AgriStability – A grain and oilseed perspective

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Grain Farmers of Ontario is the province's largest commodity organization, representing Ontario's 28,000 barley, corn, oat, soybean, and wheat farmers.

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Introduction

This is an overview of the current AgriStability business risk management program and its lack of effectiveness for grain and oilseed farmers.

Over the past 6 years grain farmers have endured:

- Low commodity prices
- Trade wars
- Impacts of global pandemic
- Record U.S. subsidies
- Carbon taxes

BRM programs are about preparedness, and recent crises have shown that Canada is woefully unprepared for food system market shocks and volatility – especially in the grains sector.

Canada's producer support in 2019 is only **49%** of the OECD average, and **27%** below the United States.

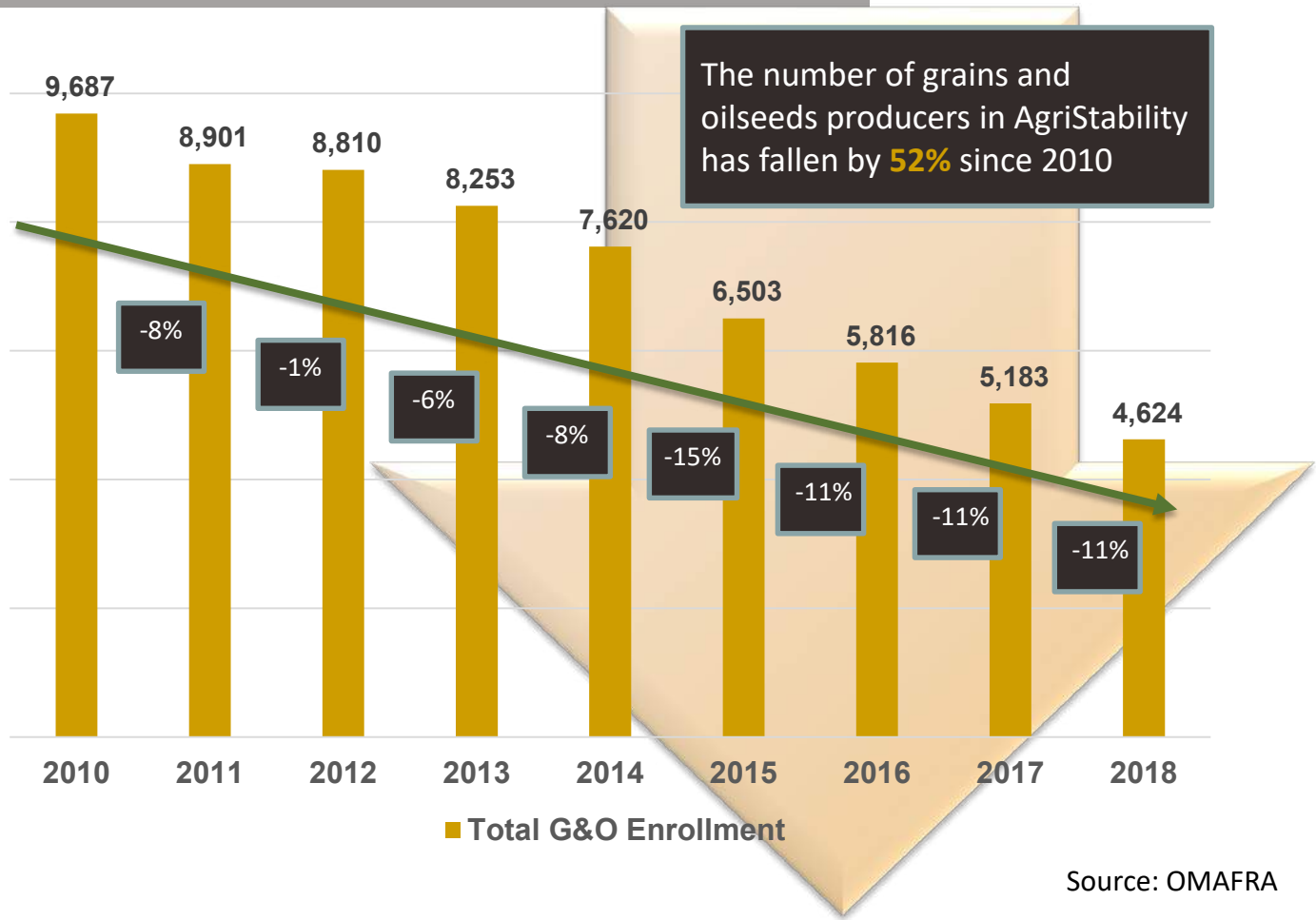
The Ontario grains sector alone contributes 18 billion dollars in economic value and underlays more than 75,000 jobs.

What is AgriStability

- AgriStability is a farm business risk management program (BRM).
- It provides support for what is known as “margin”
  - Margin = allowable income minus allowable expenses (whole farm regardless of the type of production)
- It compares the current year margin with the average margin in the previous 5 years *(with the highest and the lowest years are removed).*
- If the current year margin falls 30% below the 5-year average *(known as the Reference Margin)* then a payment of 70% of the difference is made.
- Producers pay fees of $315 for every $100K of reference margin to participate in the program.

Ontario Grain and Oilseed AgriStability enrollment

- Grains and oilseeds producer enrollment in the AgriStability program has declined by **52%** since 2010.
- Producer participation declined more rapidly starting in 2013 because coverage for grain and oilseed producers was greatly diminished by:
  1. Lowering the payment trigger, or coverage from 85% to 70%
  2. The introduction of the Reference Margin Limit (RML)

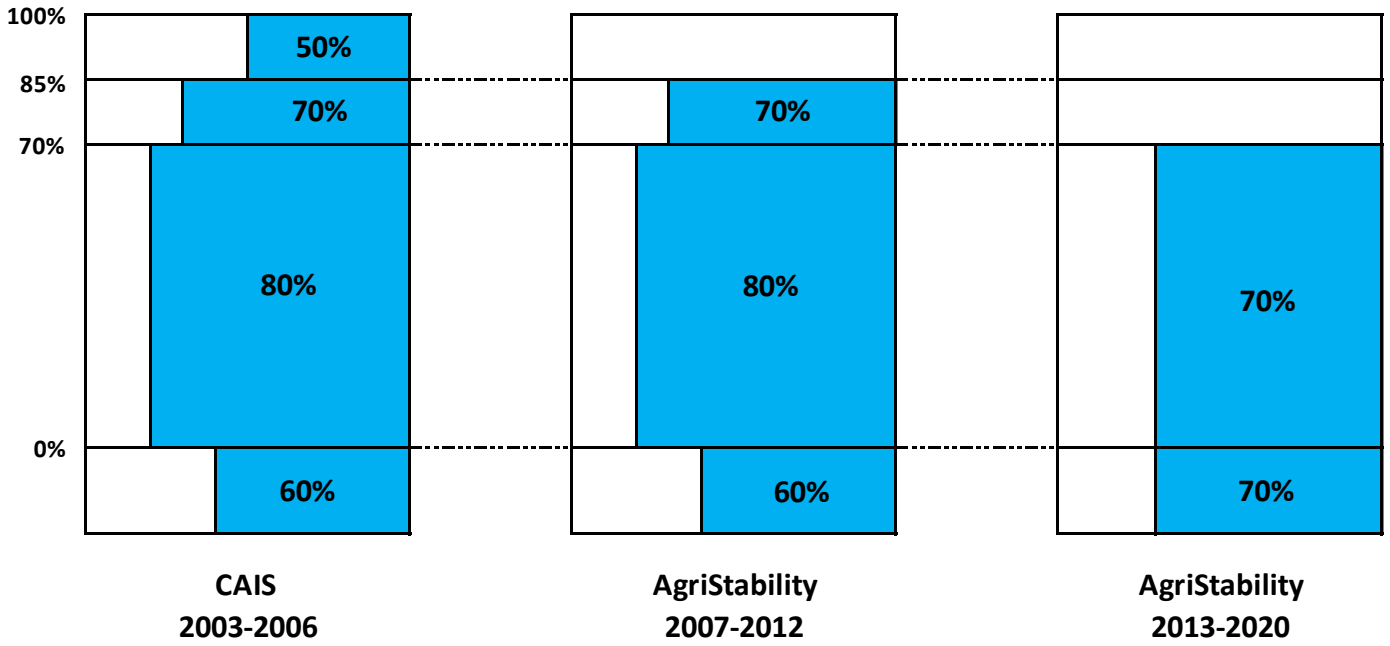


Source: OMAFRA

Lowering the payment trigger or coverage from 85% to 70%

- Starting in 2013 the AgriStability coverage changed significantly.
  The program trigger was lowered by an additional 15%, so that coverage did not begin until margin declined by more than 30%.

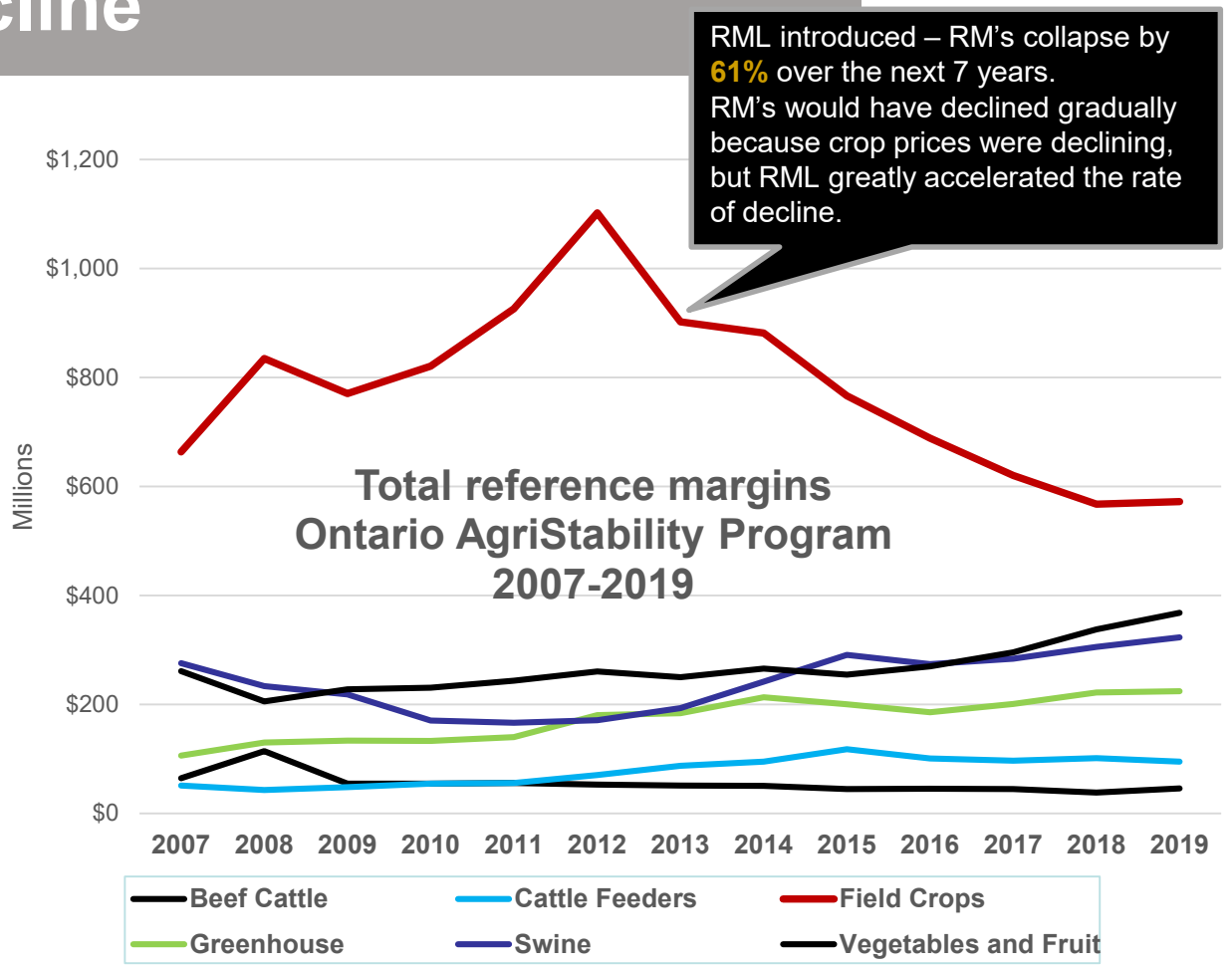
  The blue sections in the diagram on the right show the level of margin decline that triggers a payment and at what percentage of that margin the payment is made.



Current year production margin as a percent of reference margin

Reference Margin Limit (RML) and Total Reference Margin Decline

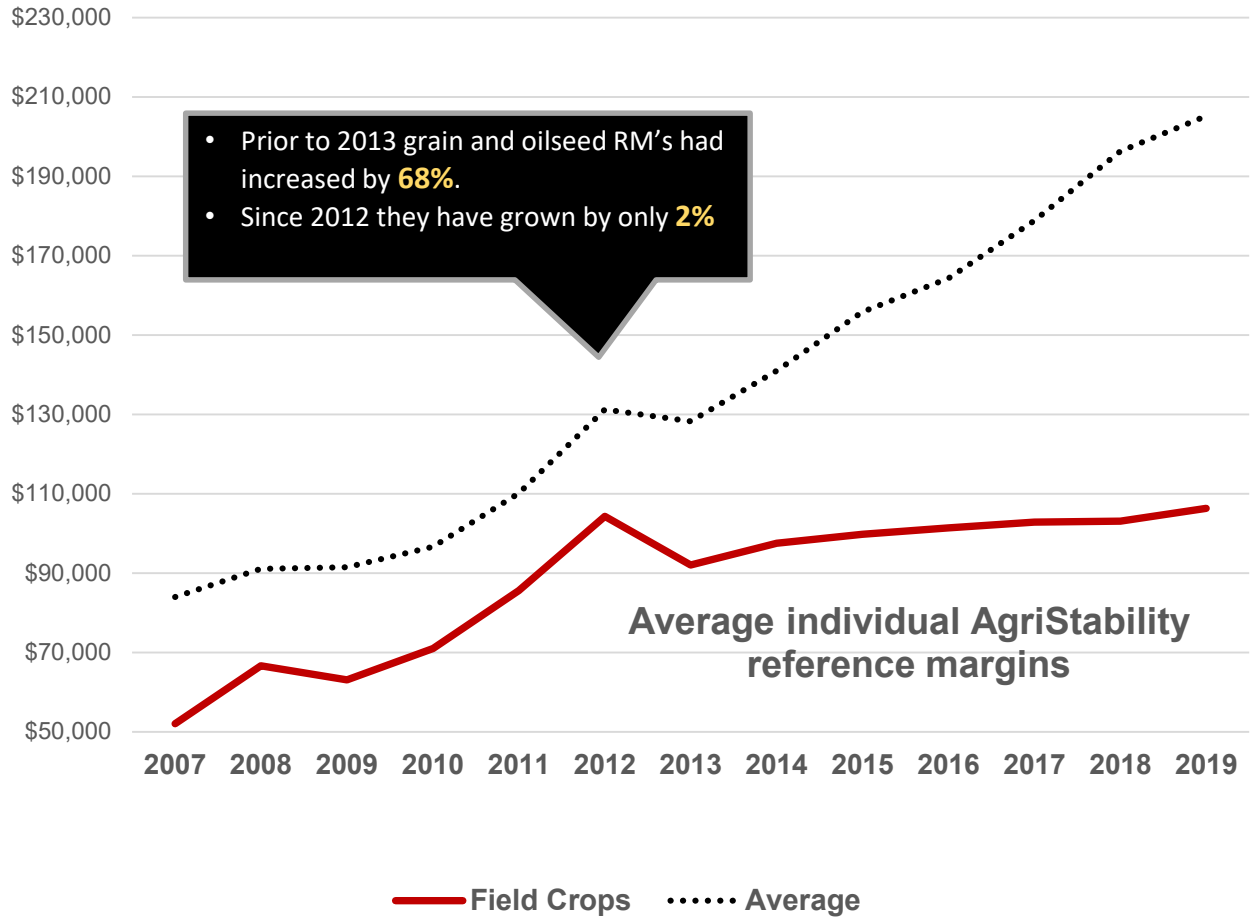
- Total Reference Margins (RM) for grain and oilseed have **declined 61%** since 2012.
- RM's play an important part in how AgriStability works - higher prices (margins) in previous years support lower prices (margins) in low years.
- In 2013 a policy called the **Reference Margin Limit** was put in place.
  - Instead of using the normal RM *(allowable income – allowable expenses)* the RML required that the average **allowable expenses were used instead** in years when allowable expenses were lower than the normal RM.
- Allowable expenses for grain and oilseed farmer **<u>are usually lower</u>** and so in 2013 reference margins for grains and oilseeds producers plummeted, meaning that **program coverage also plummeted**.
- Other sectors, not affected by this change continued to see their reference margins rise.



Source: OMAFRA; Analysis RGamble, Grain Farmers of Ontario

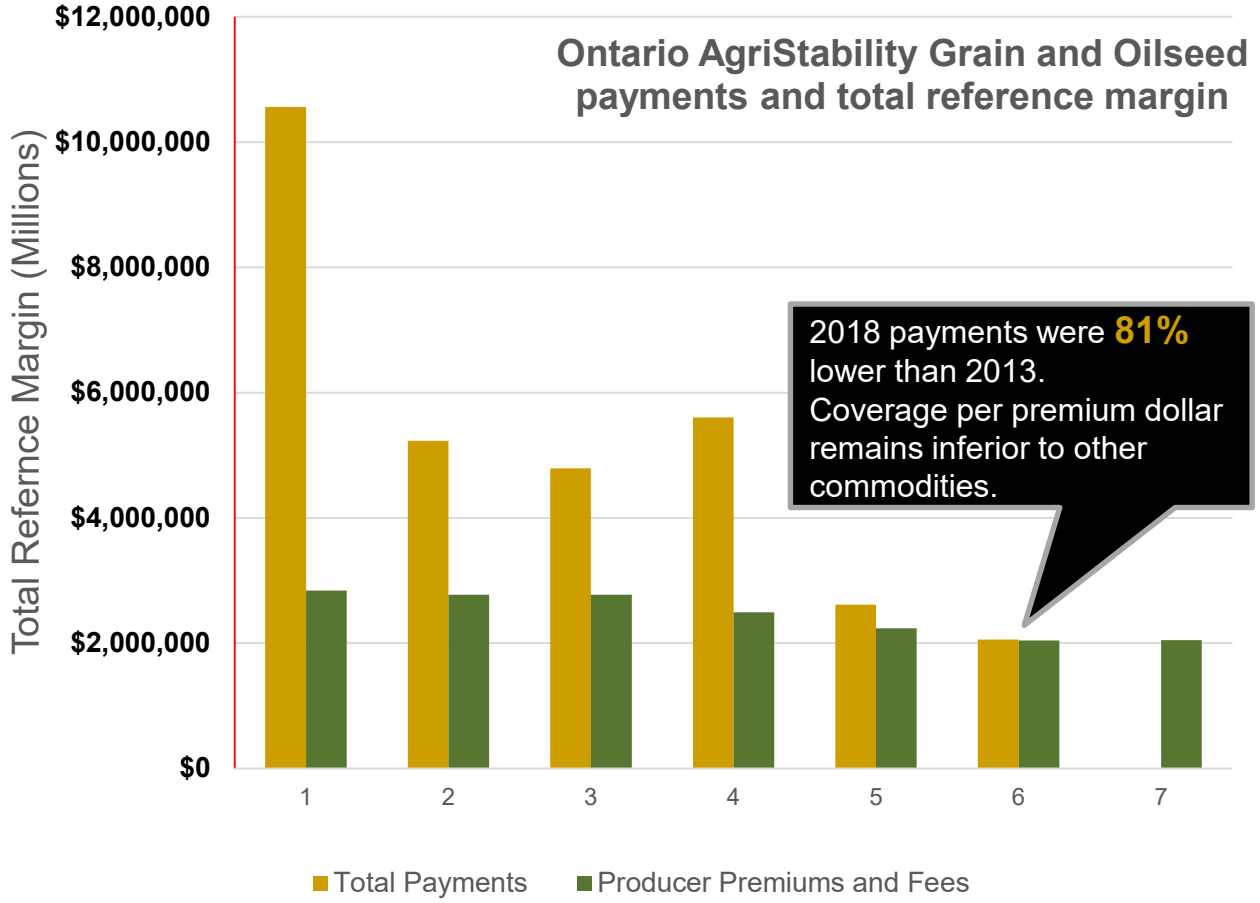
Average individual reference margins

- Average Individual grain and oilseed Reference Margins (RM) have experienced almost **no growth over the past 7 years**.
- Grain and oilseed RM's have grown by only **2%** in total since 2012.
- This is because of the **Reference Margin Limit (RML)** policy and declining crop prices.
- Growth in individual producer RM's, which is essential to program effectiveness, simply stopped in 2012 for grain and oilseed producers.
- In practice it means that **very large losses are required**, often resulting in highly negative income, before the program begins to provide coverage for grain and oilseed farmers.



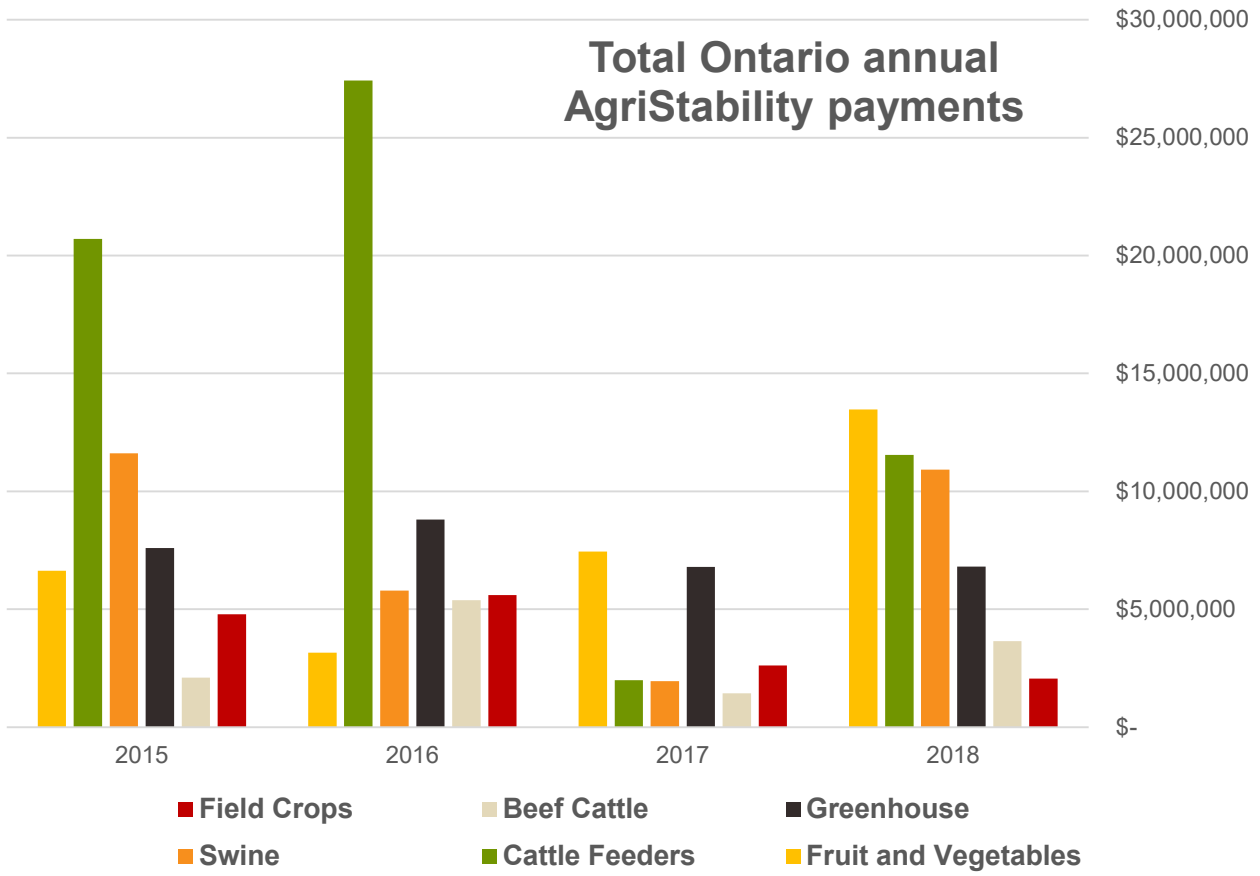
Total Grain and Oilseed AgriStability Payment Trends

- 2018 payments were **$2.05 million** which was **81%** lower than 2013.
- Grain and oilseed producers paid just over **$2 million** in premiums and fees in 2018.
- While premium rates for all commodities are the same, grain and oilseed producers receive inferior coverage.



Total AgriStability Payments by Commodity and Year

- Total AgriStability payments for Ontario grain and oilseed producers have been declining.

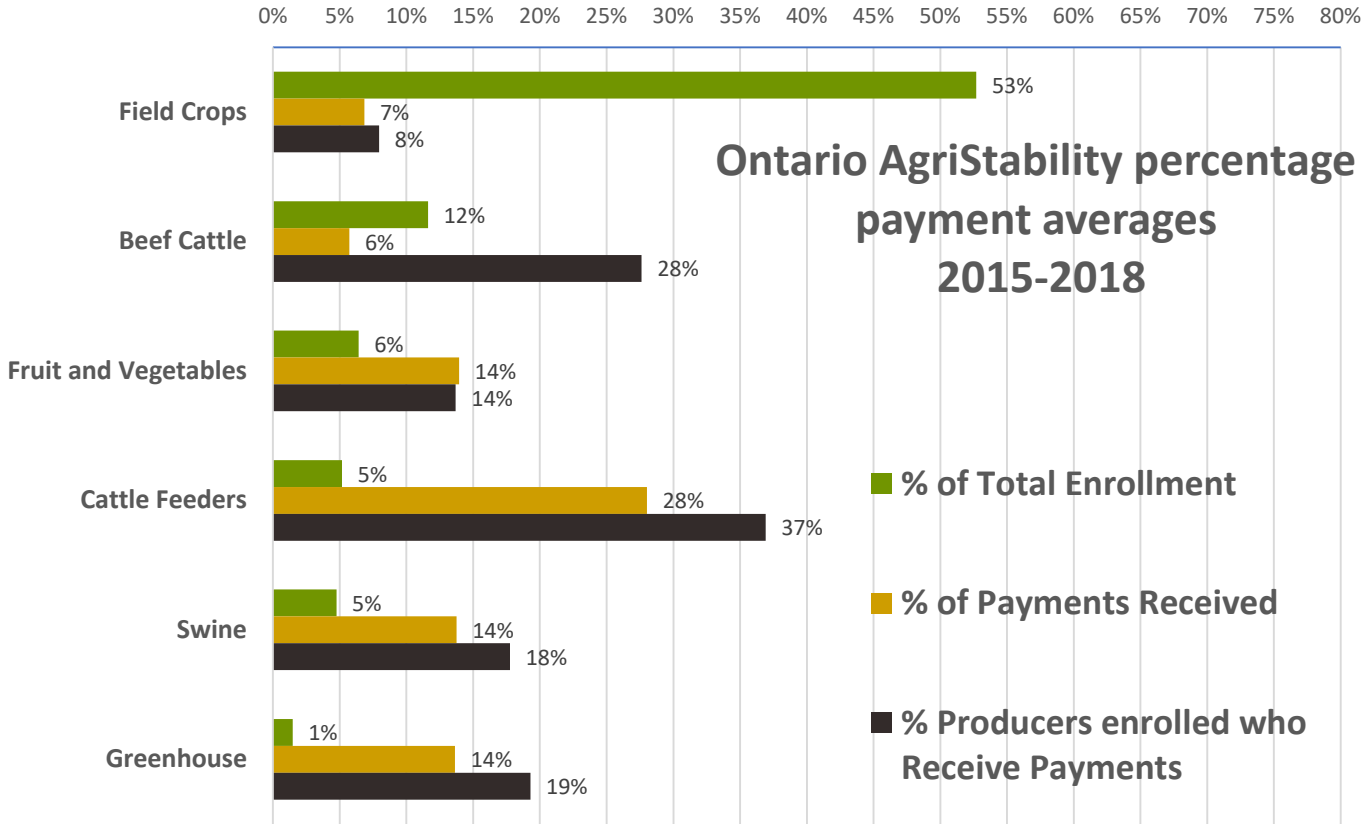


Source: OMAFRA/Agricorp

Ontario Grain and Oilseed Payment Distribution

The Ontario 2015-2018 average payments and enrollment in AgriStability shows:

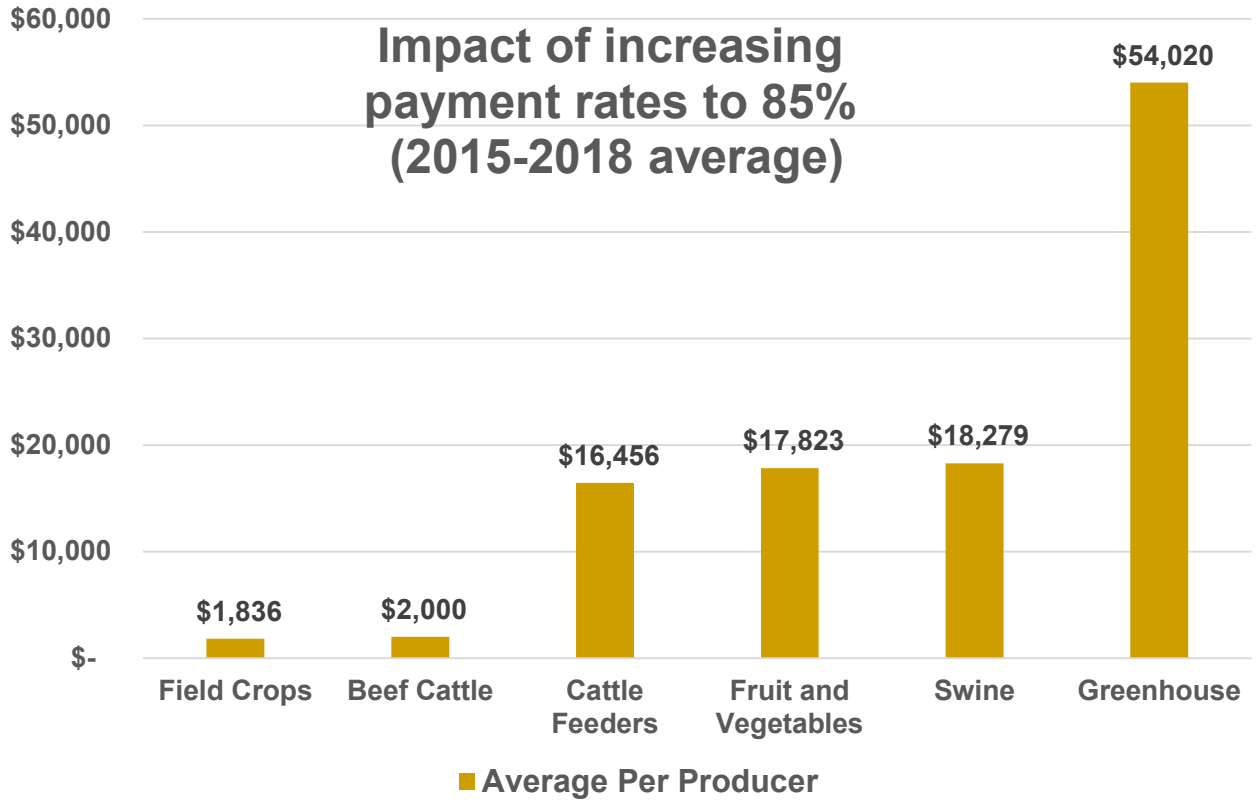
- Grain and Oilseed producers make up **53%** of the enrollment but receive only **7%** of program payments.
- Only **8%** of enrolled grain and oilseed producers receive payments



Source: OMAFRA/Agricorp; Analysis RGamble, Grain Farmers of Ontario

Impact of increasing the payment rate

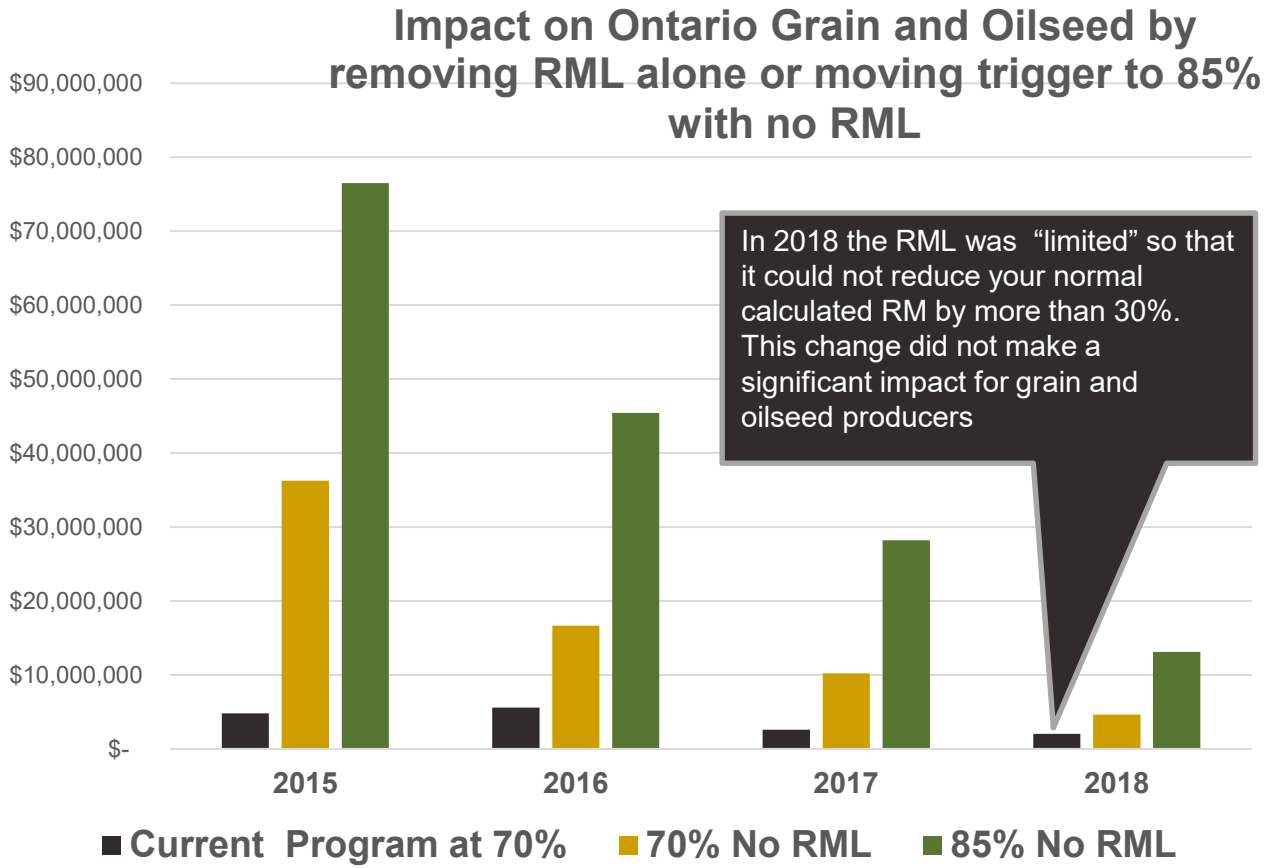
- Some groups are promoting an increased payment rate as an option to improve AgriStability.
- Because of the design flaws already noted and the declining payments for grain and oilseed this is not a beneficial solution for grain farmers.
- Because payments generated by the program are small, increasing these by 15% would only provide an additional **$1,836** per producer to grain and oilseed farmers based on a 2015-2018 average.



Source: OMAFRA/Agricorp; Analysis RGamble, Grain Farmers of Ontario

Impact of RML and Trigger at 85%

- The impact of removing the RML for Grain and Oilseed in 2015 would have made a significant difference
- In 2018 and adjustment was made to the Reference Margin Limit so that it could not reduce your calculated Reference Margin more that 30% - in other words your RM could not be reduce to less that 70% of your normal RM
- With the impact of RMP already reduced, its complete removal would not provide sufficient benefit to grain and oilseed producers for this to be the only change required.



Source: OMAFRA/Agricorp; Analysis RGamble GFO

1,200 acre grain farm example

- This table shows that the AgriStability program in its current form requires a very large revenue loss before beginning coverage.
- In this example it requires a **$127,000** loss and a negative **$(60,000)** net income before making a payment of **$7,900**.
- In this example **removal of the RML would make no difference** because the Reference Margin is actually below the Allowable Expenses.
- Changing the trigger to **85%** would provide a payment of **$50,514** bringing the net income to negative **$(9,486)**.

Program Calculations	2015	2016	2017	2018	2019	2020
Revenue	$ 825,503	$ 812,976	$ 823,508	$ 834,287	$ 845,428	$ 718,328
Expenses	$ 735,503	$ 722,976	$ 733,508	$ 744,287	$ 755,428	$ 778,328
Net Income	**$ 90,000**	**$ 90,000**	**$ 90,000**	**$ 90,000**	**$ 90,000**	**$ (60,000)**
Current Yr Prod Margin	$ 420,575	$ 400,326	$ 402,924	$ 405,549	$ 408,309	$ 272,591
Payment Trigger	$ 270,922	$ 273,817	$ 276,855	$ 279,462	$ 282,053	$ 283,916
5 Yr Oympic Reference Margin	$ 390,917	$ 392,064	$ 395,506	$ 399,231	$ 402,933	$ 405,594
Average Allowable Expenses	$ 387,031	$ 391,167	$ 400,050	$ 410,214	$ 420,656	$ 428,813
AgriStability Payment	$ -	$ -	$ -	$ -	$ -	$ 7,927
Net Income after BRM payments	$ 90,000	$ 90,000	$ 90,000	$ 90,000	$ 90,000	$ (52,073)

Green indicates an increase, red indicates a decrease