GEORGE MORRIS CENTRE

# Canada's and Ontario's Agri-food Risk Management Policy: A Historical Commentary to Prepare for the Future Directions

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## Introduction

At the most recent FPT Ministers of Agriculture session in Toronto regarding the ongoing Growing Forward II discussions, the Ministers reaffirmed the fiscal direction of the changes to occur in the FPT Business Risk Management (BRM) programming. Naturally, there are several layers within that "consensus" and differing views on the final preferred approach. In a number of ways, this resembles a number of FPT Ministerial conferences/annual meetings throughout the 80's/90's., and early 2000's when discussing risk management or income supports to Canada's agricultural sector. At times, it seems little has changed, yet much has dramatically altered within the industry, and within governments.

In this short analytical piece as well as several following, the George Morris Centre examines the historical developments with Canada's and Ontario's risk management/income support initiatives over the past 30 years, and implications for future directions for risk management policy at the Federal-Provincial (Growing Forward II) and provincial government levels. Several additional short analytical reports by the Centre will look at current (2011) performance of the Risk Management Program in Ontario and implications; an analysis of options facing the Canadian and Ontario agricultural industries; and a commentary on some preferred directions/challenges to governments and participating producers for the next several years

## Historical Review- 1981-2011

In reviewing the FPT income support/risk management programming over the past thirty years, it is clear that there is a long evolution of Canadian (now Fed-Prov-Terr) agricultural income support/risk management policy. Since the post-war period-following the Federal government's initial efforts with its Agriculture Stabilization Act (ASA) programming-to the much more proactive 1980s and beyond-both levels of governments have provided significant financial resources to various segments of national or provincial agricultural industries throughout this period.

Over the 30 year period starting in 1981, net payments to participating Canadian farmers totalled over $ 74 Billion[1]. (See Appendix 1) These payments included dairy support payments, provincial stabilization (such as ASRA), input cost supports, and familiar acronyms such as GRIP, WGSA, NISA, tripartite, AIDA, FIDP, CAIS, crop insurance and a series of more ad hoc initiatives over that period-but does not include payments for cessation of the WGTA as a key example. Payments to participating farmers varied from year to year, and the majority of the payments went to those farmers in the larger agricultural provinces- Saskatchewan, Alberta, Quebec and Ontario. It should be noted that even with the myriad of programs available to

[1] Statistics Canada, Direct Payments to Agriculture Producers, May 2012, cat. No 21-015-X

farmers -Canadian farmers have received relatively consistent public support from Canadian citizens.

Even in Ontario, there have been three decades-with three different provincial parties heading those governments-of solid income support/risk management programming. Contrary to the usual criticisms levelled at Ontario in comparison to income support/risk management programming in Quebec, over the same 30 year period, Ontario farmers received through a different mix of programs some $12B in payments, while Quebec producers received approximately $15.6B. There is a difference but not as extreme as some commentators have thought given the use of ASRA programming over those same decades.

This would argue that for Canadian, and Ontario, farm communities there has been a continued financial and public policy support for participating farmers to address the various demands for income support or risk management assistance over time. While the program details varied due to producer demands for improvements, or market and policy shifts-the overall public policy direction (F-P, Provincial) has remained relatively stable. Some of the past programming may not fit the current definitions of bankable programs, but it is clear that the citizens of Canada have provided significant contributions to this sector for a number of reasons, with benefits flowing to the farm community, its suppliers, the Canadian food community, and to those providing credit to these same farmers.

The public policy rationales for these interventions to reduce production, price, and income risks by commodity, region or nationally are almost as varied as the program responses. Among the reasons for such programming are:

- To provide income assistance for risks-price, weather, income fluctuations, disaster;
- Dissatisfaction with the earlier federal ASA payments(lagged and not that large) or the subsequent provincial top-ups to ASA payments to address price/income risks to participating farmers;
- Desire to move away from commodity specific programming to "whole farm" support and risk reduction-either by region, or by larger grouping of participating commodities(e.g. WGSA, GRIP/MRI (Ontario), NISA):
- Desire to have the federal government, in participation with producers and provinces as appropriate, treat similar producers in different regions the same (through national programs);
- Decrease the risk to producers seeking governments paying for "disaster" assistance for commodities/regions not covered by then existing programs;
- Increased fiscal capacity of the provinces to provide income support/risk management programming, and willingness to do so;

- Providing risk management/income support in a more "green" WTO manner in light of the 1995 WTO Agreement;
- To provide such programming as trade neutral as possible, particularly after US countervail action on Canadian hog exports to the United States in late 1980's;
- Desire to address and improve over time ability to provide more predictable risk management tools to address more clearly identified risks, but without private sector provision of such risk management tools as in other sectors(i.e. production insurance); and,
- A recognition (if not always agreement) that Canadian farmers would benefit from a wider program array similar to the US Farm Bill, without the full legislative mechanisms used in the US (APF, Growing Forward, Growing Forward 2 are examples of such an approach)

As can be noted, with such rationales, the issues of program complexity and resulting administrative costs are always in front of governments, and producers. The efforts by both levels of government to develop whole farm programs, "green" programs for trade policy purposes, and introduce some aspects of cross compliance have, in turn, all led to more administratively complex programs, as well as some even more unique IT challenges.
A review of the 30 years of such payments also clearly indicates both the variety and changing income support/risk management programming over time. Very few programs remain in operation without changes, evolving with technology or marketplace shifts. Many public/industry initiatives change with shifts in fiscal impacts, effectiveness in addressing identified risks, demands for improved coverage or speed in program response, or the entry of other farmers, other commodity producers to the list of participants in these programs. The longer term success of crop insurance as a viable risk management program for participants is due in part to its capacity to adapt to shifts in markets, crop varieties, technological changes and producer management capacity. The program changes may not have always been smooth-but the continued evolution of crop insurance has generally matched shifts in crop production and geographic spread for those crops with sufficient scale to be covered.

## Commentary on Historical Impacts

All of these efforts over time do raise the question-what has been the net result for Canadian or in turn, Ontario, agriculture? Aside from transferring resources from one part of the Canadian economy or regions to another, what have been the real impacts of such assistance? It should be noted immediately, that the questions on how such funds that producers received were to be used, or how these actually benefited the farm operations over time to reduce risks/improve viability were rarely asked of the recipients-so it is very difficult to know precisely what the benefits have been –to individuals, commodity groups, regions or to the overall agri-food sector over time, or over any program.

Based upon the latest Census of Agriculture (2011), this assistance may have slowed, or spurred the decline in overall number of census farms-from 318,361 to 205,730 by 2011. . There has been a sustained consolidation in agriculture over this period, with varying impacts by revenue class. For example, there has been sustained growth in larger farms (over $500,000 in farm sales) to over 21,500 during that same period. It is difficult to determine the impacts on farm structure, farm income classes over time from the various income support/risk management programs since the questions were not asked, and indeed, even the stated goals of the programs were not always clear, or consistent. It is accurate that the decades long consolidation in Canadian, and Ontario, agriculture did not cease, and the increase in larger financial farm operations continued over that time period- other market, technology, management forces had greater impacts.

Over this time period, a number of programs provided financial assistance to improve incomes/address farm income risks through measures that addressed price, production, income levels, with increasing payments to participating farmers unless capped. Given these parameters, there would necessarily be program impacts favouring larger farms. However, with producer premiums as part of many risk management, or BRM programs, and caps on some of the programs, it is unclear if the provision of such assistance was the major contributing factor in the growth of large farms. Again, it is more likely that the broader market and technology developments over those decades were far more important- as was the increased management capacity of those larger operations to effectively handle increased market and production risks.

It is difficult to determine if these initiatives over the past decades constrained or heightened the competitiveness, productivity or innovation of these participating farmers or their farm operations. Canada's export performance over these three decades has shown growth as has Canadian farm incomes. But, these are not consistent across all commodities, or even within the value added industries within the sector. Finally, clear linkages to innovation-which are driven by desire to take on risks in markets, technology, and processes-are difficult to prove or disprove given the lack of analysis of the individual and subsector use of the payments.

However, the lack of such funding did not limit competitiveness and innovation for those farmers, or commodity groups, unable to always obtain such payments. The success of the Ontario greenhouse growers- vegetable and flower producers- given the limited availability and applicability of various risk management programs to their unique farm operations-was not constrained by the lack of such programs. Other examples of successful farm operations/commodity groups where limited public payments to address risk management needs/income supports did not limit that group's competitive/innovation success can be found across Canada.

Indeed, given the sustained economic and productivity performance of Canadian and Ontario agriculture over the past three decades the provision, or lack of, income support/risk management payments cannot be viewed as the sole factor affecting competitiveness or innovation in this industry. However, if such payments become capitalized into the asset base of inputs for the farm sector, such payments can become more constraining, or alter producer decisions on competitiveness/innovation initiatives.

**Commentary on the Outlook for Growing Forward II and RMP in Ontario.**

As the next round of Growing Forward programming-BRM and non-BRM programs-proceeds toward implementation across the nation-, there is an opportunity to improve the public policy by asking some of these questions on impacts/use of funds by the participating producers. .This would improve transparency, and public understanding of (or lack of) such funding to truly reduce risks, sustain farm incomes, and benefit competitiveness, productivity and innovation. For Ontario, many of these same questions can be raised in the current discussions looking at the RMP initiatives in place for 2011, and 2012.

It is clear that the fiscal outlook facing a number of the participating governments-notably the Government of Canada- has declined since the previous decade. Moreover, with very changed global markets for many primary agriculture products, and increased global competition for those markets the sustained improved competitiveness and innovation across producers and regions are becoming greater necessities. For a number of governments, the challenge will be to accomplish risk management programming at some level and these other priority policies with fewer or same funding allocations.

The St Andrews Statement in 2011 by FPT Ministers of Agriculture offered a reasonable description of the desired many goals for Growing Forward II. Unfortunately, the Statement did not deal with the reality of competing objectives, trade-offs between these objectives, the differing commodity/farm group interests or the regions, and the global competition facing Canadian agri-food sector. As Growing Forward II proceeds towards final negotiations among the governments/industry, the recognition of past efforts- the successes or lack of success- becomes more important to best determine an improved set of future income support/risk management programs. Interestingly, the current Growing Forward II discussions with the most recent fiscal limits imposed more clearly bring out the trade-offs between BRM and non-BRM initiatives.

For Ontario, its more recent initiative-Risk Management Program-offers its own unique challenges given the 2012 Budget decision by the Government of Ontario to cap program expenditures in 2013 forward. In addition, as the Ontario industry and Minister address the cap issue, the link with a changing national Agri-Stability program under an evolving Growing

Forward II framework is also an issue. The results of the 2011 program may provide insights into program effectiveness in meeting program goals, and the impacts, if any, on competitiveness and innovation. These will be critical points in any realignment of this initiative, or broader redesign in order to better meet these other public policy goals for such programming.

**Conclusion**

For over 30 years, the Governments of Canada and the Provinces (together or individually) have provided substantial payments to participating farmers across Canada, across commodities to improve farm incomes or reduce identified farm income/price/production risks. For a number of these initiatives, producers were full/partial participants in program design or implementation. It is clear that governments have adapted and evolved these programs to better address market, technology, or production risks over time, and to address a number of different policy goals-competitiveness, innovation, productivity, trade neutrality, national treatment, among others,- with varying degrees of success. The scale of these farm payments over time-net of producer premiums-reflects the continued commitment of Canadians to redress real and perceived inequities in farm marketplace in handling of risk, and to reduce income variability to various extents.

In Canada, and in Ontario, net benefits to the agricultural sector are not always clear and easily identifiable. Expenditures have been made, but overall results and impacts on longer term farm or agricultural sector viability are not as precise. To meet future public policy challenges, more information/analysis is needed to properly assess the net impacts on the sector participants and, on the regions of Canada. In addition, a wider government-producer discussion is needed to better grasp the desired goals/results of the next round of risk management programming at the national or provincial levels.

It is also clear that the programming provided has changed considerably over time, and reflects in turn a variety of reasons for such changes or evolution of the programming. For future program developments, the need to retain flexibility to adapt to changed market or fiscal developments remains a critical component of a successful longer term risk management initiative.

The next step will be to examine performance of this programming in 2011, including an analysis of the impacts of the 2011 RMP initiative in Ontario. The next report in this series will address this issue.

Government Support of Agriculture (1981-2012)

| Net Payments and Rebates, Government Programs ($'000) | | | | | |
|---|---|---|---|---|---|
| | Atlantic Canada | Quebec | Ontario | Western Canada | Total |
| 1981 | 34,565 | 289,782 | 247,625 | 287,389 | 859,361 |
| 1982 | 19,019 | 310,127 | 200,498 | 371,298 | 900,942 |
| 1983 | 24,904 | 295,488 | 237,970 | 262,397 | 820,759 |
| 1984 | 30,637 | 361,596 | 273,021 | 761,730 | 1,426,984 |
| 1985 | 34,081 | 365,369 | 217,811 | 1,263,673 | 1,880,934 |
| 1986 | 27,747 | 370,563 | 271,068 | 1,815,982 | 2,485,360 |
| 1987 | 30,736 | 300,010 | 525,818 | 2,577,224 | 3,433,788 |
| 1988 | 51,884 | 454,673 | 584,429 | 2,278,022 | 3,369,008 |
| 1989 | 48,150 | 514,787 | 563,554 | 1,861,688 | 2,988,179 |
| 1990 | 36,657 | 436,951 | 323,021 | 856,542 | 1,653,171 |
| 1991 | 42,541 | 562,939 | 405,725 | 889,616 | 1,900,821 |
| 1992 | 72,171 | 565,908 | 648,511 | 1,872,363 | 3,158,953 |
| 1993 | 33,446 | 456,338 | 429,508 | 1,352,069 | 2,271,361 |
| 1994 | 25,720 | 509,475 | 171,372 | 684,910 | 1,391,477 |
| 1995 | 41,367 | 460,771 | 191,696 | 260,210 | 954,044 |
| 1996 | 44,546 | 365,348 | 225,552 | 226,380 | 861,826 |
| 1997 | 30,412 | 215,888 | 216,655 | 439,353 | 902,308 |
| 1998 | 32,336 | 533,840 | 168,880 | 398,144 | 1,133,200 |
| 1999 | 39,551 | 556,681 | 305,455 | 764,801 | 1,666,487 |
| 2000 | 33,685 | 440,992 | 396,837 | 1,564,659 | 2,436,173 |
| 2001 | 82,218 | 554,179 | 744,371 | 2,047,548 | 3,428,316 |
| 2002 | 43,183 | 464,455 | 590,077 | 2,012,265 | 3,109,980 |
| 2003 | 50,053 | 752,001 | 529,830 | 2,929,099 | 4,260,983 |
| 2004 | 100,171 | 726,695 | 626,000 | 2,870,541 | 4,323,407 |
| 2005 | 110,534 | 722,410 | 762,279 | 2,910,346 | 4,505,569 |
| 2006 | 64,987 | 799,153 | 625,157 | 2,569,190 | 4,058,486 |
| 2007 | 65,600 | 867,343 | 549,087 | 1,826,951 | 3,308,980 |
| 2008 | 73,135 | 914,901 | 597,032 | 1,585,372 | 3,170,430 |
| 2009 | 74,127 | 768,631 | 320,483 | 1,229,850 | 2,393,071 |
| 2010 | 60,601 | 529,534 | 212,209 | 1,539,105 | 2,341,449 |
| 2011 | 62,920 | 424,979 | 230,748 | 1,761,286 | 2,479,933 |

Source: Statistics Canada, Catalogue No. 21-015-X, Vol. 10, No.2. May 2012.