



**Beef Farmers of Ontario's Submission to the House of Commons
Standing Committee on Agriculture and Agri-Food on Business Risk
Management Programs**

June 17, 2020



Introduction

Beef Farmers of Ontario appreciates the opportunity to provide recommendations as part of the House of Commons Standing Committee on Agriculture and Agri-Food's review of business risk management (BRM) programs.

The beef sector is an important economic driver in Ontario, contributing \$2.69 billion to Ontario's GDP on an annual basis. Gross sales from the sector exceed \$13 billion annually and sustain more than 61,000 jobs. A strong demand for Ontario beef products domestically and internationally puts us in an excellent position to take advantage of new growth opportunities.

However, more frequent and volatile shifts in global commodity markets, added to increased competition from cheaper imported products, has created new levels of risk and uncertainty in the Ontario beef sector. This level of risk and uncertainty continues to challenge our ability to sustain production and limits our ability take advantage of existing strong global demand for our products.

The beef sector in Canada has the potential to be a key driver of our country's economic recovery from the COVID-19 pandemic, but a robust suite of BRM programming is vital to ensuring the long-term sustainability and competitiveness of the sector. There must be sufficiently funded national agriculture BRM programs that do not create an uneven playing field between agriculture sectors and regions.

Assessment of Current BRM Programming for Ontario Beef Farmers

Revenue uncertainty has a negative impact on farmers' willingness to invest in farmland, buildings, equipment and new technologies/processes, but beef farmers have few private market-based options to mitigate risk. In order for beef farmers to weather market swings, important margin and revenue support programs have been created that operate like insurance, with farmers paying premiums in partnership with the provincial and federal governments. However, these programs vary considerably by region, commodity sector and in the level of support provided, which has created significant inequality among farm sectors.

For beef and other livestock farmers in the non-supply managed commodities, market volatility risks are even greater. Unlike farmers in grains and horticulture who have access to crop insurance (AgriInsurance), and unlike supply managed farmers who maintain price and production supports, livestock farmers in the non-supply managed sectors have limited control over both their costs and the prices of their products. For the most part, the prices of both the goods they sell and the inputs they have to buy are set daily on the Chicago futures market. These costs fluctuate wildly depending on international market conditions.

Beef must compete with supply managed commodities, and this is especially problematic in Ontario where high land values and a competitive market can put beef producers at a severe disadvantage. While margin-based programming has declined (removal of Tier 1 in 2008 and Tier 2 in 2013) crop insurance has remained relatively unchanged (up to 90% yield and quality coverage), supply management has remained relatively unchanged, and non-BRM funding has increased. Not only is total farm support declining for non-supply managed livestock farmers, the share of programs directly supporting livestock is also declining.

Current gaps and weaknesses in BRM programming for Ontario beef farmers include no production insurance for livestock, ineffective forage and pasture insurance under the current rainfall-based program,



significant cuts to AgriStability, and the provincial funding cap placed on the Ontario Risk Management Program (RMP) that severely limits program's effectiveness.

The costs of participation in BRM programs are high for beef producers, and the benefits of participation are not perceived to exceed these high participation costs. Beef cattle farms have accrued lower BRM payments than other commodities from 2003 to 2018:

- \$116,000/beef farm vs \$180,000 for all farms and \$800,000 for hog farms.
- Dairy farms received \$102,000, which is s in addition to structural support and advantages from supply management.

Beef farmers in Ontario depend on BRM insurance programs to ensure their production risks can be somewhat mitigated. The best option to address these risks is to maintain access and increase support for well-designed business risk management insurance programs. There are gaps in our current programming, but overall, the current suite of programs plays a critical role in maintaining the health of our sector.

For non-supply managed commodities, enrollment in BRM programs like AgriStability is usually a requirement for renewing an operating line loan with a chartered bank. Knowing that the program is there in cases of need, even if it is not being drawn upon in current years, allows beef farmers to take a longer view of their farm business and make investments that will increase their competitiveness in future years. When there have not been adequate safety-net programs in place, disruptions in the farm economy have been dealt with through ad hoc payments. These decisions are made at the worst possible times for both government and farmers, and the results for both are often sub-optimal.

There are also the joint effects of risk and debt. Debt level is important because interest payments on outstanding debt are a direct cash expense. A 20 per cent reduction in price for livestock reduces gross profits substantially. Even with sizeable off-farm income and careful saving, farms operate in a very challenging financial environment and can maintain only a small number of consecutive losses before facing bankruptcy. In Ontario where land prices are among the highest in the country, this impact is even more severe as a result of higher annual interest payments. These factors signal the need for farm income stabilization programs, given the vulnerability of farmers to be severely affected by price volatility.

BRM Review Priorities for Ontario's Beef Farmers

First, it is essential to establish a common understanding or profile of the risks and opportunities facing Canadian agriculture, the existing tools available to farmers in Canada and around the world, the efficacy of those tools, and potential new tools to consider in assisting farmers adapt to increasing risks. Once that common understanding is reached, industry and government must work together to build a support framework — including agreement on the critical program objectives, design and delivery considerations — that provides for a timely, flexible and predictable backstop to risk.

Our shared objective is to truly modernize our national BRM programs and create the optimal suite of programs to realize our strategic intent to become a global agricultural powerhouse. To achieve this, BRM programs must be designed to be timely, responsive, affordable and equitable.

BFO's specific priorities for the BRM review include:

1. Improve flexibility to allow provinces to design BRM programs that meet diverse regional needs with federal funding.



2. Improve the fairness and effectiveness of BRM programs to ensure all farm sectors have access to similar levels of support. The current imbalance in programming disproportionately affects non-supply managed livestock farmers.
3. Re-invest in BRM programming to pre-Growing Forward 2 levels or better.
4. Design programs that are timely, responsive, affordable, and equitable across sectors.
5. Address gaps in risks and programming, such as developing a yield-based hay and forage program that operates the same as production insurance for other major crops, as well as a livestock production insurance program.

Recommendations

Inequitable BRM support creates a competitive disadvantage for beef farmers in accessing necessary resources such as land, equipment, labour, financing and new entrants required for industry growth. BFO is keen to work with governments to expeditiously address these equity challenges by implementing the following program-specific recommendations.

AgriStability:

To improve program equity and effectiveness, BFO recommends the following:

- Remove the reference margin limit (RML).
 - Operations that have the RML applied will inevitably need to have their program year margin drop further before triggering benefits. This decreases the value of the program to many producers, especially those with low costs such as cow-calf producers who typically produce their own feed and have low labour costs.
 - The removal of the RML will make the program simpler, more predictable, bankable and ultimately more equitable for Canada's cow-calf producers.
- Remove the \$3 million operational cap.
- Increase the payment trigger to 85 per cent of the reference margin for the 2019-20 program year and for the remainder of the Canadian Agricultural Partnership.
- Include pasture rental as an eligible forage expense in all provinces.
 - Purchasing cattle feed in the form of hay is recognized as an eligible expense under the program, but renting alternative pasture or standing forage is not recognized as an eligible feed expense in all jurisdictions.
- Put systems in place to process claims more quickly, including requests for interim payments.
- Allow producers not currently enrolled in the program to enroll without penalty.

Ontario Risk Management Program:

Contribute the federal government share of 60 per cent to add to the province's existing 40 per cent contribution.

AgriInvest:

BFO recommends the following enhancements to AgriInvest that could build on the "kickstart" precedent from 2006 when \$600 million was provided to farmers based on approximately 2.7 per cent of annual net sales (ANS):

- Provide an immediate injection of 5 per cent of last year's ANS into AgriInvest accounts.
- Waive the requirement for a matching producer contribution.



- Make withdrawals tax-exempt.
- Allow producers not currently enrolled in the program to enroll without penalty.

Forage/Pasture Insurance:

Government cost-shared agriculture insurance programs offer coverage for forage crops, including pasture and hay, across Canada. However, producer participation in these programs is low relative to annual crops. Forage insurance product offerings are often distinct from annual crops in that coverage and subsequent claim settlement are area-based and not based on the production of an individual farm. Hay and forage producers deserve access to yield-based programs designed to insure individual production, similar to what is currently offered to grains and oilseed producers under the various crop insurance programs administered through AgriInsurance.

The lack of individual farm insurance coverage for forages may act as a deterrent to participation and represents a source of inequity between perennial and annual crop BRM solutions. Pasture and forage insurance programs should also be equipped with a mechanism that helps producers account for increased feed prices during times of shortages. These program design improvements could alleviate calls for AgriRecovery during times of drought or flooding.

Livestock Tax Deferral:

Extreme weather challenges such as drought, flooding or fires can affect a producers' ability to maintain and sustain their herd. These events often force producers to sell animals such as calves and breeding stock earlier than anticipated, resulting in more than one sale in a fiscal year. Producers need timely tools necessary to ensure the resilience of their operation.

While the livestock tax deferral is a tool available to producers, uptake is low and significant herd reduction must take place before any valuable benefit can be accrued. Moreover, delays or regions deemed ineligible by Finance Canada in determining when income deferral can be applied to drought situations has made that mechanism not always useful for management decisions. BFO believes amendments to the deferral are needed to make the tool more functional, including the option to self-select when the tool can be utilized and ensuring all classes of cattle (rather than breeding stock only) are eligible under the deferral provision.

Conclusion

BFO's recommended enhancements to Canada's BRM programming would help Ontario's beef producers manage impacts of COVID-19 by improving coverage of price and production risk and providing more equitable treatment of farms and sectors under the program. Furthermore, implementing these changes would also increase participation in programs like AgriStability by beef producers, an objective shared by industry and government.

We appreciate the opportunity to provide input on this important study. With the significant volatility in world markets, access to well designed and sufficiently funded business risk management tools has never been more critical for cattle producers. With these tools in place, the Ontario beef sector is well positioned to keep growing the economy while supporting strong rural communities and environmental stewardship outcomes from the agricultural landscape. We would be pleased to provide any additional information that the Committee may seek on our recommendations.



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Beef Farmers of Ontario represents 19,000 beef producers in Ontario by advocating in the areas of sustainability, animal health and care, environment, food safety, and domestic and export market development. BFO's vision is help foster a sustainable and profitable beef industry, and have Ontario beef recognized as an outstanding product by our consumers.

