



DISCUSSION DOCUMENT

“The Voice of Manitoba Farmers”

1-1313 Border St. ~ Winnipeg MB ~ R3H 0X4

ph: (204) 697-1140 ~ fax: (204) 697-1109

kap@kap.mb.ca ~ www.kap.mb.ca

Business Risk Management

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In the future, the agricultural industry will be directed and fostered by a policy framework that should support the essential role of agriculture and, together with other rural partners, we must continue to play a role in the economic and social well being of rural areas and the economy. It will be premised on efficient, prosperous, farm businesses which are key to healthy rural communities.

Producers in the agricultural industry face many uncontrollable production and economic risks every year. These frequently occurring risks tend to threaten the stability of the industry.

In the new environment within the Agricultural Policy Framework (APF), Keystone Agricultural Producers strongly supports cooperation and collaboration between producers and both levels of government, federal and provincial. Governments must recognize the need to be proactive and by doing so "invest" in agriculture - the future of rural Canada - as opposed to being reactive and having to "bailout" the industry.

The Business Risk Management (BRM) chapter of the APF has the potential to assist in establishing a foundation for healthy rural communities by providing financially viable options for both existing and beginning farmers.

Net Income Stabilization Account (NISA)

When reviewing the various options that have been put forward by governments for the NISA program, KAP recommends that the following parameters form a new approach to stabilization:

- The existing structure of the NISA program must be maintained and built upon to effectively address sudden declines in income (disaster component);
- The disaster component of NISA (which we will call Fund 3) will be funded by governments using the funds previously allocated to CFIP and will be an entitlement fund;
- The existing structure, Funds 1 & 2 be maintained and enhanced by making it a 4/4 program;

- The current 3% bonus interest be eliminated and used by governments to assist in reaching their 4% contribution. This also allows the value of 3% bonus interest to remain in the program and plays the role of enhancing the contribution rate;
- Funds 1 & 2 should be based on eligible net sales (analysis should be undertaken on the benefits of using the contribution margin for the livestock sector);
- Fund 3, the disaster component, should be based on an equitable percentage of the funds deposited into Funds 1 & 2 in any given year; producer contributions must be tax deductible;
- There must be a provision for unused contributions to be carried forward under extreme circumstances, such as back to back disasters, as a means of managing risk;
- Producers must have the ability to carry forward some portion of withdrawals as a tool for managing risks;
- However, we do support a 50% mandatory withdrawal of the triggered amount and the option of 50% carry forward;
- Producers should have the option that any withdrawals triggered and taken could be classified as farm income in the year triggered or the year received;
- An investment trigger should not be considered within a stabilization program as funding for such things as food safety and environmental measures should be funded outside of business risk management;
- The minimum income trigger (MIT) does assist beginning farmers. The minimum income trigger must be maintained and improved to be more responsive. Consideration should be given to the potential of offering an existing farmer the opportunity to avail of the MIT for a "set" period of time only. For beginning farmers the idea of limited access to MIT could be explored (eg. in a 6 year period a beginning farmer could avail of the MIT option for a maximum of 3 years);
- Deeming should be a part of the program as it assists beginning farmers with account building; upon retirement or exiting the industry producers must have complete access to monies in both Funds 1 & 2;
- Upon retiring or exiting the industry, Fund 3 entitlement would revert to government;
- Except in the case of intergenerational transfers where Fund 3 entitlement would move with the farm operation and would serve as an incentive for beginning farmers;
- To assist beginning farmers, provisions must exist within the program whereby governments contribute its calculated portion into Funds 2 & 3, and producer contributions would be optional for an allotted time period; upon triggering, Funds 1 & 2 would be drawn down on an equal basis (50/50);

- In disaster circumstances, the ratio changes - Fund 3 kicks in and withdrawals from Funds 1 & 2 are reduced and replaced by withdrawals from Fund 3;
- The cap on eligible net sales (ENS) should be updated to reflect today's climate.

These recommendations offer benefits for both governments and producers. It creates an incentive for producers (Fund 2) and also maintains a program that producers are accustomed to. For government there is little new program design as funds 1 & 2 are already in existence. Government also receives the benefits of the value of the 3% interest bonus to assist with reaching their 4% contribution. Also, there would be an educational process for fund 3 only, as opposed to attempting to sell producers on a totally new stabilization concept.

Production Insurance

KAP firmly believes that the provincial and federal governments should maintain and enhance the existing crop insurance program. It should reflect the productive capability of the land and support separately the wide diversity of crops and crop types. In the new era of the APF and the absence of production insurance for livestock, KAP believes that all options should be carefully examined to ensure that producers can avail of an financially viable and affordable insurance product.

When reviewing the various options that have been put forward by governments and producers for a production insurance program, KAP recommends that the following concepts and parameters form the basis for production insurance tools:

- Maintain and enhance existing crop production insurance; assurance that there are adequate funds allocated for the program in an effort to provide coverage for producers at an affordable costs;
- There must not be linkages to environmental farm scans/plans. If discounts are offered to those producers who completed an environmental farm plan, it is merely penalizing those producers who only had to complete a scan because they are already practicing in an environmentally sustainable manner;
- Production insurance for livestock must cover a broad range of production risks e.g. loss of production caused by non reportable diseases (Salmonella, PRRS, E coli) or extreme weather conditions causing poor feed conversions or losses (feed lot or range cattle);
- Programs must not off load responsibility for funding from governments to producers (e.g. crop insurance premiums are cost shared);
- The allocation of funds must be based on risk factors;
- The federal government must allow provinces with adequate programs to preserve the integrity of existing programs.

Companion Programming

Companion programs differ in each province and they have a history of addressing specific provincially or regional needs. We believe that governments should be able to design new or maintain current companion programming as another tool which would assist with managing the risks. However, presently there are companion programming funded through safety nets that should be funded from another envelope. For example: in Manitoba the wildlife, waterfowl and predator damage compensation programs should not be funded by safety nets but by environment or natural resources.

Business Interruption Insurance

In the area of Business Interruption Insurance (BII), government has stated that they will work with industry to facilitate risk management solutions. While BII does have the potential to play a role in industry we must be aware of the costs and the elements of such a management tool. We recommend that governments consider the following recommendations:

- While there may be linkages to other elements of the APF there must not be any cross compliance;
- We cannot expect producers to willingly take on the burden of BII without some cost-sharing (especially for those producers who have risks that cannot be effectively managed by other risk management tools;
- We encourage the development of affordable BII for all producers not only livestock but other commodities e.g. horticulture, fruit, etc;
- A wide range of losses must be eligible for coverage, such as accidental contamination, food safety and environmental liability issues, reportable diseases without CFIA compensation as well as covering associated costs/loss, i.e. quarantine, clean-up, interim between herd destruction and profitability of production occurring from diseases with CFIA compensation.