AgriStability is in Need of Crucial Reform[1]

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The structure of the AgriStability program has had few changes since the original design in the late 1990s was unveiled and put into use through AIDA, CFIP, CAIS and now as AgriStability. Three important changes have been made over time: the reduction of the trigger from 85 percent to 70 percent, the reference margin limit (RML) rule beginning in 2013, and the modest change in the RML at the beginning of the CAP in 2018. The first two of these changes reduced the stabilizing power of the program design. Throughout the past two decades, international markets and global institutions offered a stable and relatively secure environment for production and trade generally for Canada's agriculture sector. With the trade wars, managed trade arrangements, loss of the WTO dispute resolution body, and the use of agricultural product trade limitations as the preferred weapon for many trade concerns that lie far from the agricultural sector, volatility has increased and security has decreased in agricultural markets . This has given rise to reconsidering the BRM package, AgriStability in particular.

The BRM programs have been set in place for roughly three to five year periods since 2000, providing multi-year stability for producers in making decisions on what to produce and the investments necessary to continuously improve productivity. With the deterioration in stability, there are two major issues that have developed with AgriStability that warrant being addressed with program design changes- the RML and the trigger for claims currently at 70 percent of Reference Margin.

This note explores the background and rationale for considering these two changes.

Reference Margin Limit

The RML provision of AgriStability was incorporated as part of Growing Forward II in 2013. It caps a producer's reference margin at the lesser of the calculated reference margin and eligible expenses and has the effect of heavily limiting payments under AgriStability for some farm enterprises. Table 1 below provides an illustration based on Ontario data for 2016-18. Had the RML provision been lifted, payments as a whole would have increased by 42-117 percent. However, the burden of payments withheld due to the RML was not distributed uniformly. For example, the effect was relatively small for cattle feeding (5-16 percent) but much larger on field

[1] This note was commissioned by the Grain Farmers of Ontario. The analyses and opinions are those of the authors.

Table 1 Change in AgriStability Payments to Ontario Farms from Lifting Reference Margin Limit

	2016	2017	2018
Field Crops	197%	291%	126%
Swine	22%	31%	4%
Cattle Feeders	15%	5%	16%
Beef Cattle	32%	42%	28%
Greenhouse	19%	3%	1%
Fruit and Vegetables	86%	417%	125%
Total All Commodities	42%	117%	42%

Source: OMAFRA analyses presented to Ontario Agricultural Commodity Council

crops (126-291 percent).

The distortionary effect of the RML provision to AgriStability observed in the table above is structural, and not simply due to market variation from one year to the next. Production margins differ structurally across farm enterprises, with some- such as livestock feeding- relatively tight margin enterprises, and others such as field crops with wider margin enterprises. This creates structural differences in reference margins. The extent of the issue is summarized in Table 2 below. Livestock margins are structurally tight (22-27 percent of sales in the table), and as such are not as sensitive to the RML; conversely, oilseed and grain farming (field crops) have a much wider margin (68 percent) and are highly sensitive to the RML.

Moreover, the RML is not an essential element of AgriStability. It does not relate to the risks experienced by farms and stabilization of incomes; rather, it was introduced as a measure to control budget expenditure, among many potential instruments to do so. As such, it can be criticized as arbitrary. Because it has discriminatory or distortionary effects against certain farm enterprises that are structural in nature, it can be criticized as capricious. Whatever its perceived need to protect governments' budget exposure by managing down reference margins accumulated from the crop commodity supercycle early in the previous decade, these concerns do not exist today.

This creates two problems for governments. First, for the federal government, it is at variance with the equity principle under which producers are treated fairly in their access to federal funds, regardless of the type of farming operation they have or province where they live. This is a core principle, central to the CAP Framework Agreement.

Secondly, it appears at variance with Annex II of the Agreement on Agriculture, which sets out the conditions within which programs are exempt from limit of program payments. Paragraph 1 of Annex II states that, "Domestic support measures for which exemption from the reduction commitments is claimed shall meet the fundamental requirement that they have no, or at most minimal, trade-distorting effects or *effects on production*." [italics added]. With the RML introducing structural distortions into farm enterprise segments by influencing their access to

Table 2 Reference Margin Relative to Farm Sales, Ontario 2016

	AgriStability Reference Margin as a Share of Sales
Oilseed and grain farming	67.72%
Hog and pig farming	27.21%
Beef cattle	22.10%
Greenhouse, nursery and floriculture	36.59%
Fruit and tree nut farming	39.51%
Vegetable and melon farming	44.76%
Dairy cattle and milk production	59.12%
Poultry and egg production	35.33%
All farms	47.24%

Source: 2016 Census of Agriculture, Ontario Farm Income Database, OMAFRA Calculations

programming funds, some enterprises are advantaged relative to others, producing effects on production. This could be viewed as undermining Canada's claim that payments made under AgriStability fit in the Green Box.

AgriStability Trigger

The AgriStability trigger establishes the loss threshold beyond which program payments are issued to the producer. The level at which the trigger is set influences the inequities across farm enterprises observed above. The current program provides support when the current production margin falls below 30 percent of the reference margin. At the current 30 percent loss versus reference margin, farms with relatively large production margins find that even under adverse circumstances they are unable to trigger a payment. This, in turn, influences participation rates. Table 3 below provides an illustration of the major declines in participation rates for some farm enterprise types. With a 70 percent trigger (30 percent loss) it only requires a price decline of 7-8 percent in order for livestock farms to generate a claim; however, for grain and oilseed farms a price decline of 20 percent is required. Farm enterprises with a low threshold to trigger a payment more generally find it in their interest to enroll in AgriStability; farms with higher a threshold to trigger a payment find it less in their interest to participate. Consistent with this, the table shows that the participation rate for grain and oilseed farms is markedly lower than it is for livestock feeding because more often than not grains and oilseed farmers would not trigger a payment.

Low participation rates in AgriStability present a problem for agriculture ministers, as it opens up liability to demands for *ad hoc* assistance in the event of adverse circumstances. Request for *ad hoc* support under downturns due to broad lack of participation in AgriStability does not fit within the AgriRecovery envelope. The situation would require either a recasting of AgriRecovery, or funding from outside the existing BRM/CAP Framework. It is underscored by the prospect that the agricultural marketing and trade policy situation in Canada will become more volatile in the future, as trade relations and market conditions evolve.

Table 3 Participation Rates and Margin Declines to Trigger AgriStability Payments

	Percent of Farms	Percent of Production	Avg % Decline in Price to Reach AgriStability 70% trigger
Oilseed and grain farming	36%	48%	20.32%
Hog and pig farming	64%	80%	8.16%
Beef cattle	68%	75%	6.63%
Greenhouse, nursery and floriculture	72%	86%	10.98%
Fruit and tree nut farming	57%	87%	11.85%
Vegetable and melon farming	59%	73%	13.43%
Dairy cattle and milk production	8%	8%	17.74%
Poultry and egg production	25%	30%	10.60%
All farms	29%	51%	14.17%

Source: 2016 Census of Agriculture, Ontario Farm Income Database, OMAFRA Calculations

It is reasonable to expect that AgriStability participation rates would markedly increase if the AgriStability trigger were raised to cover 85 percent of reference margin, especially if it were raised in conjunction with elimination of the RML. Table 4 provides evidence supporting this. Based on 2016-18, sharp increases in AgriStability payments would have occurred with an 85 percent trigger and the RML removed, particularly among enterprises in which current participation rates are low.

These changes in payments in relation to the 85% trigger are proportionally large; they are also material in value over and above the change in payments from the removal of the RML. Table 5 provides some evidence through the comparison of aggregate payments by Ontario farm enterprise type. The data in the table relate to actual participants in AgriStability.

The table shows that removal of RML increases payments to all producers, but that in many cases it requires the combination of removal of the RML with an increase in the AgriStability trigger to 85 percent to make the change material. For example, in 2018, the removal of the RML alone would have increased payments to field crops by about $2.3 million, or the equivalent of $539/farm.[2] However, increasing the payment trigger to 85 percent in addition to removing the RML increases the payment to field crops by $10 million or $2,308/farm.[3] Thus, making a material change to payments requires both the RML removal and the increased trigger for payments. A similar pattern- from both removing the RML and increasing the trigger to 85 percent- is evident for field crops in 2016 and 2017, and in farms as a whole in 2016 and 2018.

[2] From Table 5 ($4,195,089 - $1,858,746)/4336 farms = $539/farm

[3] From Table 5 ($11,864,074 - $1,858,746)/4336 farms = $2,308/farm

Table 4 Comparison of AgriStability Payments to Ontario Farms from Reference Margin Limitation and 85% Trigger versus Existing Design

	2016	2017	2018
	Difference in Pymt due to RML and 85% Trigger	Difference in Pymt due to RML and 85% Trigger	Difference in Pymt due to RML and 85% Trigger
Field Crops	711%	979%	538%
Swine	127%	254%	106%
Cattle Feeders	45%	79%	53%
Beef Cattle	82%	106%	81%
Greenhouse	89%	66%	119%
Fruit and Vegetables	221%	744%	327%
Total All Commodities	150%	314%	159%

Source: OMAFRA analyses presented to Ontario Agricultural Commodity Council

Canada's international obligations regarding domestic support are not a constraint relative to an 85 percent trigger. AgriStability payments for losses of less than 30 percent can be identified and notified in the amber box, and payments for losses greater than 30 percent can be notified as green. Available space for Canada to do so within the WTO maximum for amber support is not a limitation. Figure 1 illustrates the point. Canada has a limit on Current Total Aggregate Measure of Support (CTAMS)- the amber box support- of $4.3 billion. As shown in Figure 1, Canada's recent notifications of CTAMS have ranged around $600 million, overwhelmingly composed of market price support for dairy.

The biggest difficulty for governments in responding positively to the request for RML removal or increasing the trigger for payments to 85 percent, or both, will be the additional expenditure for the changes at a time when both federal and provincial budgets are stretched in response to the continuing Covid 19 outbreak.

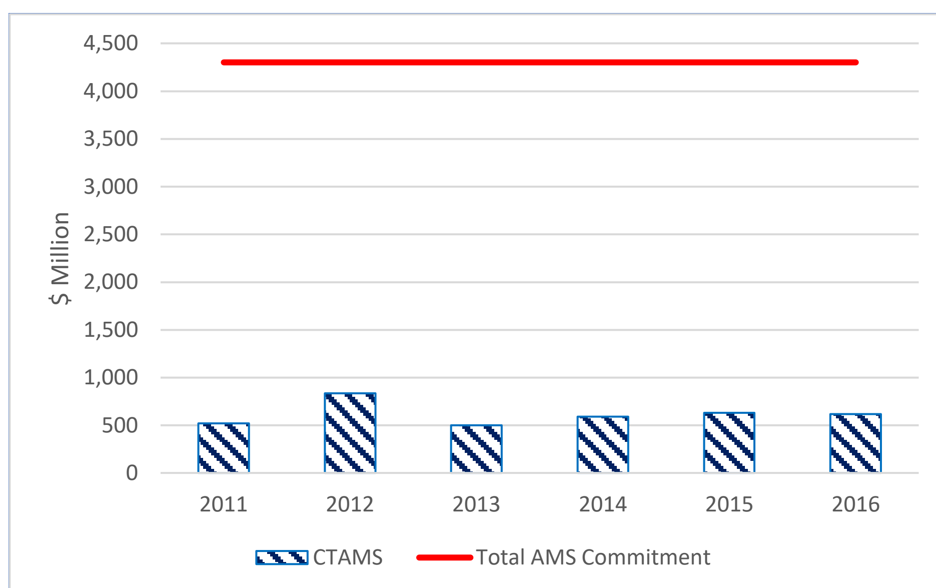
The arguments for the elimination of the RML rely on the equity principle embedded in the five year agreements for Growing Forward and the CAP, the need to assure strong participation rates in AgriStability across commodity groups, and to assure that AgriStability conforms to Paragraph 1 of the Annex II of the WTO Agreement on Agriculture. The argument for raising the trigger relies on raising participation rates for AgriStability, with the assurance that there is no realistic possibility of exceeding the Total AMS Commitment of $4.3 billion for Canada.

Table 5 Value of Prospective Changes in AgriStability Design, Ontario

2018	Farms	70%	No RML	85% No RML
Field Crops	4,336	$ 1,858,746	$ 4,195,089	$ 11,864,074
Swine	425	$ 8,434,677	$ 8,738,585	$ 17,371,536
Cattle Feeders	414	$ 9,724,456	$ 11,246,939	$ 14,854,028
Beef Cattle	911	$ 3,163,339	$ 4,059,662	$ 5,714,606
Greenhouse	129	$ 3,824,797	$ 3,864,968	$ 8,385,047
Fruit and Vegetables	547	$ 7,098,396	$ 15,964,478	$ 30,277,719
Total All Commodities	8,294	$ 40,864,807	$ 58,102,656	$ 105,783,434
2017		**70%**	**No RML**	**85% No RML**
Field Crops	4,973	$ 2,327,221	$ 9,107,388	$ 25,122,010
Swine	464	$ 1,937,942	$ 2,545,554	$ 6,863,410
Cattle Feeders	481	$ 1,773,055	$ 1,870,182	$ 3,167,232
Beef Cattle	1,153	$ 1,384,707	$ 1,961,276	$ 2,850,152
Greenhouse	141	$ 6,464,576	$ 6,660,141	$ 10,708,873
Fruit and Vegetables	619	$ 3,734,987	$ 19,304,562	$ 31,513,514
Total All Commodities	9,582	$ 22,948,209	$ 49,728,155	$ 95,095,669
2016		**70%**	**No RML**	**85% No RML**
Field Crops	5,672	$ 4,776,075	$ 14,198,688	$ 38,720,684
Swine	488	$ 6,399,853	$ 7,789,032	$ 14,546,561
Cattle Feeders	512	$ 21,481,357	$ 24,737,627	$ 31,170,738
Beef Cattle	1,220	$ 4,676,823	$ 6,178,674	$ 8,513,521
Greenhouse	151	$ 6,539,582	$ 7,767,613	$ 12,334,232
Fruit and Vegetables	686	$ 3,224,834	$ 5,994,358	$ 10,352,111
Total All Commodities	10,512	$ 54,531,434	$ 77,302,922	$ 136,516,100

Source: OMAFRA analyses presented to Ontario Agricultural Commodity Council

Figure 1 Current Total Aggregate Measure of Support and Canada's WTO Obligations



Source: Canada's Notifications to the WTO

One of the great difficulties facing producers in considering changes to AgriStability is that the rules around changes or modifications to programs are not available. The legal agreement between federal and provincial and territorial governments, while available shortly after the agreement was signed, is no longer available. Because of this, no discussion between governments and producers can be balanced in terms of the information available to both sides in the discussion. Producers attempting in good faith to propose useful changes to the program are denied the legal framework surrounding the program. Furthermore, governments readily have the data from producers that would enable analysis of alternatives; some limited analysis has been made available by provincial governments, but the impact of potential changes on a national basis are not available.

As a consequence, governments should provide information including the legal agreement between federal-provincial and territorial governments specifically regarding the AgriStability program as well as the strategic policy guidelines underlying the CAP, or alternatively releasing the entire legal agreement for the CAP.

Producers need detailed information on the following questions to have a balanced and informed discussion with government:

- Does the latitude for changes in the CAP agreement and for AgriStability specifically allow for the federal government to act unilaterally?
- Are there opt-out provisions in the CAP or for AgriStability for individual provinces from changes to the AgriStability program? Is so, how does one reconcile the opt-out with the equity principle in the federal-provincial-territorial CAP agreement?
- What conditions have to be met for changes coming into force:the number of provinces agreeing to the changes, and what percentage of farm cash receipts or some other variable

that must be met? Can governments provide estimates by province and territory of the farm cash receipts or some other variable in the agreement related to coming into force?

Conclusion

The Canadian agricultural industry is well into a period of much greater international market volatility than in previous years, and there is no indication that the volatility will decrease. The wide-ranging and continuing subsidies in US agriculture weaken prices in Canada because of the close relationship in pricing across North America. Canada must consider strengthening the BRM platform, particularly AgriStability, with changes to the RML and the trigger level until such time as consultations on a revamped BRM suite is concluded.

The RML and the level of trigger for payments have shaped the performance and the attitude toward AgriStability since 2013. It has been a period in which industry disappointment and frustration with AgriStability has grown, and participation rates have fallen. The situation is particularly acute for the field crops and fruit and vegetable sectors. The RML is an arbitrary provision introduced to limit budget exposure to payments that disproportionately impacts large segments of the industry. Some acknowledgement of this exists in changes made in 2018 to buffer the effect of the RML. The RML is unnecessary, and it is unclear how it can be defended today given the equity principle in the CAP. However, in order to bring past participants back to AgriStability, more material changes are required than is possible through the RML alone; an increase in the payment trigger fills this need.

The changes would provide an improved investment climate for producers, to ensure continuing productivity growth. Increasing the AgriStability trigger does not undermine Canada's commitments on most distorting agricultural support, nor its commitment to rules-based trade. The changes from both removal of the RML and an increase in the trigger to 85 percent are sufficiently material that they could offset the growing chorus for *ad hoc* support by bringing participants back to the program and give governments and industry time to set in place a longer term BRM design consistent with international market disruptions and volatility anticipated.