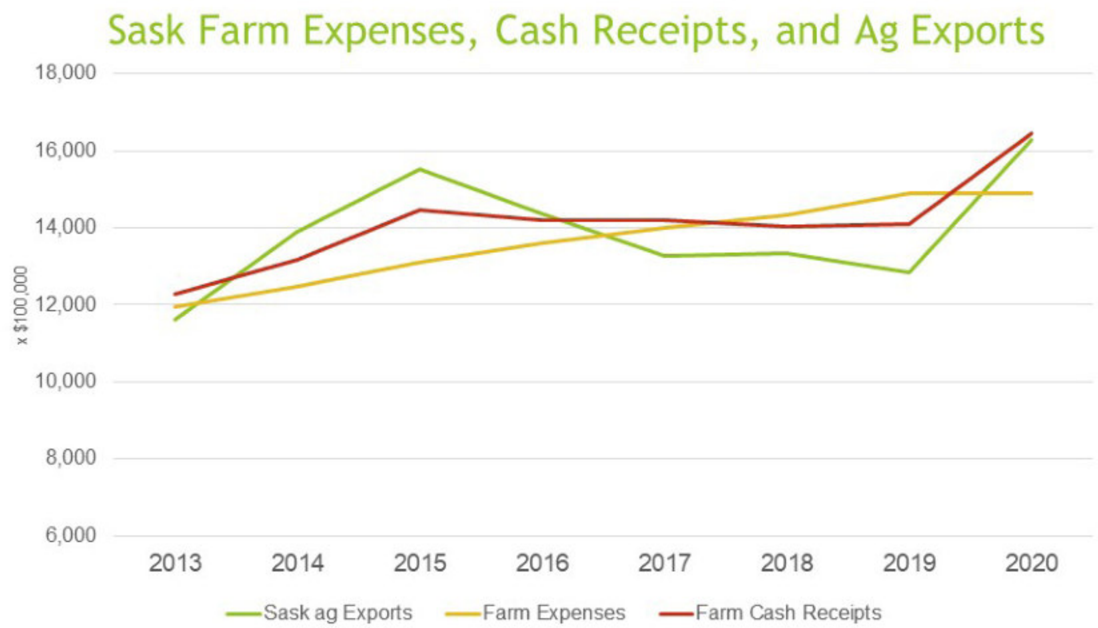
In November 2021, Canada's Agriculture Ministers released the "Guelph Statement" document that outlines the governments vision for the Next Policy framework. The Guelph Statement includes priorities under the following goals:

- Building sector capacity, growth and competitiveness
- Climate change and environment
- Science, research and innovation
- Market development and trade
- Resiliency and public trust

The Task Force considered the Guelph Statement in their analysis and recommendations. The relevant areas are highlighted throughout this Discussion Paper.

BUSINESS RISK MANAGEMENT

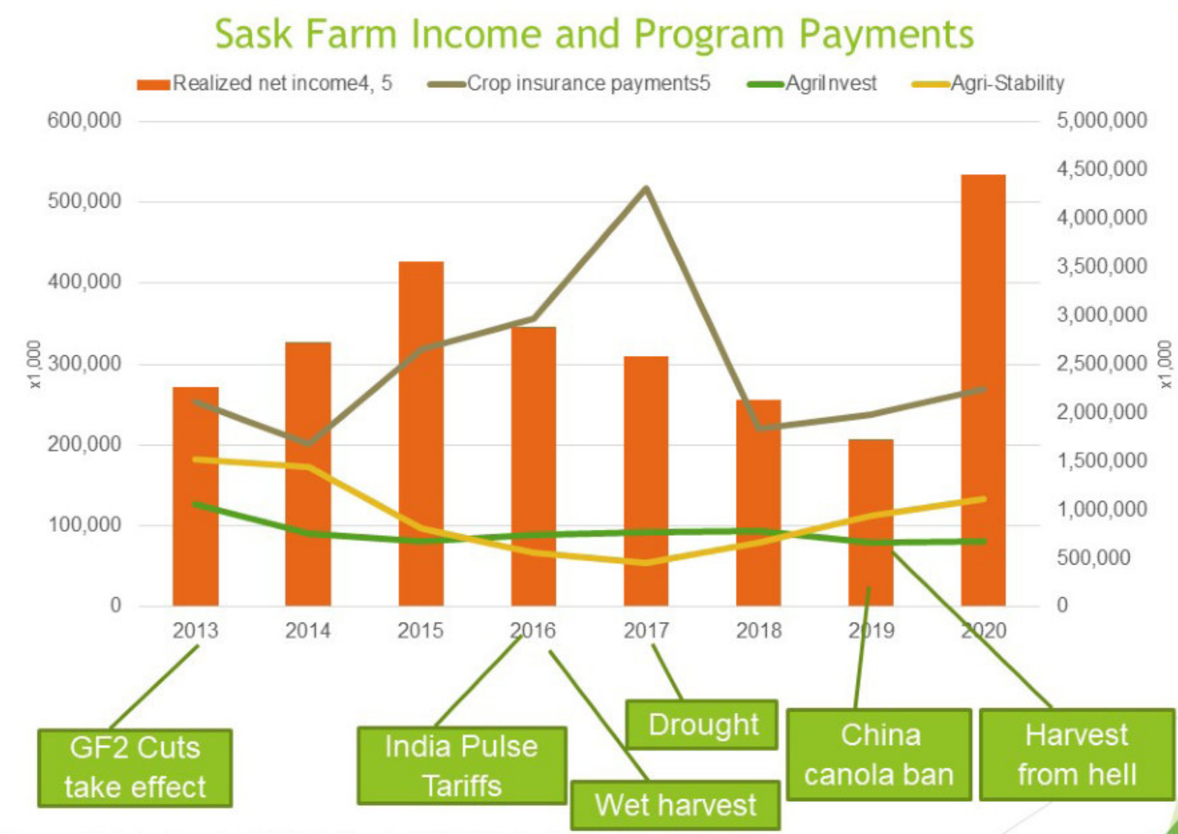
The NPF Task Force's BRM review included the AgriStability, AgriInvest, AgiInsurance and AgriRecovery programs. The review looked program designs in the current framework and how they evolved over previous policy frameworks.
The 2013 Growing Forward II agreement signaled a shift in policy priority by reducing BRM coverage levels and diverting a portion of the cost-savings to non-BRM strategic initiatives. However, BRM programs remain as important as ever in today's operating environment. Producers are investing more in their operations to increase productivity and remain competitive. While these investments increase risk, they also help drive innovation, create jobs, and contribute to Canada's trade balance.



- Since 2013, farm expenses increased avg. 3% annually, cash receipts 4%, and exports increased avg 6%, exceeding national growth rate needed for Canada to reach target of $75 Billion agri-food exports by 2030
- In 2021, Sask exported $17.3 Billion in agricultural exports (37% of Canada total) and 6% above 2020 record
- 2021 financial data not yet available, but expenses also anticipated to exceed previous record

Sources: Statistics Canada CANSIM Tables 32-10-0049-01; 12-10-0119-01

The Task Force also considered how BRM programs have responded to recent production and market disruptions in the sector.



Sources: Statistics Canada CANSIM Tables: 32-10-0052-01; 32-10-0045-01

Farm income has varied considerably relative to the overall more stable trends of increasing investment and growth in the sector. Production insurance has provided timely assistance in response to weather challenges, while AgriStability and AgriInvest have played a less important role in the industry since the 2013 program cuts.

Risk sharing is an important part of the agricultural policy frameworks. The consultations for the 2023-2028 are an opportunity to address gaps and make the programs more responsive to different levels of risk.

FPT Guelph Statement: Business Risk Management

- Foster the next generation of farmers considering economic training and other barriers to entry.
- Provide BRM programs that are timely, equitable, and easy to understand.
- Encourage and support proactive risk management, including climate risk.

AGRISTABILITY

AgriStability has been the major focus of BRM policy discussions in recent years due to low participation and lack of perceived value among producers. The Growing Forward 2 cuts from 85% to 70% of margin coverage were maintained under the 2018 Canadian Agricultural Partnership, reducing the program's credibility at a time when producers were facing greater uncertainties related to market, trade, and supply-chain disruptions.

Coverage was partially restored in 2020 with the removal of the "Reference Margin Limit" clause that limited coverage on the basis of previous years' expenses. The RML added complexity and reduced coverage for such a large number of farms in the province that it appears to have left a lasting impact on program understanding, even among accountants and farm advisors in the industry. The removal of this clause from margin calculations should provide additional opportunities for the NPF to improve education and streamline administration processes to make the program more transparent and bankable for both participants and their financial advisors.

There are varying opinions about AgriStability, yet the program is designed to cover risks not currently addressed within other BRM programs. The importance of agricultural investments into the Canadian economy will continue to require some form of government-provided coverage for margin risks. The Guelph Statement includes commitments to make this coverage more timely and responsive to producers' needs. The Task Force looked at changes that could be implemented quickly to improve coverage levels, increase participation, and make the program more user-friendly for the Next Policy Framework.

AGRISTABILITY PROGRAM DESCRIPTION:

AgriStability is margin-based business management program meant to provide additional support to help producers manage margin declines caused by production losses, increased costs, and price declines. Coverage is based on a personalized margin developed using historical information, income tax and supplementary information. Payments are triggered when a program year margin falls below 70% of historical reference margin. Benefits are provided at 70 cents for every dollar up to 70% of the historical margin coverage.

RECOMMENDATIONS

1. Restoring margin coverage through participation and performance-based incentives

AgriStability enhancements should include the use of incentives to encourage participation and address concerns that some farms have a low likelihood of receiving program support due to commodity diversification or other risk factors. Under this proposal, AgriStability would provide a "claims-free" benefit by increasing margin coverage (e.g., 2%) for every year of participation without payment, up to a maximum 85% of historical reference margin. Compensation for every dollar of shortfall (currently 70 cents) would also increase for every year of participation, regardless of payment history and up to a maximum 80% compensation rate.

2. Treatment of Crop Insurance indemnities as eligible income

Indemnities from hail insurance and other private sector risk management are not included as revenue when calculating AgriStability margins. This provision should be maintained under the NPF but expanded to include 40% of crop insurance indemnities in recognition of producers' share in premium costs.

3. Increasing transparency and reduced complexity

AgriStability's design requires a very extensive set of benchmarks and indicators that impedes the program's administrative efficiency, timeliness and transparency. Governments need to undertake administrative changes to align program applications with financial and production data already inputted through crop insurance reports, income tax files, and financial management software such as AgExpert.

4. Timeliness of support

Interim payments of 75% of expected benefits can be provided at the discretion of the provincial and federal governments. This provision should be made permanent with multi-year repayment schedules available when there is an overpayment of benefit caused by application errors, inventory, and subsequent year adjustments. Program deadlines should also be more flexible for farms filing income on a non-calendar year basis.

5. New entrants to the agricultural industry

New producers do not have an established track record for calculating a historic reference margin. AgriStability should establish a reference margin for new entrants based on a factor of 125% of the "area average" as an incentive to enter into the program and manage higher risks until establishing their own historic reference margin.

AGRIINVEST

AgriInvest is a popular program that receives high levels of participation on among producers. The self-managed account-based design offers flexibility and that meets Guelph Statement commitments towards BRM programs that are timely, easy to understand, and supportive of pro-active risk management. AgriInvest was originally designed to help cover the level of margin risk not covered by AgriStability. The program's capacity respond to this level of margin risk has declined over the years as government contributions make up a smaller proportion of increasing operating costs. However, it is important that AgriInvest is maintained and enhanced under the NPF as a flexible BRM option to help manage this tier of margin risk.

AgriInvest Program Description:

AgriInvest is a self-managed producer-government savings account meant to help cushion small income declines. Producers deposit funds annually into an account (Fund 1), and governments provide a matching deposit into a separate (Fund 2).

Government contributions are limited to 1% of producers' Allowable Net Sales, up to maximum $10,000 cap. Allowable Net Sales are calculated as gross sales, minus purchase (i.e., seed or breeding stock), of eligible commodities. Withdraws are initially made on Fund 2 and considered income for tax purposes. Once the Fund 2 balance is zero, withdrawals are made from Fund 1. These withdrawals are not taxable. The maximum account balance limit is 400% of your average Allowable Net Sales from the current and two prior program years.

RECOMMENDATIONS

APAS has standing policy which supports restoring AgriInvest coverage to 1.5% of Allowable Net Sales and increased funding limits. In addition, we propose:

1. Ease tax burden when funds are withdrawn to manage falling income

Year-end income can be difficult to predict during the production season and producers may be reluctant to withdraw funds and incur tax liabilities even during periods of declining income. AgriInvest should help address these concerns by allowing producers to withdraw from Fund 1 (non-taxable) and Fund 2 (taxable) on a 50:50 basis.

2. Accelerated Kickstart for Beginning Producers

New industry entrants and especially young beginning producers are unlikely to have the equity or financial backing to survive a 30 percent decline in income. AgriInvest should provide beginning farmers the ability to manage this risk by providing 3.25% ANS as a “kickstart” contribution for the first 5 years of operation, but at the same maximum funding cap as other program participants (currently a $10,000 limit).

3. Allowable Net Sales Calculations

AgriInvest contributions are based on 1% of total Allowable Net Sales, which is calculated as total sales minus the purchase of the same commodity. In the case of chemical bundled canola seed and replacement breeding stock, the commodity purchased is an entirely different commodity class and much higher value than what is produced, resulting in lower government contribution. To address this discrepancy, AgriInvest should exclude breeding stock purchases (bred heifers) and the chemical and Technology Use Agreements (TUA) costs that are bundled with seed (e.g. canola) when calculating Allowable Net Sales.

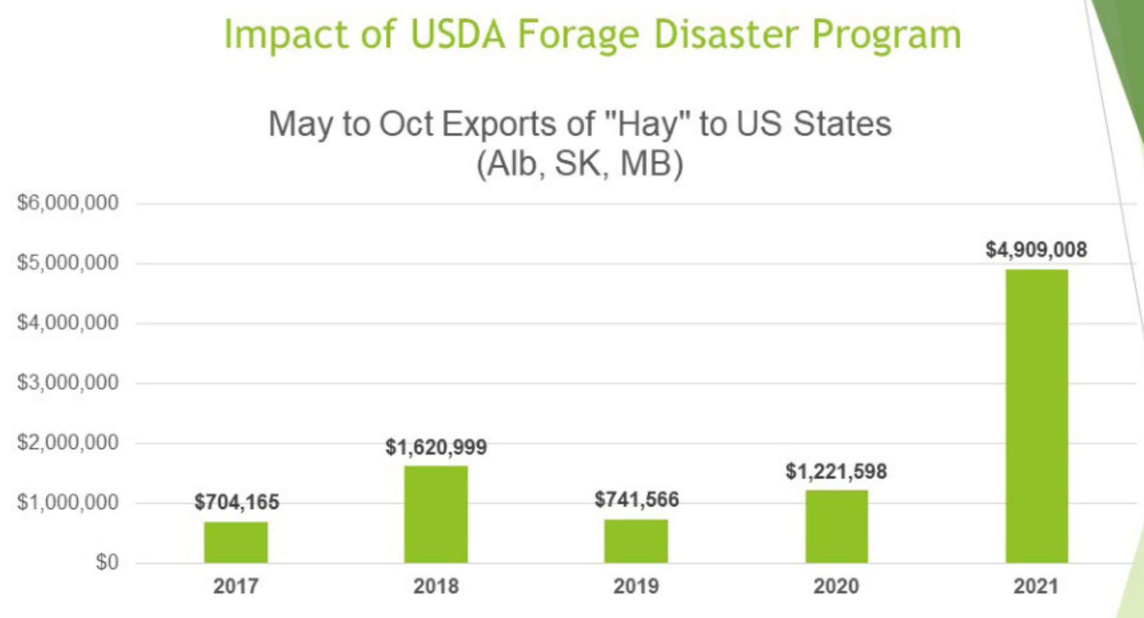
4. AgriInvest as savings and income management tool

Since not all commodities are able to defer and smooth income for tax purposes, AgriInvest should better encourage risk management savings and income smoothing by allowing producers to contribute non-matchable funds into Fund 2 as deferred income that would be taxable when withdrawn.

AGRIRECOVERY

The Task Force reviewed the AgriRecovery framework in light of recent weather events and other disaster risks that have resulted in significant non-insurable losses for producers. The Saskatchewan-Canada Drought Response Initiative for drought affected livestock sectors was one of several AgriRecovery programs offered across Canada in 2021, for drought and other disaster events. There is growing consensus that Canadian agriculture needs a more comprehensive disaster response program to help protect farms from extreme weather and disaster risks.

The Task Force reviewed agricultural disaster program designs form other jurisdictions. The US Department of Agriculture's Forage Disaster and Emergency Assistance programs are integrated with the USDA Drought Monitoring System, triggering different levels of assistance in response to drought classifications. These programs provide lessons into how disaster assistance programming can be better integrated with ongoing monitoring and reporting of conditions to improve predictability, timeliness, and coordination between different stakeholders. The Task Force also considered whether the early availability of USDA feed and freight assistance programs affected the exports of hay from Prairie provinces. While AgriRecovery programs were being designed and implemented in Canadian provinces in the 2021 production season, exports of feed appear to have increased over the same period despite record low production.



Sources: Statistics Canada Canadian International Merchandise Trade Web Application

RECOMMENDATIONS

1. Improving consistency and timeliness through monitoring systems

The current AgriRecovery requirement for a provincially requested assessment can result in uneven application of the program between provinces for the same event and impact. This process can also present delays at a time when producers are making difficult management decisions to minimize losses. The AgriRecovery framework should rely more on objective and predictable mechanisms to trigger an assessment. These mechanisms could include a formal request by affected producers (farm organizations, RMs) and also be incorporated into existing weather and disease monitoring systems where possible (e.g. AAFC Drought Monitor, CFIA Reportable Disease List, etc).

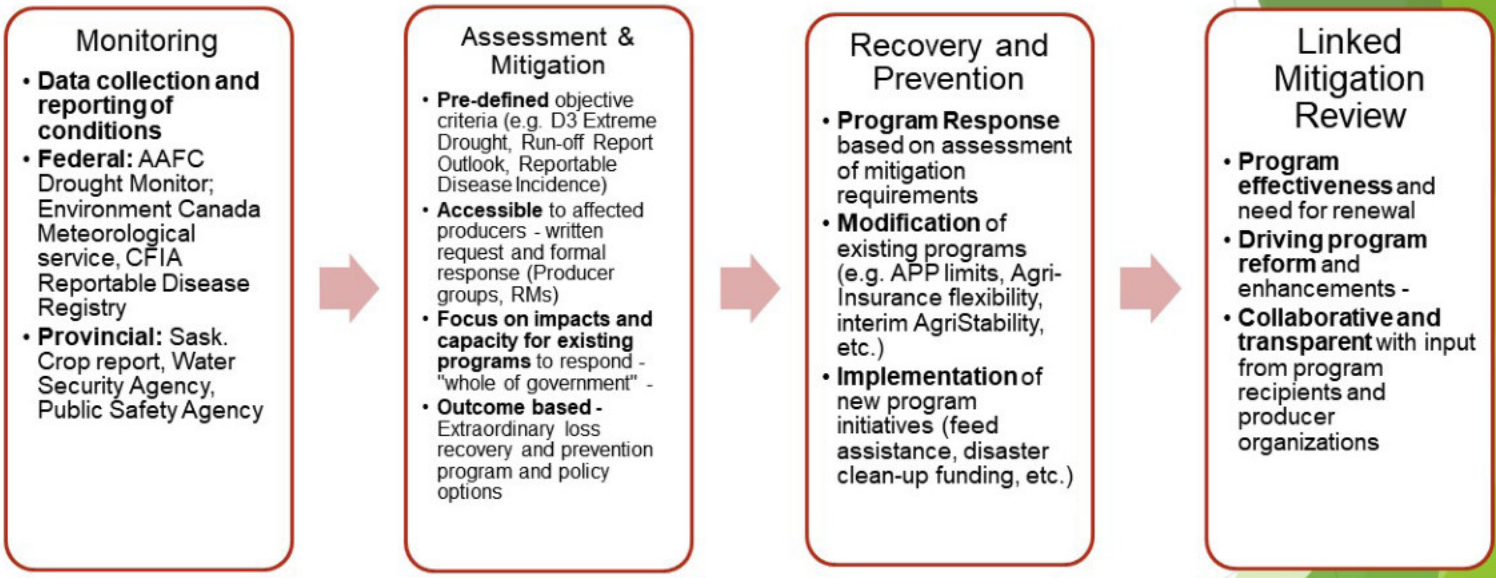
2. Increased focus on both recovery and prevention

The current framework is primarily targeted towards the extraordinary costs of recovery. The AgriRecovery framework should be expanded to include additional focus on prevention in instances where disaster events are predictable and early policy responses can help prevent or mitigate pending losses.

3. Linked mitigation reviews to inform future policy responses

The AgriRecovery framework should include a more structured risk prevention and mitigation review following each program initiative. This review would assess program effectiveness and the need for continuing support as well as the need for future program and policy changes. These changes could include enhancements to existing agricultural programs (e.g. AgriInsurance), as well as programs and policies outside the current suite of program (e.g. infrastructure, access to technology, etc). The mitigation review must be collaborative with formal opportunities for producers and other affected stakeholders to provide input.

Enhanced AgriRecovery Program: Key Elements



AgriRecovery Program Description:

AgriRecovery is a framework to cover producers from perils that are not sufficiently covered by existing BRM programs. For example, disease and drought that are localized and non-significant would not be covered while a widespread drought or highly contagious disease outbreak would be considered. As a "Disaster Framework", the AgriRecovery process is initiated upon a province's requests for an assessment through the federal government. If governments decide to proceed, a joint initiative is developed based on the agreed to extraordinary costs that producers have incurred during the disaster. Program eligibility of a disaster peril is typically determined using the following criteria:

- *-Collective Experience*
- *-Significant Impact*
- *-Significant extraordinary costs*
- *-Beyond the capacity of producers to manage.*
- *-Is not a recurring event*
- *-Is not market or policy driven*

AGRIINSURANCE

AgriInsurance is an important component of the BRM risk management tools. It is generally well understood by producers and aligns with Guelph Statement commitments to business risk management programs that are "responsive, simple, equitable, and able to respond quickly and effectively". Producers value program design features that allow them to customize coverage to reflect their operation's risk profile. Overall, AgriInsurance is viewed as an effective model that should be expanded to address production and price risks facing other sectors.

RECOMMENDATIONS

1. Livestock price insurance premium cost-sharing and expansion to other sectors

Western Livestock Price Insurance is a regional program and does not provide the same level of 60/40 cost-sharing that is provided to crops and other sectors. Coverage is also limited to cattle and hogs, although other sectors have expressed interest in government provided price insurance offerings. Livestock price insurance should be expanded to other sectors and provided the same 60% cost-shared government premium contribution that is afforded to grain and forage production insurance.

2. Expanded use of weather-based technology

AgriInsurance needs to continue to keep pace with advancements in satellite and other weather-based technology. The use of this technology can currently represent a risk to producers when insurance decisions are based on incomplete information. For example, weather stations used for assessing rainfall amounts for forage insurance can be a significant distance from the insured property. APAS is recommending more federal support to assist provinces with the cost of expanding new tools and technology such as satellite imagery to increase consistency and accuracy of insurance assessments.

AgriInsurance Program Description:

Agri-Insurance provides a set of insurance products to protect producers against production losses. For crop insurance, producers are protected against yield or crop quality losses. Producers can select price options and coverage levels that meet their individualized needs and level of protection against yield or quality losses. Coverage is provided for a multitude of crops including organics and forages. Premium discounts are provided for producers without a history of claims and a surcharge is applied for those with repeat losses.

Livestock Price Insurance is a risk management program offered in Western Canada where producers of livestock (beef or hogs) can purchase forward price protection in the form of an insurance policy. Producers pay a premium to protect themselves against an unexpected drop in prices over a defined period.

RESEARCH AND INNOVATION

Producers have longstanding research partnerships with governments, and they value the important role of public research and funding in the development of new technologies, genetics, and crop varieties in the sector. However, government contributions to agricultural research and extension in Canada appear to be declining (.046%of GDP in 2016) and lags behind other developed nations. The Guelph Statement's priorities for research and innovation place significant emphasis on climate change and the environment. It is important that the Next Policy Framework recognize the critical role that existing research programs play in supporting climate adaption through production diversification and access to new genetics that can better withstand climate risks, such as extreme weather and disease pressures.

RECOMMENDATIONS

1. Continuing public research from discovery science to commercialization

The Task Force heard concerns that producers are assuming a greater portion of research costs because the federal government has reduced its contributions for research activities deemed closer to a commercialization stage. The NPF is an opportunity for the federal government to signal its commitment to existing research and crop breeding programs by contributing its share of funding to all research stages. This principle should equally apply to livestock sectors to support the continuation of prairie-based research into livestock productivity, water use efficiency, and positive environmental impacts.

2. Recognizing fiscal capacity of research partners

The Task Force also noted the challenges facing smaller acre crops and niche commodities in meeting cost-shared funding requirements. The Next Policy Framework should help address these challenges by providing more flexible funding arrangements for producer and commodity associations that cannot afford to meet full cost share ratios.

3. Supporting regionally based research, knowledge transfer and extension services

Saskatchewan's agricultural sector is large, diverse and supported by a strong research community that has helped to improve productivity and sustainability in the agricultural sector. The NPF should build on this success by ensuring there is continued federal support for provincially and regionally directed research, knowledge transfer and extension services.

FPT Guelph Statement – "Science, research, and innovation"

- *Address challenges such as climate change and pursue opportunities such as new markets.*
- *Support research in primary agriculture, agronomy, and value-added*
- *Accelerate the development and adoption of new technologies and finding energy efficiencies.*
- *Supporting pre-commercialization and start-ups in such areas as innovative labour solutions and bioproducts.*
- *Enhance data collection, extension activities, performance measures, knowledge exchange and transfer.*

TRADE AND MARKET DEVELOPMENT

Saskatchewan's agricultural sector is highly trade dependent. The Task Force reviewed the trade and market development programs in light of the opportunities that are available and recent trade disruptions that have impacted producers. It was noted that governments have an important role in helping exporters address emerging issues and diversify into new markets.

RECOMMENDATIONS

1. Helping smaller commodities and niche sectors diversify and develop markets

Market development and diversification is especially important for smaller acreage crops and specialty livestock sectors, yet these sectors may also face the greatest financial constraints in meeting the cost shared funding criteria to access programs. Funding agreement should recognize these fiscal constraints and provide higher levels of funding for partner organizations unable to meet the full cost shared funding requirements. Support should also be provided to promote the health benefits of Canadian products within domestic markets.

2. Structured response to ad hoc and emerging trade issues

Producers have increasing concerns about international trade access for their exports and the lack of BRM coverage for trade risks. Task Force discussed growing protectionism in international markets and the lack of direct BRM programming to address trade risk in the current programs. There should be a dedicated stream under federal trade and marketing programs, available at the request of affected sectors, to address emerging trade issues and assess the financial impact on producers. This program would be federally funded and administered and follow the proposed AgriRecovery process of assessment, policy response, and structured mitigation reviews to assess the need for additional policy measures and further support.

FPT Guelph Statement – "Market Development & Trade"

- *Collaborate to pursue and defend Canadian trade interests and advance science-based trade rules.*
- *Support market diversification and efforts to remove barriers to interprovincial trade.*
- *Support export readiness and identify and pursue market development opportunities abroad and domestically such as buy local.*
- *Meet domestic and international demand for sustainable primary production and processing practices.*

ENVIRONMENT AND CLIMATE CHANGE

The Task Force reviewed the Guelph Statement priorities and objectives related to the environment and climate change. APAS is supportive of additional research and government programming to help the sector reduce emissions, measure carbon output and sequestration values, and adapt to climate change through improved access to technology, genetic traits, and water management infrastructure.

Policy frameworks have supported environmental Beneficial Management Practices (BMPs) through Environmental Farm Plans and other provincially administered programs. This model has ensured that BMPs are regionally appropriate and considerate of local environmental risks and objectives. APAS recommendations below are intended to improve BMP participation through improved access to extension services and better program integration to encourage energy conservation, water security, environmental stewardship, and habitat preservation.

The Task Force also considered the environmental and climate change policy focus in the Guelph Statement as an additional demand on the NPF that is distinct from policy goals of improving competitiveness and risk management in the sector. BRM programs, in particular, are meant to address specific production and economic risks through program designs that avoid influencing management and production decisions. Policy frameworks deliver programs that affect the competitive position of producers in international markets. **While there may be opportunities to supplement NPF programs with environmental initiatives, these initiatives should draw upon additional funds external to the NPF in order to maintain the integrity of core program areas such BRM, trade, research and innovation.**

RECOMMENDATIONS

1. Incentive-Based Programs & Streamlined Verification Systems

Environmental programs should provide recognition, incentives and financial supports for ecological goods and services and investment in climate solutions. Programs must be supported with streamlined verification systems to enable participation on carbon credit and other offset based programs.

2. Better Program Integration and Extension Support

The Next Policy Framework should increase focus on better integrating environmental programs, farm stewardship, and water management programs to help the sector achieve the following outcomes:

- Increased capacity to deal with climate risks, including flood, drought and disease risk, through water management programs, irrigation, and research funding for crop and livestock genetics and technologies. Program focus should be expanded to projects that enhance capacity at the community level.
- Increased participation in "Nature-based climate solutions", such as soil carbon sequestration, agroforestry, wetlands, grassland management and preservation, by providing opportunities for producers to generate revenue and receive recognition for verified results.
- Continued knowledge generation and transfer through additional funding for research and extension services to help producers achieve these goals.

OTHER STRATEGIC INITIATIVES

FPT Guelph Statement – Value Added Processing

- *Support new or emerging primary, value- added and processing opportunities.*
- *Enhance labour attraction and retention, training, and automation.*
- *Pursue economic opportunities through efficiency improvements, reducing and recovering food and other wastes, and growing the bioeconomy.*
- *Support research in primary agriculture, agronomy, and value-added.*
- *Supporting pre-commercialization and start-ups in such areas as innovative labour solutions and bioproducts.*

APAS Policy Statement

- Value-added and market development programming should address the lessons learned from COVID-19 through investments in on-farm value-added activities and improved resilience in domestic supply chains, especially for livestock. However, these investments must clearly enhance market opportunities and financial returns for primary producers, as opposed to established processors or large multinational food companies.

FPT Guelph Statement – Public Trust and Community Engagement

- *Fostering awareness of sector commitment to the sustainable production of safe, high-quality food and building public trust while increasing sector awareness of the expectations of consumers.*

APAS Policy Statement

- APAS supports public trust initiatives to help the sector engage the public, increase agricultural awareness, build trust in evidence-based regulations and decision-making, and promote Canadian agriculture and agri-food products.

FPT Guelph Statement – Beginning Farmers and Workforce Development

- *Foster the next generation of farmers, considering economic, training, and other barriers to entry.*
- *Enhance labour attraction and retention, training, and automation.*
- *Support and empower producers and agri-food workers to take care of their mental health.*
- *Support worker health and safety.*

APAS Policy Statement

- APAS supports targeted programming to help develop skills and assist young producers and new entrants. Program initiatives should also be aimed at developing and training the agricultural workforce to meet labour needs in the primary agricultural sector.

NPF TASK FORCE MEMBERS

- Bill Pybylski - Chair
- Scott Owens
- Brent Freedman
- Ryan Scragg
- Angela Jones
- Norm Hall
- Trevor Green

APAS

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