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Business Risk Management Programming in Practice: The 2011 Risk Management Program in Ontario

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Introduction

This is the second paper in a short series on business risk management in Canada, and Ontario by the George Morris Centre. The first paper was a brief commentary on the last three decades of public support of farm income support/risk management programming across Canada. As noted, the public policy support strengthened over the decades but not always consistently. The types of programming to provide such assistance to participating Canadian, or Ontario, farmers has changed or evolved over that same period. This paper will briefly examine the 2011 Risk Management Program results for those participating Ontario farmers, and the 2011 policy and economic context facing those participating Ontario farmers. This paper will then review the outlook for this risk management initiative in Ontario, focusing on its prospects after the 2012 Ontario Budget direction.

The Ontario Risk Management Program was first introduced in 2007 for the Province's grain and oilseed producers, and implemented that year. In the spring of 2011, the Government of Ontario introduced its Risk Management Program (RMP) for participating livestock producers and an accompanying Self Directed Risk Management (SDRM) initiative for participating edible horticulture producers. Despite efforts by Ontario Ministers and Ontario farm groups, the Government of Canada declined to participate in this initiative.

An examination of a province only initiative-and the most recent one-to address the risk management issues identified by Ontario farm leaders as well as commodity group members will assist readers with an improved understanding of program impacts, complexities, linkages to other initiatives, and the challenges in adapting to new economic/policy contexts as well as shifting public and private sector priorities.

Growing Forward Context – Ontario

In July 2008, the Federal Government, Provinces and Territories agreed upon and eventually signed the Growing Forward agreement. This agreement involved a national framework for Business Risk Management (BRM) and non-BRM programming across the country. The national BRM programs-Agri-Stability, AgriInvest, Production Insurance (Crop Insurance) and AgriRecovery- provided the base Canada-wide programming for participating producers with identified federal/provincial/producer funding to cost-share these agreed upon initiatives. As such, the Growing Forward framework provided greater transparency on the possible trade-offs between BRM and non-BRM programming. It also provided greater certainty over life (5 years) of the Framework for the national BRM programs.

For Ontario farmers, this menu of above national programming in 2008 provided some $246 M in net payments.[1] In addition, there were a number of other Canada/Ontario, and Ontario only initiatives which paid out to participating Ontario farmers in 2008 net payments of approximately $287 M. [2]Some of these other initiatives were the Ontario Cattle, Hog, Horticulture Payment program, the Cost of Production payment, Ontario Cost Recognition Top-Up Program, a Canada Agriculture Income Stabilization payment (almost $100 M) among

[1]Statistics Canada, Catalogue no. 21-015-X, May 2012

others. There was also a Net Income Stabilization Account payment to eligible Ontario farmers of over $55 M in 2008. To place this into perspective, Ontario farmers received the third largest share (approximately $600 Million) of national net payments in 2008 of over $3.0 Billion[3]

The number of programs which paid out to participating Ontario farmers reflected the sense of farm income risk, cost of production risk, and commodity price risk in Ontario across a number of commodities during the 2007/08 period. In June 2007, the Government of Ontario announced a $55 M contribution to the Top-Up program noted above as well as the commitment to a Risk Management Program (RMP) sought by Ontario grain and oilseed farm groups.[4] Subsequently, in August 2007, the details of the proposed Risk Management Program for grains and oilseeds was announced with a similarity to the Quebec ASRA program (cost-of-production criteria) and the waiver of premiums for that initiative in the first year[5]. It was identified that the Province would provide its payments as its 40% share, and reached out to the Federal Government to provide the additional 60% funding to provide similar treatment for the RMP initiative as provided to the national BRM programming.

In 2010, and 2011, the Government of Ontario was engaged in discussions with participating livestock and horticulture groups, as well as general farm organizations to develop and implement an expanded Ontario RMP, again based upon a cost-of-production framework. The same request for federal cost sharing of this RMP initiative for livestock and horticulture (60% share) was made. The demands for such initiative were based upon price risks for livestock, income declines across the sub-sectors, cost of production increases as well as a sense of gaining equity of treatment with other provinces.

In the 2011 Ontario Budget (March 2011), the Government of Ontario made a commitment to implement the requested RMP to this wider group of livestock Ontario farmers. Included in this announcement was the establishment of the Self Directed Risk Management (SDRM) initiative for edible horticulture producers using a payment based upon a percentage contribution of net sales by each participating farmer. This was formally announced in April 2011[6]. Program development work was initiated by the participating farm groups and the Ministry of Agriculture, Food and Rural Affairs. Similar to the efforts to establish the RMP for grains and oilseeds in 2007, a considerable amount of the analysis/program detail was led by the farm groups and their leadership. As program details were developed and approved for implementation, the first year premiums were again waived, and again, the Government of Canada did not participate in the program, or provide its requested 60% share.

The market or economic context for the Ontario livestock and horticulture producers shifted during this same period. Earlier 2010 estimates of a net farm income loss in Ontario-even with high grain and oilseed prices-shifted to a net income gain for 2010 once revised. The estimated 2011 net income for Ontario farmers was $1.32 Billion[7]. This was a far higher number than in the preceding several years.

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[2] Ibid.
[3] "McGuinty Government Helps Relieve Cost of Production Pressures for Ontario Farmers." Ontario News. June 8, 2007.
[5] Ibid.
[6] "New Risk Management Programs Support Ontario Farmers". Ontario News. April 1, 2011
[7] Ontario Ministry of Agriculture, Food and Rural Affairs May '12 presentation on 2011 Risk Management Program

The following analysis of the 2011 RMP for livestock, edible horticulture provides deeper insights into the program

Observations on Ontario's Risk Management Programs for 2011

Information provided by the Ontario Ministry of Agriculture, Food and Rural Affairs on the 2011 Risk Management Program (See Appendix 1) is now available. Key results are noted below.

For 2011, RMP (which no premiums deducted) had a sizeable number of producers participated, but the percentage of production covered varied considerably. The Grains and Oilseeds program had over 8,700 producers enrolled-over a third of estimated total producers eligible- but with no payments. There were 747 pork producers enrolled, out of a total pool of 1,700 Ontario pork producers, but with an estimated 90% of production covered. There were just over 3,000 cattle producers enrolled out of an estimated cattle producer population of 19,000, and covering about 55% of total cattle production in Ontario in 2011. For edible horticulture, there were 2,243 producers enrolled in the SDRM program covering an estimated 50-60% of total edible horticulture production in Ontario. Veal and sheep numbers were of course much smaller in total.[8]

The distribution of the RMP payments varied between payment ranges- reflected in the production scale of each participating producer. Generally, over 80% of the livestock producers in the RMP received $25,000 or less in payments-or about 24% of total livestock RMP payments. However, just over 3% of the livestock producers received payments over $100,000 per participant, which was over 45% of total RMP livestock payments.

For edible horticulture which was measured differently given the program parameters of the SDRM program, the participation rate for those edible horticulture producers was 58% for those in the $100,000 income range or below. However, for those producers with an income over $1.0 M, the participation rate rose to 83.6%- which meant some 18% of the SDRM participants received about 70% of the SDRM payments. It should be noted that caps were used in all the programs to reduce the impact of larger producers taking much larger shares of the total funding pool. All of these differences are not surprising given the farm structure now present in Ontario agriculture, and in these commodity areas.

As a final point, the estimated administration cost for the RMP in 2011 was over $10 M, which reduced overall payments under this initiative. The 2012 Ontario Budget direction to cap the program in 2013 argued for re-examination of the RMP for cost efficiency in administration, as well as likely program detail changes if not major shifts in programming if agreed upon with participating farm/commodity groups. However, before proceeding to revamp the RMP initiative, it would be beneficial to examine its impact, and outlook for the 2012 program year.

[8] Ibid

Risk Management Program 2011 Results – Commentary

First, the 2011 program did pay out almost $100 million to participating livestock and edible horticulture producers. This was a commitment by the Government of Ontario, and a goal for the participating farm/commodity groups. This was met. The variations in participation rates by commodity as noted in Appendix 1 and in the above paragraphs are not surprising. These reflect the basic design of the program which would favour larger scale producers. The decision not to seek premiums from participants in the 2011 initiative would reinforce the desire by larger farm operations to participate for a moderate cost of time/effort to apply for the 2011 program so as to obtain what would then seem to be a likely payment. The limited number of smaller producers participating may be evidence of the limited financial benefits from this program for smaller production units-but as no formal questions were asked about participation, it is not possible to verify the decisions by various industry producers on their decisions to participate or not..

As noted above, the current farm structure would lead to such results. Also, with greater scale, there may be differences in cost of production per animal if economies of scale can be achieved. If so, the differences in total payments (as the per head payments were identical), may lead to improved results for larger scale operations.

It is unclear from the2011 RMP payments if the program met all of the objectives of both the participating producers and the Government of Ontario. It may be that, given the timing of this initiative, when farm prices were stronger, and production improving, the overall sector benefits were not as significant. This may change in the future. It is also unclear as to exactly what price/income risks were being addressed in the 2011 payments-and again, this may reflect the market results in 2011.

In 2011, the majority of the producers received a modest amount of RMP payments, for example, payments below $5,000 per participant or less accounted for 56% of livestock participants, but only 6.2% of total payments. This sum of funds was unlikely to solely alter the individual farm operation profitability or farm family income outlook. In turn, some 3.2% of the livestock producers participating in the 2011 RMP received more than $100,000 in payments. This is sufficiently material that it could have altered their farm operations. However, as no questions were asked of the participants on the use of the funds, and effectiveness in their farm operations-it is again not possible to know how effective such payments were for those farm operators.

The desire by the participating farm and commodity group leaders to obtain a program that provided predictability, bankability and stability was seemingly met in the 2011 initiative given the program design and resulting payouts to participants. However, the decision by the Government of Ontario in the 2012 Ontario Budget to cap the RMP initiative alters the predictability and stability aspects of the program in the future until the program is redesigned,.

Given the average 2011 prices for cattle and hogs in Ontario, the payouts would suggest that even with higher prices than in recent years, these were not sufficient to meet the designed cost-of-production targets in these commodities. The same observation cannot be made for the SDRM initiative for edible horticulture which paid out according to a percentage of eligible net sales contribution by the participants. It is not possible to know if these payments were critical to the ongoing operations of those larger edible horticulture farm operations in this commodity-although some 84% of edible horticulture producers in Ontario with farm incomes over $1.0M participated.[9]

With the program design of the RMP-for livestock, grains and oilseeds, and the SDRM for edible horticulture, the use of the program, and program payouts by larger farm operations is to be expected. The program caps on individual participants do provide some limits on the size of individual payments. Whether these caps were fully effective and provided greater equity in program payments is not yet known.

With Ontario's 2011 net farm income above most recent years, it is an open question whether the program payments by the RMP in 2011 had significant impact on overall farm sector prosperity and outlook. The price increases for grains and oilseeds in particular would account for some of the net income gains in 2011. As the program design was not linked to measures other than production/income levels, and cost-of-production targets by livestock type, it is unclear if the RMP was designed to affect overall provincial net farm incomes or overall farm sector prosperity. As noted earlier, with net farm income up in 2011 in Ontario, the additional government payments of almost $100 million overall to this 2011 initiative would have been of some assistance but could not have been the major income boost for the sector-as may have been anticipated in earlier years of program discussion. Estimated 2011 net payments for Ontario producers was almost $231 million making this initiative a larger share of total program payments in 2011.

Overall, the 2011 RMP paid out to participating farmers with an added benefit of reduced costs for participation in 2011 (no premiums), but it is unclear if the program payouts successfully addressed farm income risks in 2011, or reduced income instability. Again, as no questions were asked on individual participant basis, it is not possible to verify if each participant faced identical price/income situations requiring the payment, or if the individual's payment in 2011 successfully addressed the price/cost risks identified in the program design. This program design is not dissimilar from the 2007 RMP for grains and oilseeds which is still in operation

Finally, even though the RMP did pay out in 2011, it cannot be expected to have any impacts on longer term income/farm structure trends, or on overall farm sector outlook for 2012. It would be expected that the anticipated strength in grain and oilseed prices-now spurred by the US drought in 2012-would influence land prices/rental rate and feedgrain prices-both of which will have impacts on costs-of-production for 2012. However, premium payments are now required for participating livestock producers.

For edible horticulture, the SDRM would be expected to payout given producer participation at the percentage rate announced for contributions, but with crop production fluctuations due to weather problems (to be covered in part by participation in available crop insurance programs), it is again difficult to note if 2012 program participation will match or exceed 2011 levels .
Concerns were raised in the early program design of the Livestock RMP, and in discussions with the Government of Canada regarding its participation in the RMP, about potential trade action by the United States livestock groups. Differences of opinion existed, but the Ontario

[9] Ibid

farm/commodity groups believed that the program was basically trade neutral and would not be subject to any trade measures by the American livestock industry. Although there was no formal trade action initiated as a result of the implementation of the RMP, the National Pork Producers Council in the US did identify the program as a concern for its impact on US production/profitability. During the Summer 2012 discussions on Canada's entry into the TPP, Australia, New Zealand and the United States pork producer groups all identified Canada's income support programming as an issue to be addressed-the press release particularly identified the Quebec and Ontario programs as of particular concern.[10] Again, no trade action has been taken to date, but the concerns over potential trade disputes and the RMP remain.

Risk Management Programming In Ontario-Outlook

Ontario farm/commodity group leaders and participating producers have obtained the requested risk management programming for 2007(grains and oilseeds) and 2011 (livestock and edible horticulture). The programs have paid out to participating producers but the future direction is no longer as clear.

The 2012 RMP will proceed as planned, but with premiums to be collected, so participation rates may vary as the net benefits from the program will change. However, most importantly, the 2013 program must change in some manner to fully meet the Government of Ontario's direction in the 2012 Ontario Budget to cap the program at $100 M per year. The Province again requested that the Government of Canada participate formally in this initiative at the desired 60% share of funding.

The Ministry of Agriculture, Food and Rural Affairs is now engaged with Ontario farm/commodity groups to discuss changes to the RMP-minor and major, and how this initiative once revised will play out in the broader risk management policy context with existing national risk management programming (and fiscal changes demanded by the Government of Canada), and in the even wider Growing Forward II policy framework

Unless the program design changes considerably to directly or even indirectly address policy linkages and impacts upon other agri-food policy priorities- environment, food safety, innovation, market development, investment-it will be extremely difficult to determine appropriate impacts or benefits resulting from the RMP beyond 2012 on these other priorities. Even if formal cross compliance were suggested, how to best measure, analyze, oversee, and make accountable the cross compliance will be a serious challenge to undertake.

The decision to pursue a cost-of-production formula for the RMP livestock/grains and oilseeds programs has been effective in triggering program payouts. The effectiveness and long term benefit of such payouts in this manner is still to be determined. As Ontario has not historically used cost-of-production formula for such risk management programming-unlike the experience in Quebec-this is a new policy direction. However, the program challenge in developing and ensuring that the cost-of-production calculation does not become itself the target price for the affected industry has not yet been tackled.

[10] "Australia, New Zealand, US Uneasy Over Canada's Inclusion in Trans-Pacific Partnership", National Pork Producers Council press release, July 10, 2012.

This becomes very critical when payouts are limited as is now the Province's budget direction. The impacts on innovation, competitiveness over time are not moot issues if the program design inadvertently discourages productivity improvements, efficiencies, and search for better markets for the affected commodities.

Unless there are significant program re- designs or overall program changes to the RMP, the trade issues remain an uncertainty. It should be noted that the decisions on trade actions are taken by the importing country-in this case the United States-in accordance with their laws and precedents. The decisions are not within the Canadian domain unless the programs are *deminimus* (and therefore likely of limited risk management value) or broadly generic, with again limited risk management impact.

Finally, without more detailed analysis of the impacts of the payments on individual producers and by commodity, and greater transparency in the program design and payments, it is very difficult to determine the overall net benefit/cost of the RMP or indeed, any of the national business risk management programs on the individual participants, the specific commodity industry, or on the entire agri-food sector.

Conclusion

The 2011 Ontario Risk Management Program did pay out considerable funds in 2011. The participation rates varied by commodity, and by income group. Payments varied as well by commodity and income group. It is still premature and not likely possible to determine any longer term impacts on overall Ontario farm sector viability, industry performances, and longer term impacts on competitiveness, productivity and innovation. The use of a cost-of-production formula in the RMP was proven to be effective in developing and implementing the program. However, with the 2012 Ontario Budget changes to the RMP, changes to this initiative and how it will evolve are now well under discussion between the Ministry and the respective farm/commodity groups.

The linkage between the existing RMP and current national Business Risk Management programming is also being altered as the negotiations to design and finalize the new Growing Forward II framework indicate that changes in the BRM programs will be part of any new framework. The reasons for introducing and implementing the existing RMP also need to be reviewed as the 2011 program results do not appear to address the original goals of the Ontario initiative, or all/most of the identified reasons for such risk management programming as noted in the first paper in this series.

An initial step for both participating producers and the Government of Ontario may be to seek some of the desired answers on impacts or effectiveness of such funding by asking these questions of the 2012 participants, and build that portion into any new RMP initiative or its successor. This would apply to the Growing Forward II framework for BRM programming as well. Such information would increase transparency on results, and verify the public policy need for such funding for these industries in the Ontario, and then Canadian, agri-food sector.

The next paper in this series will examine potential options for business risk management programming, with a focus on the Ontario challenges as the Ministry and participating farm/commodity groups examine how best to address the 2012 Budget requirements and an evolving Growing Forward II framework.

Appendix 1[11]

2011 RMP Participation

	Participants in RMP	Ontario Producers	Head Enrolled	% of Ontario Production
Cattle	3,059	19,000	950,908	55%
Hogs	747	1700	15,920,900	90%
Sheep	401	-	6,186,490	-
Grain-fed Veal	136	-	29,403	53%
Milk-fed Veal	6	-	12,100	100%
G&O	8,737	25,000	n/a	50-60%
SDRM	2,243	4,057	n/a	88%

Distribution of RMP Payments – Livestock

Payment Range	% of Participants	% of Payments
<$5,000	55.9%	6.2%
$5,000 - $25,000	29.0%	17.9%
$25,000 - $50,000	7.8%	14.9%
$50,000 - $100,000	4.1%	15.5%
$100,000 - $150,000	1.1%	6.8%
>$150,000	2.1%	38.7%

SDRM Participation & Payment Analysis

Income Range	Participation Rate
<$100,000	58.3%
>$100,000 &<$500,000	68.0%
>$500,000 &<$1,000,000	79.8%
>$1,000,000	83.6%

[11] Ontario Ministry of Agriculture, Food and Rural Affairs May '12 presentation on 2011 Risk Management Program