

Ontario Grain Farmers and Business Risk Management Programming

A Report Prepared for the House of Commons



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Executive Summary

The purpose of this report was to support development of the Grain Farmers of Ontario (GFO) position on the Next Policy Framework with regard to Business Risk Management and to provide evidence and analyses that can inform the GFO submission. It addresses the needs of GFO members for BRM programming, BRM program suite performance relative to GFO member needs, and new risks that can be anticipated, and BRM alternatives that could be pursued to address them.

Ontario grains and oilseeds are a highly significant aspect of the Ontario agricultural economy. This is apparent from the number of farms represented and share of farm cash receipts, and also the downstream animal and food manufacturing industries located in Ontario anchored by the availability of grains and oilseeds for feed and food processing. The implication is that if BRM programs are going to work for Ontario, they need to work for grains and oilseeds.

Moreover, Ontario grains and oilseeds finds itself in a difficult geo-political, trade, and economic environment, and in a third straight year of soft farm prices, even before factoring in the sharp increases in prices of fertilizer, fuel and other crop inputs due to conflict in the Middle East. BRM programming available to Ontario producers directed at the crops produced by grain farmers in Ontario has not kept pace with US subsidies, by a wide margin. While BRM programs in Canada are weighted toward more whole-farm programming rather than commodity-specific as in the US, under AgriStability and AgriInvest, what is practically available to Ontario grain farmers is highly limited.

AgriStability has become ineffective for Ontario grain and oilseed producers. This stems from the trigger for AgriStability payments which is insufficiently sensitive, given Ontario grain and oilseed producers' high proportion of total costs ineligible under the program, which is consistent with a high proportion of fixed costs - such as costs associated with machinery/equipment.

This problem could be addressed by making the trigger for AgriStability payments more sensitive- essentially by reducing the deductible and allowing for payments to be triggered at higher shares of reference margin. Increasing the payment rate for losses under AgriStability does not provide relief for Ontario grains and oilseeds because of the difficulty in triggering payments; rather, it exacerbates existing inequities for a program in which some farm types can readily trigger claims while others cannot.

Addressing this the difficulty in triggering AgriStability payments in times of economic stress by increasing the sensitivity of the trigger, up to 80 or 85 percent from the current 70 percent, should be the priority and primary focus for BRM program reform.

The prospective proliferation of private insurance in agriculture and its potential benefits could come with risks associated with adverse selection. Policy adjustments that can protect the public insurance system under an expansion in private insurance should be developed.

At only 40 percent coverage, the Risk Management Program is limited in the extent to which it can underwrite production costs for crops produced by grain farmers in Ontario. This could be greatly improved with increased coverage through federal participation in funding RMP.

The bundling of environmental standards or other qualifications with access to BRM programs stand to undermine the effectiveness of BRM programs. Non-BRM policy objectives should be pursued under their own targeted programs, and not concurrently under BRM programs.

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1.0 Introduction

In the lead up to the Next Policy Framework (NPF) GFO has an opportunity to engage government in a submission that highlights GFO priorities regarding business risk management (BRM). This requires evidence to inform the GFO position and to articulate that position to governments in the context of the NPF.

1.1 Purpose and Objectives

The purpose of this study is to support development of the GFO position on the NPF and to provide evidence and analyses that can inform the GFO submission.

The objectives are:

- To document the needs of GFO members from BRM programming based on existing information
- To provide information and analysis on BRM program suite performance relative to GFO member needs
- To identify new risks that can be anticipated, and BRM alternatives that could be pursued to address them

1.2 Organization of the Report

Section 2 below provides a discussion of the Ontario grain and oilseed context for BRM programming. Section 3 provides an analysis of BRM programs and evidence on their performance for Ontario grain and oilseed producers. Section 4 concludes the report.

2.0 Ontario Grain Farmers and Business Risk Management

Ontario grain and oilseed producers are important clients for BRM programming. But, in important aspects, their needs have differed and been accentuated by market conditions compared with the broader sphere of BRM clients. The risk environment is also shifting toward greater geo-political and market volatility, and greater need for BRM programming.

2.1 Shifting Geo-political and Trade Environment

The economic environment facing Ontario grains and oilseeds producers is very different today compared with the time when the essential BRM program suite was laid out, and even just a few short years ago. This relates to deep shifts in geo-politics and international trade policy, and associated market volatility.

US futures markets provide the essential price discovery mechanism for Ontario grains and oilseeds, and free and open trade is essential to this. But the US has retreated from its historical role as promoter of free and open trade, and the dominant agri-food exporter- the legacy of protracted disputes with major customers, notably China, leading to others supplanting the US in

this role, notably by Brazil. It has threatened tariffs against Canada, and tariffs have been enacted and maintained by the US against Canada automotive segments, steel and aluminum, and softwood lumber. The prospect of US tariffs across a broader swath of Canadian products under a renegotiation of the CUSMA agreement is a troubling possibility.

In the face of lost exports, the US has turned inward to more policy-driven demands for its primary grains and oilseeds (ethanol demand for corn; bio-based diesel for soybeans) and has near-shored its agri-food exports- especially to Mexico, central America and Canada. The effect has been to narrow the geographic base of demand for US farm products, and to accentuate the link between petroleum pricing and agricultural prices, with its associated volatility. Because of its link to US futures and wholesale prices, among other factors, Ontario grains and oilseeds end up participating in this increased price volatility, regardless of Canada and Ontario having not mirrored US policy.

The multilateral rules-based trade environment has eroded significantly (but not entirely) resulting in a greater frequency of sudden limitations on agricultural trade, subsidies to compensate, and greater retaliation in response- in lieu of legal mechanisms for dispute resolution under the WTO. Agricultural markets are not globally integrated in the manner they were just a few short years ago.

The Middle East conflict has given rise to profound disruption in the global petrochemical complex, which will apparently last months or years even if the hostilities were to end immediately. It creates an urgent shortage of fertilizers, petrochemicals, fuels and the accompanying global price inflation that severely impacts prices paid by Ontario grains and oilseeds producers. Ontario producers are especially vulnerable, lacking nearby fertilizer manufacturing capacity, and with fertilizer imports from Russia and Belarus under sanction- but not under sanction by the US. Moreover, we learn every day of new, remote, supply chains cut off or adversely impacted by conflict that are used by Ontario grain and oilseed producers; we must assume that the effects will last for an extended period.

The current suite of BRM programs in Canada are a product of their time- in particular, a period of disciplined and predictable international agri-food trade policies, integrated markets, and relative peace. BRM programs in Canada were not engineered for the degree of volatility that is being thrust against them today.

2.2 Ontario Grain Farmers in Context

Grain and oilseed farms represent the largest constituency across farm enterprise types in Ontario. The most recent census tabulates the number of farms by type; it is presented below in Figure 2.1, from the 2021 census. It shows that grain and oilseed farms comprised 38 percent of farms, which is the largest single farm type.

Grains and oilseeds are a highly significant share of farm cash receipts in Ontario. Figure 2.2 provides an illustration. Since 2021, total cash receipts of corn, soybeans, wheat, barley, and oats ranged mostly around 25 percent of total farm cash receipts, but fell below this in 2024 and 2025. However, even in a downturn the receipts from these crops are highly significant to the Ontario agri-food economy, and these data actually understate the case. It excludes on-farm use

and farm-to-farm sales of these crops, which is especially significant for corn, barley and oats. Major animal industries, and their associated farm cash receipts, are built upon feeds readily available in Ontario, and without the contribution of grains and oilseeds to supply feed in Ontario there could not be the same contribution from animal industries.

Compared with the broader trends in farm cash receipts, Ontario grains and oilseeds have experienced a downtrend. This is illustrated in Figure 2.3. Canadian total farm cash receipts exceeded \$100 billion in 2025, up from \$83 billion in 2021. Ontario total farm cash receipts have increased each year since 2021. Farm cash receipts for Ontario corn, soybeans, wheat, barley, and oats have declined since 2022 by about \$1.4 billion.

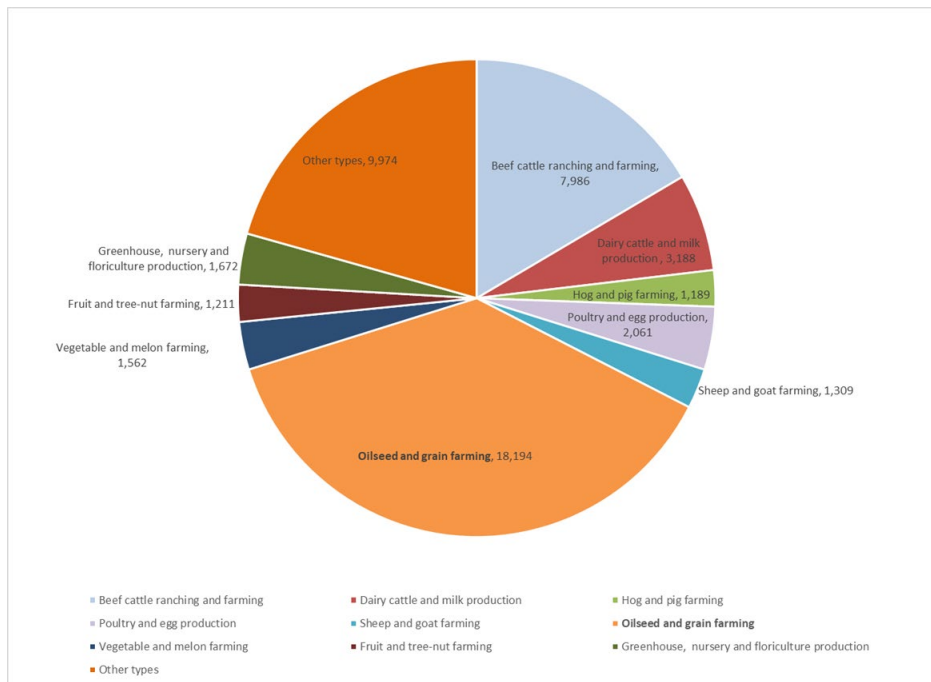
The overwhelming reason for the downturn in farm cash receipts for Ontario grains and oilseeds is decreasing prices. This is illustrated in Figure 2.4, based on the monthly Farm Product Price Index (FPPI). As can be seen, the Canadian FPPI reached a peak in mid-2022, and has been relatively steady since. The FPPI for Ontario grains has been in decline since early 2023 after peaking in 2022-23. Ontario oilseeds FPPI experience a very similar trend.

Moreover, there has been significant inflation in prices paid by farmers that particularly impact Ontario grain and oilseed producers. This is evident from the quarterly Farm Input Price Index (FIPI) presented in Figure 2.5. Prices paid by farmers nationally for the full range of input items increased steadily since 2021. The price index for inputs used in Ontario crop production tracked the Canadian FIPI prior to 2024, and leveled off in 2024 and 2025. Meanwhile Ontario producer costs for machinery and equipment have increased robustly; this is measured as the FIPI for machinery depreciation, recently estimated at an index of 266 versus 163 in first quarter 2021. Grains and oilseeds is not the only farm enterprises that employs machinery, but it is the most dependent, based on cost shares.

The observed trends in farm cash receipts, farm prices, and prices paid by farmers, and the observed contrast between Ontario grains and oilseeds vs. broader agriculture, projects into farm operating revenues and income. This is illustrated in Figure 2.6 below, based on data collected from farm income tax filings. At the national level up to 2024, total farm operating revenue increased, while a downtrend began in Ontario grains and oilseeds starting from 2023. At the national level, net operating income increased over the period to a range just over \$120,000 per farm. Operating incomes for Ontario grain and oilseed farms started to decline after 2022, from about \$91,000 per farm to about \$65,000 per farm.

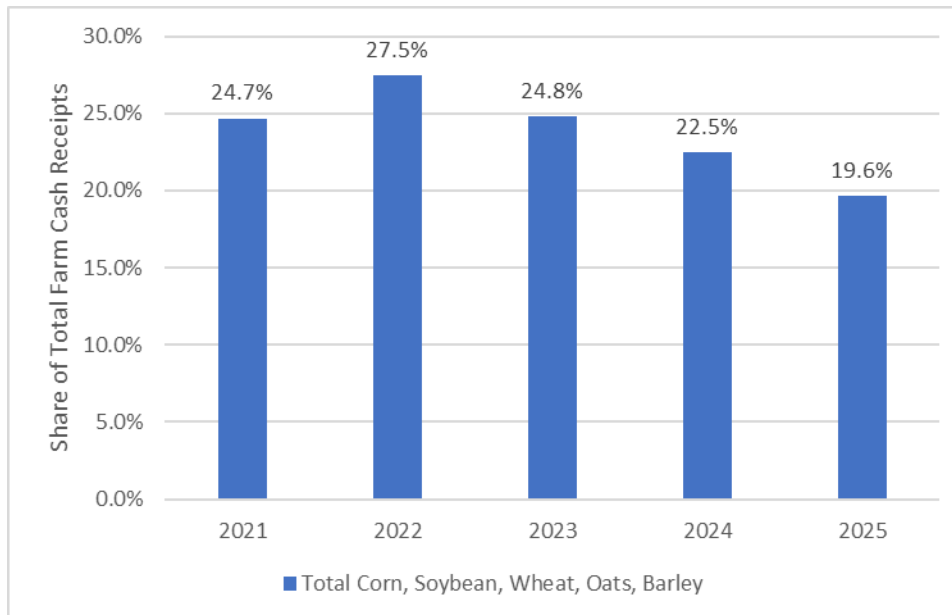
The inclusion of Capital Cost Allowance (CCA) in operating incomes, and the percentage of CCA-adjusted operating income as a share of total operating income (the labels on the bars) provides further interpretation. After adjustment for CCA national operating income was markedly lower, ranging between about \$50,000 to \$75,000 per farm and the share of CCA-adjusted operating income declining most recently to 41 percent from 57 percent in 2021. When Ontario grain and oilseed operating incomes are adjusted for CCA they fall well below the comparable Canadian measure for all farms- most recently just over \$20,000 per farm- and the share of CCA-adjusted net operating income for Ontario grains and oilseeds has fallen faster- most recently at 34 percent. The implication is that costs associated with machinery, as indicated by CCA, are increasing over time, and that it is affecting grain and oilseed farms especially hard.

Figure 2.1 Ontario Agriculture: Farms by Type



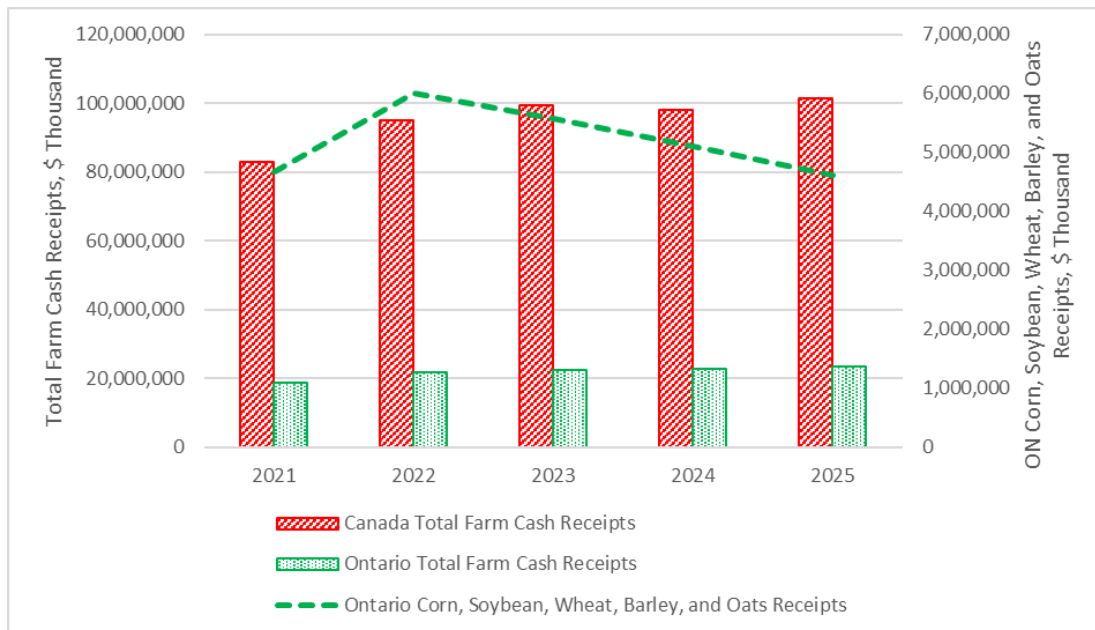
Source: Statistics Canada, Census of Agriculture CANSIM Table No: 32-10-0231-01

Figure 2.2 Grain and Oilseed Receipts as Share of Ontario Total Farm Cash Receipts



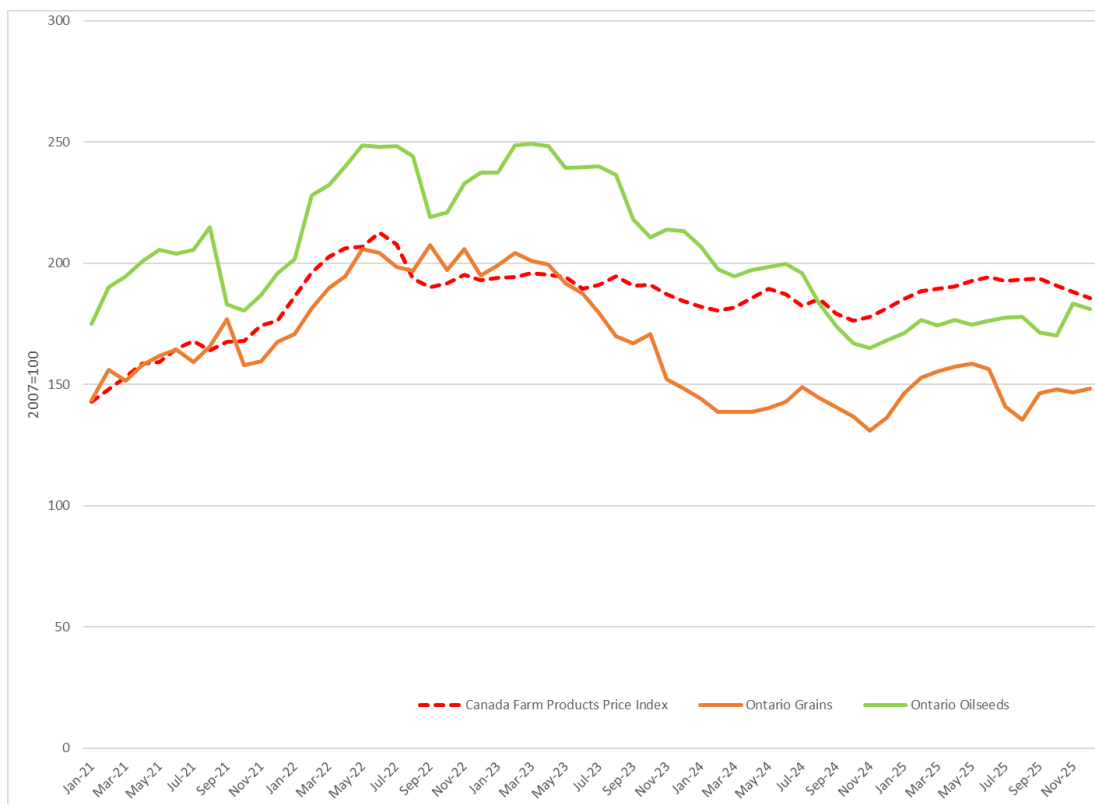
Source: Statistics Canada. Table 32-10-0045-01 Farm cash receipts, annual

Figure 2.3 Farm Cash Receipts: Canada, Ontario, Ontario Grains and Oilseeds



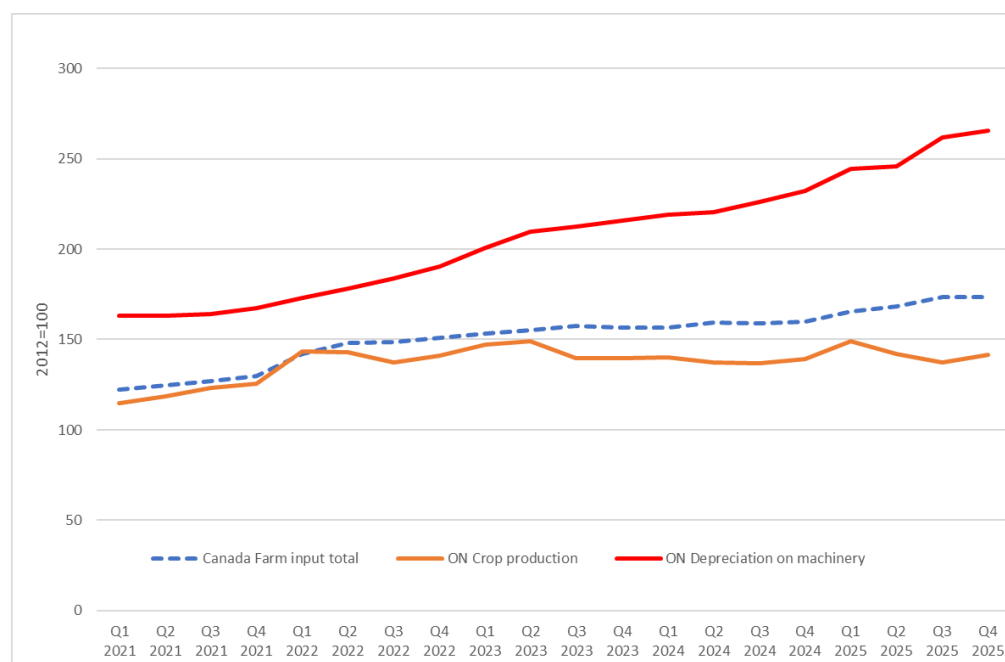
Source: Statistics Canada. Table 32-10-0045-01 Farm cash receipts, annual

Figure 2.4 Farm Products Price Index, Monthly



Source: Statistics Canada. Table 32-10-0098-01 Farm product price index (FPPI), monthly

Figure 2.5 Farm Input Price Index, Quarterly



Source: Statistics Canada. Table 18-10-0258-01 Farm input price index, quarterly

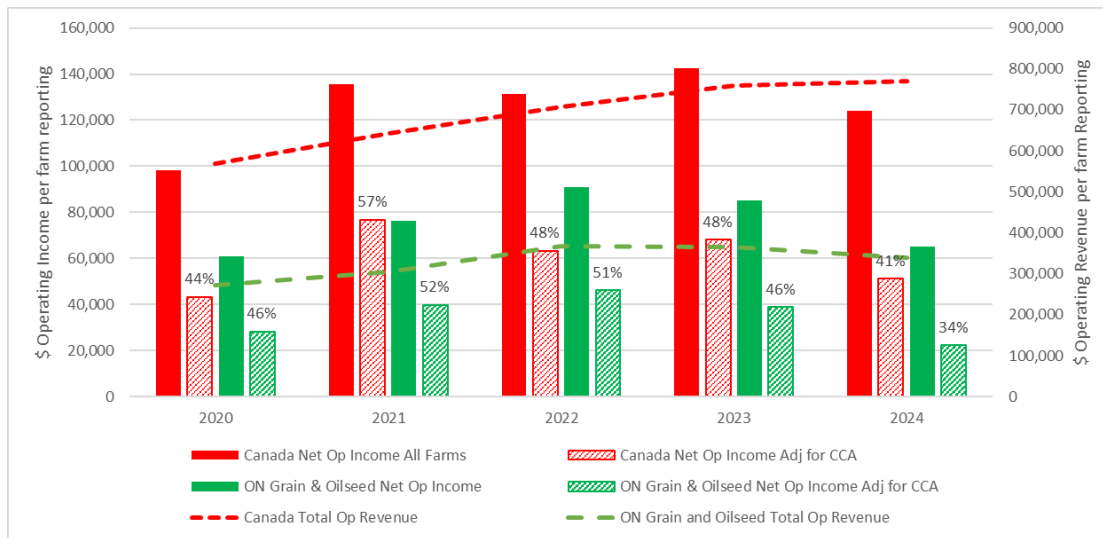
2.3 US Agricultural Support

Ontario grains and oilseeds producers have faced a gap in terms of government support targeted to the products that they produce for years. This is significant, because Ontario and the northern/eastern Cornbelt US states exist in a competitive environment for crop inputs, especially fertilizer, pesticides, seed and fuel. If competitors in the US have the advantage of higher levels of government support- in addition to access to Russian/Belarusian fertilizer- it places Ontario producers at a disadvantage in competing for these essential inputs.

The standard reference in comparing agricultural support levels on a fully comparable basis is the OECD Producer Support Estimate. When looking at support that most directly impacts individual crops, the single commodity transfers are the most relevant, expressed as a share of farm cash receipts, adjusted for market price support.¹ Figures 2.7, 2.8, and 2.9 provide comparisons of percentage single commodity transfers for corn, soybeans, and wheat- the typical crop rotation for Ontario grain and oilseed producers. Over the period in the figures, Ontario accounted for just over 60 percent of Canadian corn for grain acreage seeded, 54 percent of Canadian soybeans seeded, and just under 5 percent of all Canadian wheat seeded.

¹ Under the OECD methodology, single commodity transfers include (a) support based on commodity outputs, (b) Payments based on input use, (c) Payments based on current Area/Animal Numbers/Receipts/Income (A/An/R/I), production required, single commodity, and (d) Payments based on non-current A/An/R/I, production required

Figure 2.6 Net Farm Operating Income Canada vs. Ontario Grains and Oilseeds, 2020-24



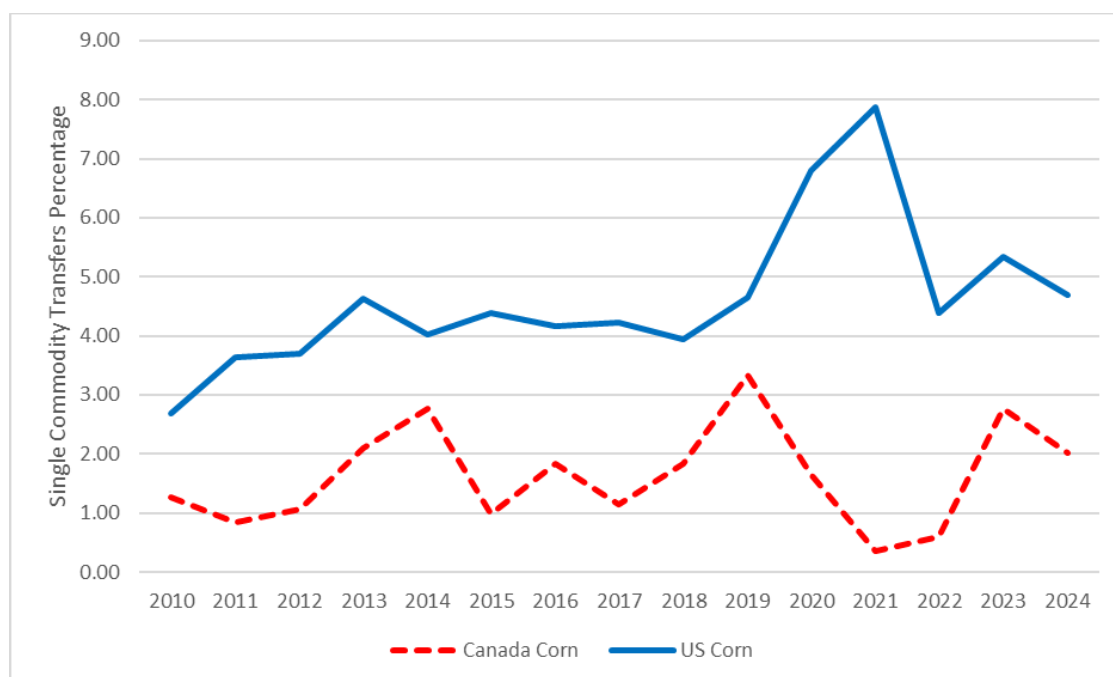
Source: Statistics Canada Table 32-10-0136-01 Farm operating revenues and expenses, annual

Figure 2.7 shows that US support directed at corn is uniformly higher in the US versus Canada, by a factor of 2.8 times over 2010-2024- Canada averages about 1.6 percent support, while the US averages 6 percent. For Canada, the spikes in support generally represent crop insurance indemnities; for the US, the spikes represent crop insurance indemnities, but also changes in policy, including *ad hoc* payments. Soybeans in Figure 2.8 and wheat in Figure 2.9 exhibit a similar pattern, except that ratio of US to Canadian single commodity transfers is much more egregious, with the crop-specific payments in the US exceeding that in Canada by a factor of 4. US soybeans in 2018 illustrate the egregious effects of US *ad hoc* programming- in this case, the Market Facilitation program, when combined with other program payments, gave a percentage of government transfers to soybeans amounting to 19 percent of the crop receipts (soybean was the largest acreage annual crop in the US in 2018).

Research by the Grain Farmers of Ontario provides a tangible illustration of the differences in producer support for grains and oilseeds between that for Ontario producers and comparable production in the US. The illustration assumed the same corn yield (180 bushels/acre) and 1000 acres of corn, mapped into the program parameters for the RMP program in Ontario and the Price-Loss Coverage (PLC) and the County Agriculture Risk Coverage (ARC-CO) programs in the US, at actual market prices in 2025.

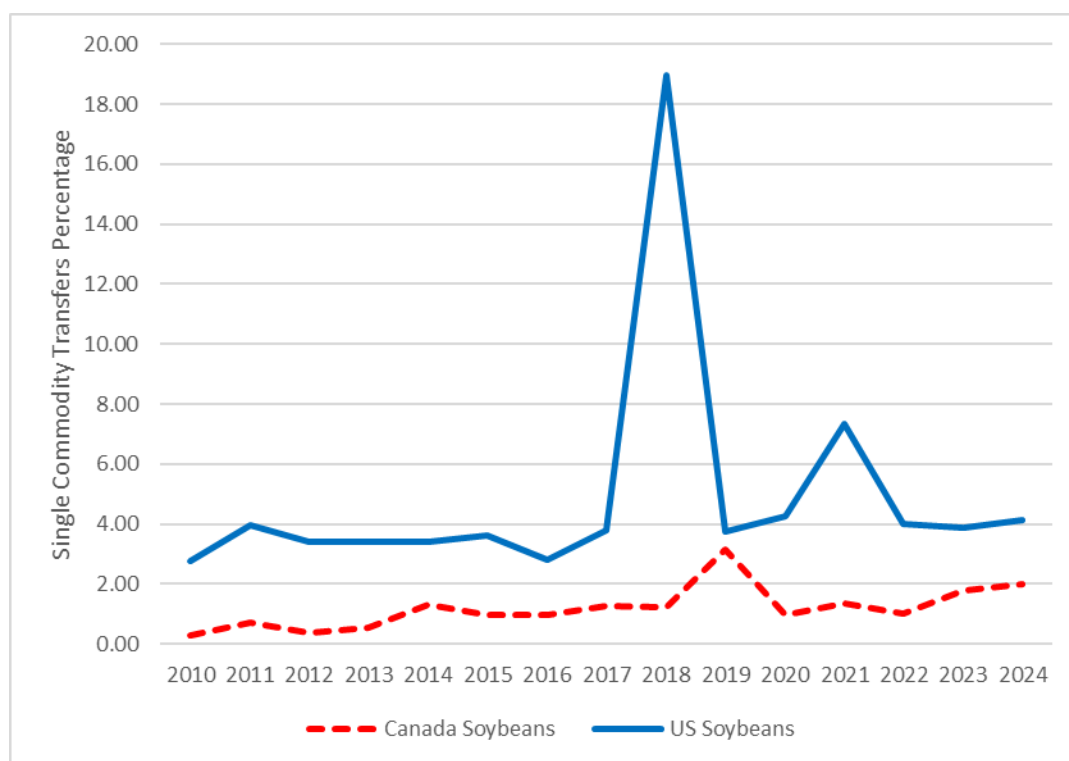
The results of the illustration showed that, under the ARC-CO program, a US producer would have received a payment of just under \$126,000. If, instead, the US producer had participated in PLC (under US programming rules, producers must choose between PLC and ARC-CO) the government payment would have been just over \$110,000. Under the RMP program in Ontario, this same producer would have received a payment of just under \$28,000. In other words, the

Figure 2.7 Percentage Producer Single Commodity Transfers- Corn



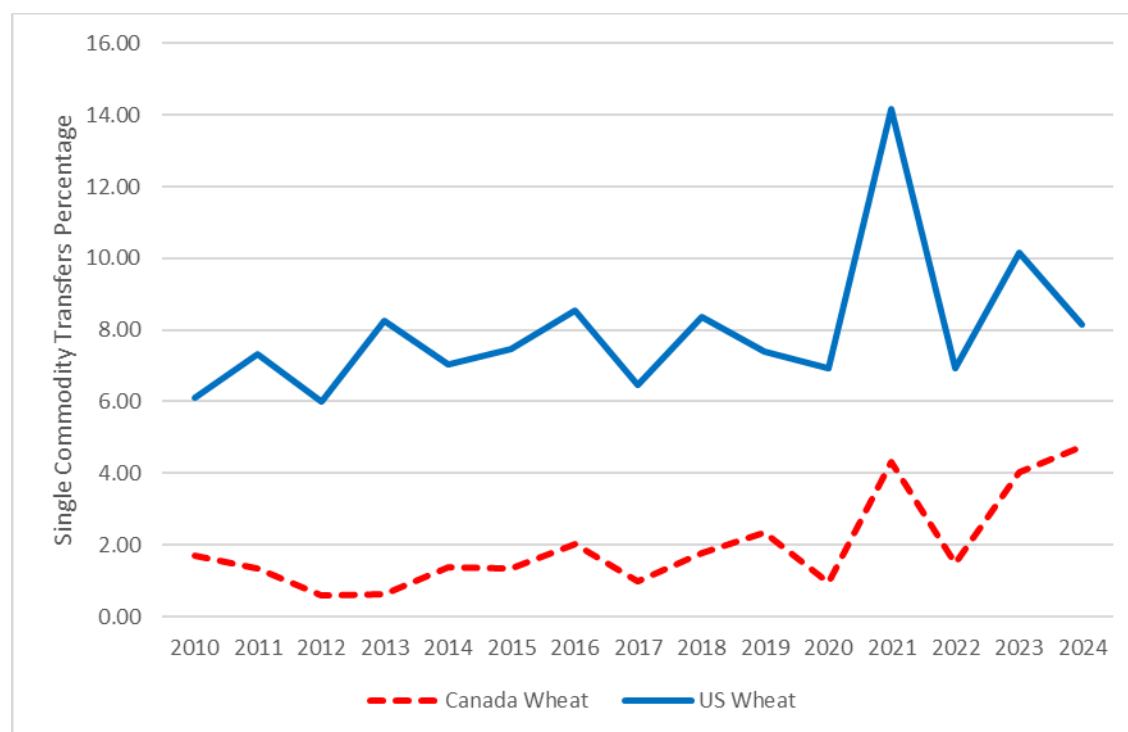
Source: OECD PSE Database, 2025

Figure 2.8 Percentage Producer Single Commodity Transfers- Soybeans



Source: OECD PSE Database, 2025

Figure 2.9 Percentage Producer Single Commodity Transfers- Wheat



Source: OECD PSE Database, 2025

US producers would have received a payment 4 to 5 times larger than the Ontario producer, all else equal.

2.4 Observations

Ontario grains and oilseeds are a highly significant aspect of the Ontario agricultural economy. This is apparent from the number of farms represented and farm cash receipts, but also the downstream animal industries and food manufacturing industries located in Ontario anchored by the availability of grains and oilseeds for processing. The recent economic downturn experienced is overwhelmingly led by a softening of grain and oilseed prices, consistent with greater volatility in global markets, in which Ontario producers are price takers. At the same time, expenses have been high- and this is before the hostilities in the Middle East dramatically raised the prices of fuel and specific farm inputs, notably fertilizer, which is particularly borne by the crop sector. Overhead costs have been a particular source of cost increases, a relatively higher share of expenses for grain and oilseed farms, and one in which BRM programming offers no cushion.

Compared with Canadian and Ontario agriculture writ-large, grains and oilseeds has faced a more difficult economic environment since 2023, for which it relies on effective BRM programming. Yet the data demonstrate the significance of farm machinery costs in influencing economic outcomes, especially for grain and oilseed farms where this is a high proportion of farm costs. BRM programs do not address the growth in machinery costs.

Moreover, BRM programming available to Ontario producers directed at the crops produced by grain farmers in Ontario has not kept pace with US subsidies, by a wide margin. While BRM programs in Canada offer whole-farm programming rather than commodity-specific as in the US, under AgriStability and AgriInvest, what is practically available to Ontario grain farmers is quite limited, as described below.

3.0 Business Risk Management Programming

3.1 Design Concepts

BRM programs carry a largely unifying set of concepts. The first is that the program payments are demand-driven. Program payments are only made when a “loss” has been triggered, and the criteria for what constitutes a loss is laid out quite precisely. Under AgriStability, a necessary condition for a payment to be made is actual reference margin less than Reference Production Margin. Under AgriInsurance, a necessary condition is actual yield less than reference average farm yield. Under RMP, the necessary condition is that the market price falls below the support level, as defined by cost of production. AgriInvest is different in this regard, as payment is not contingent on a loss.

Secondly, program payments do not leave the producer whole, as a combination of coverage and payment rates of less than 100 percent apply. AgriInsurance has a range of deductibles, ranging all the way to 10 percent (90 percent coverage). AgriStability has a 30 percent deductible (70 percent coverage) and the payment rate is at 90 percent of the loss below 70 percent coverage. RMP does not have a deductible, but it has a payment rate of 40 percent of the difference between the price and the support level. Deductibles and payment rate limits are not part of AgriInvest.

Canadian BRM programs are structured to be compliant with WTO rules. This places constraints on program designs so that they are generally available (non-commodity specific) and thus have greater resistance to international trade disputes. Program designs that allow notification to WTO as exempt from domestic support caps under the Annex II of the Agreement on Agriculture (green programs) are preferred. Under this approach, Canada has never approached its WTO limits on domestic support.

Capitalization of BRM program benefits into farm asset and input values is an imminent risk and is a particular risk to programs that make reference to cost of production. Some aspects of this can be addressed by payment deductibles and variable coverage- but more generally, program designs exclude reference to items that could be prone to capitalization.

Finally, BRM programs observe Tinbergen’s Rule, which states that for each policy objective, there is at least one program. It implies, conversely, that in a single program, there are not multiple policy objectives or contingencies.

3.2 BRM Programming Suite

The BRM program suite in Canada consists of three federal-provincial programs- AgriStability, AgriInvest, AgriInsurance- and a platform from which to fund compensation for catastrophic

loss- AgriRecovery. The Advanced Payments Program (APP) is a short-term loan program connected to AgriInsurance. The Ontario Risk Management Program (RMP) is a program that underwrites returns relative to costs of production for major crops.

The AgriStability program is designed to protect the “margin” on an individual farm, defined as the total revenue from farming (eligible revenue) minus specific annual recurring costs (eligible expenses). Payments from the program begin when the “margin” between eligible revenue and eligible expenses falls by more than 30 percent from the previous five-year average, discarding the highest and lowest entries in the five-year period. Payments are made based on 70 percent of reference less actual margin, at a coverage level of 90 percent.

AgriInvest is a producer deposit program that allows for a government deposit match of up to 1 percent of allowable net sales, excluding revenues on the farm for supply managed commodities, up to a maximum of \$10,000, based on a percentage of gross farm receipts.

AgriInsurance is essentially a crop loss insurance program. Producers pay insurance premiums for 40 percent of the program costs, while the balance of costs are split 60:40 by federal and provincial/territorial governments. It is delivered entirely by provinces/territories. The Advanced Payments Program (APP)- a financial program- uses yield/revenue guarantees under AgriInsurance as the basis for borrowing, with the APP loan repayable after harvest. Loans of up to \$1 million are available- currently with the first \$250,000 interest-free- but with a general interest-free limit of \$100,000.

AgriRecovery is a platform from which to cushion catastrophic losses to producers. Prior to its creation, the federal and or provincial governments provided assistance for significant localized events, caused by weather, flood, fire, or other local events. Importantly, it was not established with matters of geo-political market risk in mind. This platform was created to provide a framework for responses by governments to such events. Costs are shared 60:40 by federal and provincial/territorial governments.

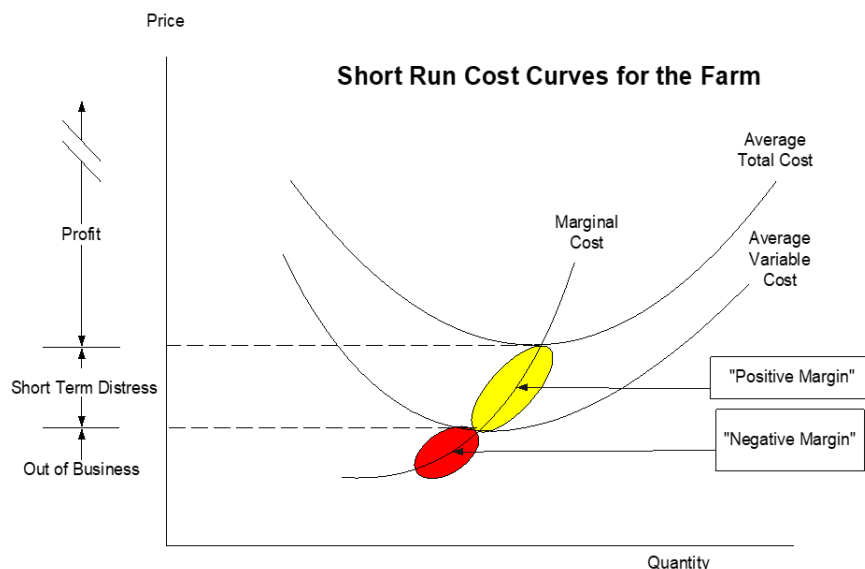
RMP supports costs of production by establishing a reference cost of production, and comparing market prices with it. Differences between market prices and the cost of production support levels trigger payments at 40 percent coverage- the provincial BRM cost share.

3.3 Economics of AgriStability

The rationale for whole farm business risk management programs like AgriStability is based on an understanding of the basic economics of the individual farm. Figure 3.1 below illustrates short run cost curves for a farm enterprise. Expansion or contraction for the farm is along the marginal cost curve. The distance between average total cost and average variable cost and curves represents the margin (fixed costs). The “margin” in the program design is the yellow area, and the red area represents losses to all fixed and losses to some of the variable costs. The target for demand-driven whole-farm programming is the positive margin. Farms in the negative margin situation cannot meet their variable costs, nor a subset of their fixed costs. In order to be viable

in the immediate term, the farm with a negative margin would need to access its own financing to cover these losses, otherwise they are unable to meet their immediate obligations and will go

Figure 3.1



out of business. It is the short-term distress that results when revenue falls below total costs but above variable costs (positive margin), and in which the farm business is viable and failure can be forestalled or prevented through BRM payments, that presents the target for BRM programming.

Basic Mechanics of AgriStability

AgriStability is a whole-farm, margin-based program. Figure 3.2 below provides a mapping from the positive margin in the figure above to the margin trigger mechanism for payments under AgriStability. The left panel presents the basic farm economics, with the average variable cost and average total cost curves, and fixed costs the difference between average total and average variable costs. The situation depicted is of price, P , equal to average total cost and marginal cost, and farm output Q - an economic equilibrium in output for the farm. In AgriStability terms, total revenue $P \cdot Q$ is called eligible revenue, and the variable costs are essentially the eligible expenses. The margin is given by the eligible revenue less eligible expenses.

The farm economics in the left panel of the figure is projected onto the right panel to represent it as the AgriStability program parameters for margin. The margin in a given year is compared with a reference margin based upon past history to determine whether an AgriStability payment has been triggered, and the amount of the resulting payment. If the current margin exceeds historical reference, no payment is triggered. If the margin falls below historical reference, but exceeds 70 percent of the reference, it falls within the deductible portion and no payment is

triggered. If the margin is less than 70 percent of the historical reference a payment is triggered, and the payment rate is 90 percent of the difference between the reference adjusted for the deductible, and the actual margin. The payment for a total margin loss is 70 percent of the reference margin times a 90 percent payment rate, or 63 percent of the reference.

Impacts of Cost Structure on AgriStability Program Performance

The illustration above provides a point of departure to consider the effects of alternative farm cost structures on program performance. First consider how AgriStability functions for a farm with a high proportion of its total costs as variable costs/eligible expenses, at the point where price is equal to both marginal costs and average variable costs. This is illustrated in Figure 3.3 below- it is illustrative of a feedlot. For a feedlot, the production costs are dominated by feed and feeder cattle, both of which count as eligible (variable) expenses. So, the "margin", what's left after eligible expenses, is a thin slice. A modest revenue drop (or input cost spike) can quickly push that thin margin below 70% of historical, triggering a payment. Compared with Figure 3.2, its price, quantity, and total costs are the same but its variable costs are a relatively high proportion of total costs, and therefore its reference margin is comparatively small. As a result, the loss required to trigger a payment is also small- so payments are likely to be triggered more readily. Conversely, when payments are triggered, because the reference margin is small, there is a relatively shallow base that comprises program payments.

Figure 3.2 Farm Economics Mapped into Agri Stability Programming Space

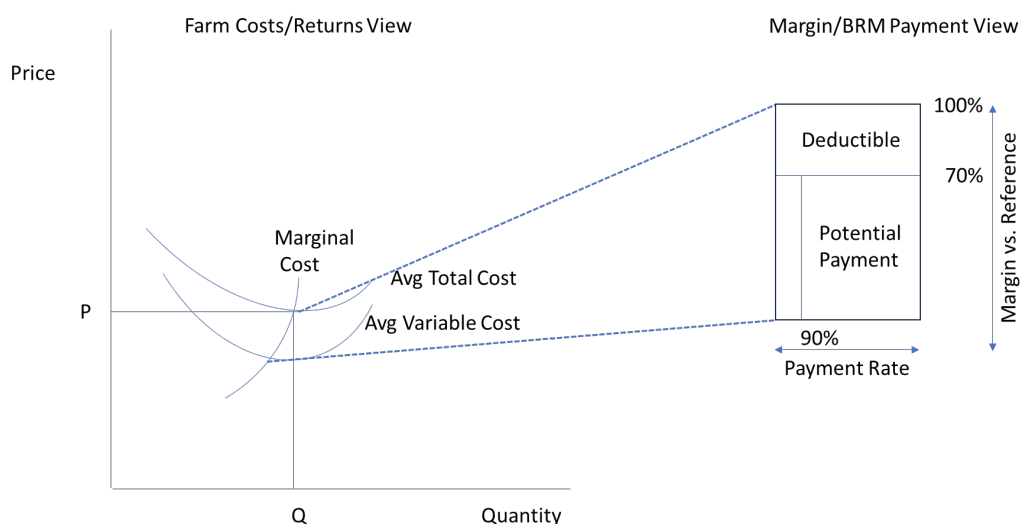


Figure 3.4 illustrates the situation for a farm with price, quantity, and total costs the same as in Figure 3.2 and 3.3, but with a much lower proportion of its total costs as variable costs/eligible expenses. Put differently, this farm's costs are structured such that a high proportion of its costs are fixed costs and ineligible expenses. It is illustrative of a grain and oilseed farm. A grain and oilseed farm's biggest costs are often machinery, depreciation, repairs- which are treated as ineligible expenses or fixed cost, and sit inside the AgriStability margin. This means the

reference margin is large- but- it takes a substantial revenue decline to erode it by the requisite 30% to trigger a payment.

Figure 3.3 AgriStability Under a Relatively High Variable Cost Scenario

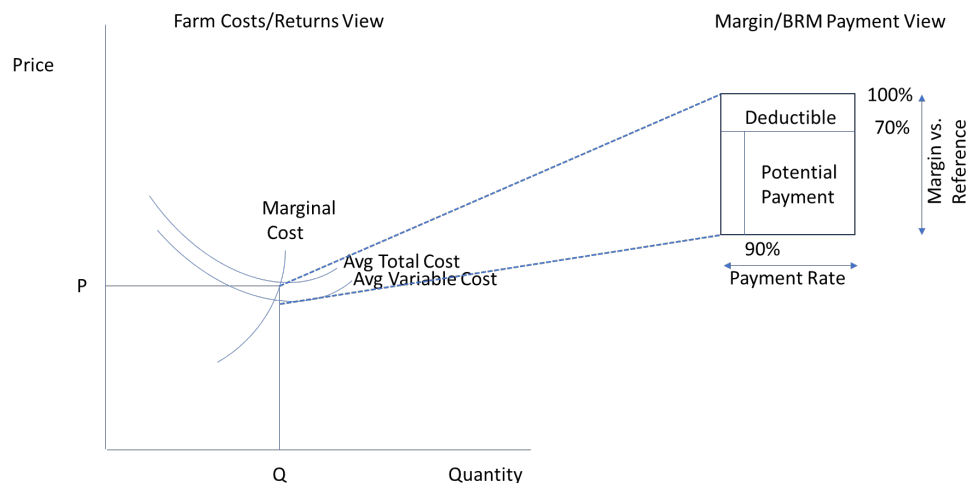
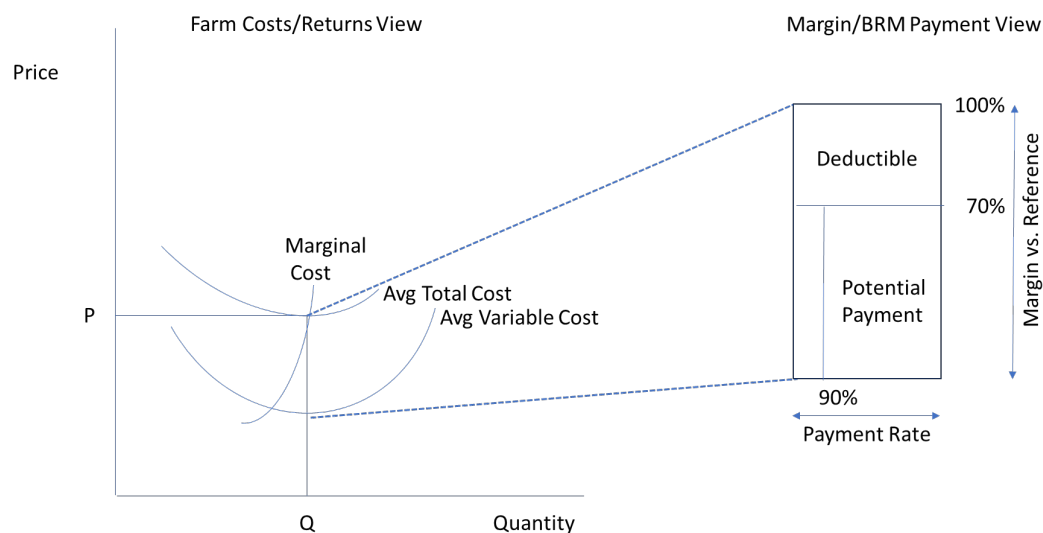


Figure 3.4 AgriStability Under a Relatively Low Variable Cost Scenario



The contrast between the low and high reference margin scenarios is presented in Figure 3.5 below. The price*quantity/eligible revenue and total costs facing the two farms are the same. Comparing the feedlot scenario with the grain and oilseed scenario, X and Y represent the dollar loss in margin required to penetrate the deductible and trigger an AgriStability payment. From the diagram, clearly X is much smaller than Y, so it takes less of a margin loss for the feedlot to

trigger a payment than it does for the grain and oilseed farm. W and Z represent the depth of coverage from which payments can be drawn. W is much smaller than Z, meaning that if a payment is triggered, the feedlot has a more limited depth of coverage to draw from in establishing a payment.

Figure 3.5. Comparison of AgriStability Under a High vs Low Share of Variable Costs (Eligible Expenses)

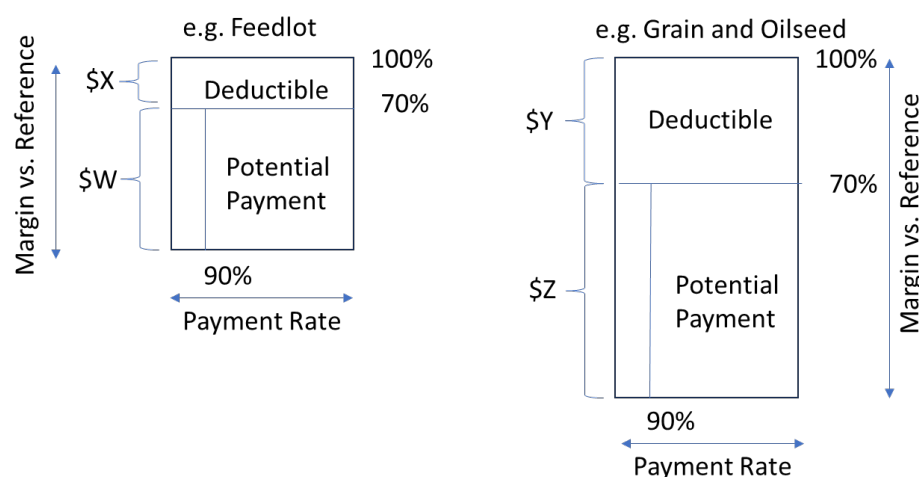


Table 3.1 below presents the above illustration with an empirical example. In both cases, the feedlot and grain and oilseed farm have farm sales of \$500,000. In the case of the feedlot, it has variable costs associated with feeder calves, grain and feed concentrates, as well as fuel, fertilizer, seed, and crop protection products amounting to \$400,000. The grain and oilseed farm has no costs associated with feed or feeder animals, but has costs of fuel, fertilizer, seed, and crop protection of \$200,000.

For the feedlot, the margin of sales less variable costs (or eligible revenue less eligible expenses) is \$100,000. For grain and oilseed farm, because more of its expenses are excluded from the calculation, it has a higher margin of \$300,000. A payment is triggered for a loss of 30 percent of the margin or more. For the feedlot, its threshold margin decline is \$30,000. For the grain and oilseed farm, the threshold lost margin before a payment can be made is \$90,000. Conversely, margin is the basis from which payments are drawn. The feedlot has a reference margin of up to \$100,000 that can service AgriStability payments; the grain and oilseed farm has a reference of up to \$300,000 from which to draw AgriStability payments.

This illustrates some remarkable features in the design of AgriStability. All other things being equal, the higher the share of eligible revenue represented by eligible expenses, the greater the likelihood of a payment occurring. Restating this, the higher the share of a farm's total costs/revenue consisting of variable costs, the higher the likelihood of a payment occurring.

Table 3.1 Empirical Illustration of Feedlot and Grain/Oilseed Farm AgriStability Metrics,
\$

Farm Management Measure	Associated AgriStability Measure	Feedlot	Grain and Oilseed Farm
Revenue from Farm Sales	Eligible Revenue	500,000	500,000
Variable Costs	Eligible Expenses	400,000	200,000
Sales-Variable Costs	Margin	100,000	300,000
	Margin Decline Required to Trigger a Payment (30% of Margin)	30,000	90,000

Ironically, the farms that can most easily trigger payments will typically have the lowest base in reference margin from which to draw payments; the farms that are less likely to trigger have a comparatively larger base from which to draw payments.

Finally, the payment rate is independent of the 70 percent threshold that triggers payments. For farms that are unable to trigger payments in times of economic stress, an increase in the payment rate is irrelevant and unhelpful. Conversely, increasing the payment rate increases the payments made to farms that can more readily trigger payments, and creates an unintentional bias in the distribution of payments toward farms/farm products that can more readily trigger payments.

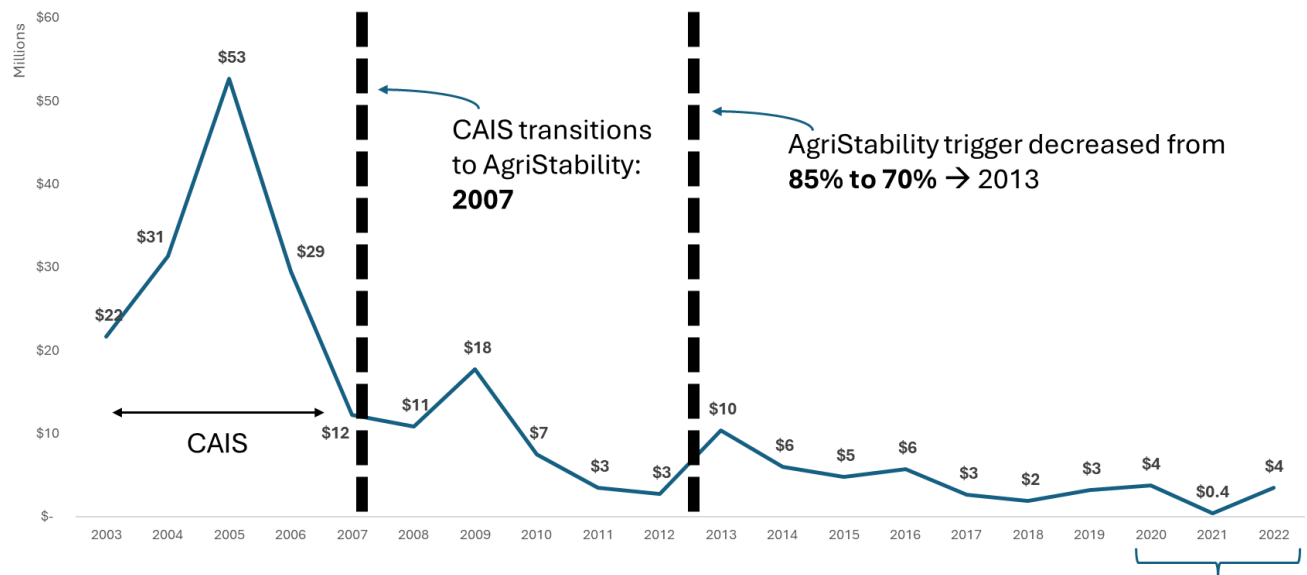
3.4 ON Grain and Oilseed Empirical Experience with AgriStability

Figures 3.6 and 3.7 provide empirical evidence regarding Ontario grain and oilseed experience with the evolution of AgriStability to today. What is AgriStability today was originally CAIS, which contained stabilization layers above the current 70 percent trigger level. Figure 3.6 shows that this design allowed for significantly higher payments for Ontario grains and oilseeds, ranging from \$22 million to \$53 million from 2003 to 2006. The period 2007 to 2012 was characterized by a broad strengthening of grain and oilseed prices to high levels, especially in 2008-09 and 2012, consistent with lower payments under AgriStability. The period following 2012 experienced much lower grain and oilseed prices, but also changes to AgriStability- through the removal of the Stabilization Layer and reduction of the payment trigger to 70 percent, and also the introduction of the reference margin limit provision- which set the reference margin at the historical margin or the level of allowable expenses, whichever was lower. It had the effect of significantly reducing AgriStability payments. The data in the figure is consistent with these program changes having lowered AgriStability payments.

Reference margin limiting was discontinued in 2021. But this change evidently did not impact payments to Ontario grain and oilseeds producers. This was in part due to strengthening prices after 2020, but also consistent with producer exasperation with the limitations of AgriStability

and reduced participation in the program. This is evident in Figure 3.8 through the declining frequency of payments triggered. Prior to 2011, the frequency of AgriStability payments annually triggered by Ontario grain and oilseed producers ranged from 635 to almost 6000. Since 2013 the frequency of payments annually triggered has been under 1000, and for 2021 and 2022 it was under 100. This is consistent with sharp declines in AgriStability participation.

Figure 3.6 Payments under CAIS/AgriStability made to Ontario Grains and Oilseeds Producers

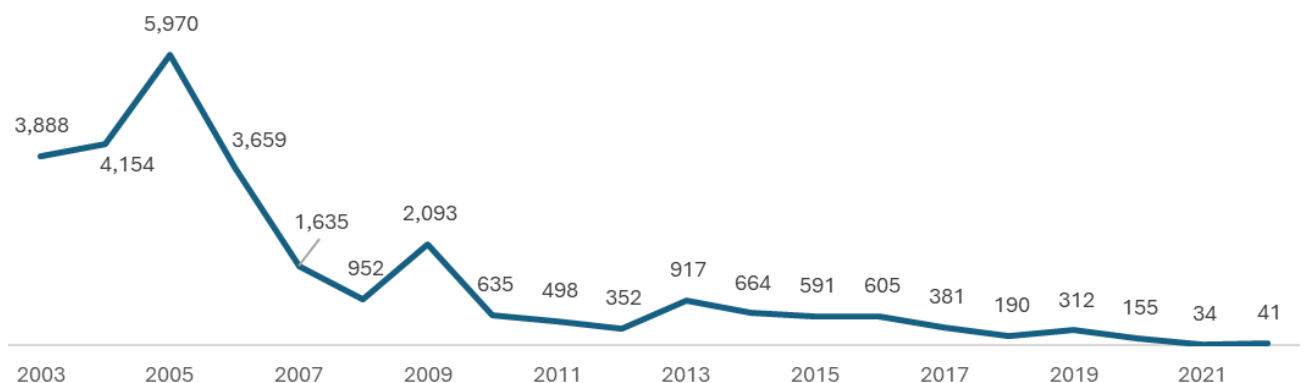


Source: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3210010601> c

Data provided by GFO

Figure 3.7

Program Payment Triggers (Annual)



Source: Data provided by GFO

3.5 Gaps Apparent in BRM Programming for Grains and Oilseeds

From an Ontario grain and oilseed perspective, the gaps evident in AgriStability are the highest priority. AgriStability has become ineffective, as 20 years of data indicates, and the drastic decline in triggered payments suggests that many Ontario grain and oilseed producers have given up on it. As explained above, this stems from having a high proportion of total costs ineligible, which in turn is consistent with a high proportion of costs fixed- such as costs associated with machinery/equipment. If AgriStability were reformed and made these costs eligible, it would present the worry of capitalization of payments. Alternatively, this problem could be addressed by making the trigger for payments more sensitive- essentially by reducing the deductible and allowing for payments to be triggered at higher shares of reference margin.

Increasing the payment rate for losses under AgriStability, as occurred recently- first from 70 percent to 80 percent, and most recently to 90 percent- does not provide relief for Ontario grains and oilseeds. If the trigger for payments is not sufficiently sensitive to trigger payments in times of financial stress, increasing the payment rate does not help. Worse, it exacerbates existing inequities for a program in which some farm types can readily trigger claims while others cannot, by paying claims at a higher rate for those that can claim. In addition to being ineffective, it is an unfair allocation of public funds across different kinds of farms.

Private insurance products are emerging that present the prospect of greater accuracy and, consistent with this, greater coverage provided. However, there are caveats with greater penetration of private insurance. Private insurance can have the unintended consequence of attracting lower risk producers away from public insurance, leaving public insurance (AgriInsurance) with relatively higher risk producers. In turn, the impact on public insurance is to raise premiums, and the prospect of a downward spiral as further flight of relatively low-risk producers leave the public system- a problem of adverse selection.

Private insurance may lack the financial integrity to fund claims that exists with public insurance, backed by statute and government reinsurance. Public insurance is also intended to be universal; private insurance that is exclusive and that caters to a subset of the market creates the prospect of generating a new dimension of inequity among producers. If private insurance becomes an alternative to existing BRM products, policy refinements will be required to adjust accordingly.

AgriInvest is appreciated by producers as a program that provides payments reliably within the BRM program suite. But it is not demand-driven, it is not responsive, and it has no target in risk management. Instead, it ends up providing some offset to the difficulties Ontario grain and oilseeds producers have with AgriStability and its structural difficulties in triggering payments. Essentially, through AgriInvest, grain and oilseeds producers get \$10,000 per farm as implicit compensation for an AgriStability program that does not work very well for them- an inefficient program correcting for the shortcomings of another inefficient program.

RMP provides a basis in cost of production to reduce producer uncertainty. However, at only 40 percent coverage, it can only go so far. Increasing the level of coverage would be a major improvement.

4.0 Conclusions

Grains and Oilseeds represent the largest single share of Ontario farms, and typically around 25 percent of farm cash receipts. The implication is that if BRM programs are going to work for Ontario, they need to work for grains and oilseeds. Moreover, Ontario grains and oilseeds finds itself in a challenging geo-political, trade, and economic environment, in a third straight year of soft farm prices- punctuating a decline in farm cash receipts- and also pressured by input costs, notably equipment. This excludes the sharp increases in prices of fertilizer, fuel and other crop inputs that have not yet been picked up in the information. It manifests itself as declining farm operating incomes for Ontario grain and oilseed farms, and the data show that it is impacting Ontario grains and oilseeds even worse than it is Canadian agriculture as a whole. So now is a time when Ontario grains and oilseed producers should have the confidence of reliable BRM programming that can be drawn upon to ensure the feasibility of ongoing investment, and indeed the viability of their businesses.

But there are critical gaps in BRM facing Ontario grains and oilseeds. The gaps BRM support versus grains and oilseeds in the US are egregious, which undermines Ontario producers' competitiveness for inputs that trade back and for across the Canada-US border.

AgriStability- the lead whole farm program, margin-based program- is not well-liked by Ontario grain and oilseed producers, and it is evident why. Because a relatively high proportion of grain and oilseed production costs are ineligible under AgriStability, even under significant economic stress AgriStability may not issue payments to Ontario grains and oilseeds, when it would for other farm types with comparable total costs, but a different cost structure.

The worry is that, given this dynamic, Ontario grain and oilseed producers will avoid, or stop participating in AgriStability. This presents a dangerous prospect, because the risks of grain and oilseed farming remain. If producers have withdrawn from or avoided AgriStability, under economic stress it increases the prospect for requests for *ad hoc* support- a very awkward situation for governments and the industry, but nonetheless serious. AgriRecovery was not intended to fill the gaps where poorly functioning whole farm programs trigger reduced participation and requests for *ad hoc* support. The reality is that there is no alternative to a properly designed and functioning whole farm, margin-based program.

4.1 Recommendations

Based on this discussion the clear priority for BRM policy development is to fix AgriStability so that it fill its intended purpose to provide relief for economic stress. This requires making the AgriStability trigger more responsive, and raising its threshold to trigger payments from 70 percent of reference to 80 percent or higher. Without this change, AgriStability will continue to be ineffective for Ontario grain and oilseed producers- at a time when improved BRM coverage is required.

The prospective proliferation of private insurance in agriculture and its potential benefits could come with risks associated with adverse selection. Policy adjustments that can protect the public insurance system under an expansion in private insurance should be developed.

At only 40 percent coverage, RMP is limited in the extent to which it can underwrite production costs for crops produced by grain farmers in Ontario. This could be greatly improved with increased coverage through federal participation in funding RMP.

The bundling of environmental standards or other qualifications with access to BRM programs stand to undermine the effectiveness of BRM programs. These non-BRM objectives should be pursued under their own targeted programs, and not concurrently under BRM programs.