

# **Business Risk Management: The New Approach Proposed by the Agricultural Policy Framework**

## **A CFFO Policy Statement**

### **Business Risk Management Defined as Stabilizing Farm Revenue** (Counter cyclical payments and disaster relief)

#### **1. On the General Concept of the Proposed CAISP**

**Whereas** CFFO supports stabilization and disaster relief programs;

**Whereas** the proposed CAISP provides both stabilization and disaster relief with governments carrying a larger role for disaster related payments;

**Whereas** the proposed CAISP will trigger more often and for more people;

**Whereas** the proposed CAISP is much better focused on need;

**Whereas** the proposed CAISP allows farmers to determine the amount of risk for which they can seek protection from the program; and

**Whereas** many of the details add up to a clear improvement from present programs;

**Therefore be it resolved**

**That** CFFO, in principle, support the proposed CAISP, encourage its implementation as soon as possible and continue to study the details for areas where the program needs tweaking.

#### **2. On Major Disasters**

**Whereas** there are some disasters so large that it is impossible for individual farm businesses to set aside enough resources to plan for such a disaster;

**Whereas** setting aside resources for such disasters is overly cautious;

**Whereas** resources set aside for major disasters will not be making an effective contribution to agriculture;

**Therefore be it resolved**

**That** in the case of a major disaster, governments maintain a commitment to supporting agriculture's needs with financial resources aside from CAISP.

#### **3. On Government Funds Available only when Triggered**

**Whereas** NISA triggered government support whenever farmers put money into their accounts;

**Whereas** this has resulted in a large amount of money sitting in NISA accounts not contributing to the further development of agriculture;

**Whereas** the proposed CAISP makes government funds available only when triggered and only for the amount of need established;

**Whereas** this is a more appropriate use of government funds;

**Therefore be it resolved**

**That** CFFO endorse the proposed CAISP program design of government funds being accessed only when need is established.

#### **4. On Declining International Markets**

**Whereas** there is every indication that international prices, especially for grains, will continue to decline in the face of low cost production in Brazil and massive production subsidies in the EU and the US;

**Whereas** these developments will erode the average reference production margin<sup>1</sup> of all producers;

**Therefore we conclude**

**That** the long-term level of support provided by the proposed CAISP will decline over time as a result of developments way beyond farmers' control; and

**That** this decline in support will have consequences for the asset values of many farmers;

**Therefore be it resolved**

**That** governments track the long-term squeeze that will take place on production margins in all non-supply managed commodities and

**That** a mechanism be developed that will index reference production margins to compensate for the decline.

#### **5. On Cap on Payouts**

**Whereas** it is fundamentally unfair to give some entrepreneurs a far larger access to public support than many others;

**Whereas** government policy for agriculture needs to remain focused on the moderate-size family farm; and

**Whereas** CFFO has a long history of supporting caps on the payouts from government programs;

**Therefore be it resolved**

**That** CFFO supports the establishment of a firm limit or maximum on government payouts from the proposed CAISP program for any one farmer in any year; and

**That** CFFO propose to set the cap at \$200,000 of the reference production margin.

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<sup>1</sup> The production margin is calculated by subtracting only those expense items directly related to the primary production of agricultural commodities on the farm (for example, feed, seed, fertilizer, fuel and pesticides). The production margin more accurately reflects the primary production activities on a farm by focusing specifically on the highly variable and unpredictable costs associated with the year's production. With the subtraction of fewer expenses, the production margin creates a higher margin and will provide more protection when income drops. AAFC production margin fact sheet can be found at: [www.agr.gc.ca/cb/apf/index\\_e.php?section=brm\\_gr&group=docu&page=brm\\_gr\\_fsfr](http://www.agr.gc.ca/cb/apf/index_e.php?section=brm_gr&group=docu&page=brm_gr_fsfr).

## 6. On Starting Up Proposed CAISP Accounts

**Whereas** many farmers when they first start a proposed CAISP savings account or when they have triggered a major payout will be hard pressed to make their maximum contributions;

**Therefore be it resolved**

**That** beginning farmers and all those who have significantly depleted their CAISP savings account as a result of triggering a payment, be given three years of three equal installments to contribute the full amount to their CAISP savings account.

**That** the transition years include opportunities to roll Old NISA moneys into the proposed CAISP with taxes deferred.

## 7. On the Future of Existing NISA Accounts

Whereas the existing NISA accounts are the property of farm families as established by the original program agreements.

**Therefore be it resolved**

**That** governments establish no timelines or forced withdrawals from these accounts and

**That** withdrawals and windup of the existing NISA accounts be totally at a farmer's discretion.

## 8. On the Funds Required to Maintain Proposed CAISP Accounts

**Whereas** the proposed CAISP accounts will result in a lot of farmer money tied up in savings accounts making a very modest contribution to the development of agriculture;

**Whereas** requiring farmers to make a deposit of some size is appropriate to emphasize the importance of risk management;

**Therefore be it resolved**

**That** financial tools such as a letter of credit from a financial institution be developed that guarantee a farmer's deposit in a CAISP account without tying up the actual money.

## 9. On Shared Costs

**Whereas** CFFO supports the need for farmers to take some ongoing responsibility to fund stabilization programs and establish their entitlement to public support;

**Whereas** 100% production margin coverage needs a farmer contribution to avoid trade challenges<sup>2</sup>.

**Whereas** the Old NISA had a very effective incentive that encouraged farmer participation even when they did not expect a payout any time soon; and

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<sup>2</sup> The program limits the government contribution to any decline in production margin to 70% to meet international trade commitments.

**Whereas** the proposed CAISP requires farmers to share in the program's costs by maintaining a savings account with enough money in it to match 50% for Tier 1 stabilization (85% to 100%), 30% for Tier 2 stabilization (70% to 85%) and 20% for Tier 3 disaster relief (0% to 70%).

**Therefore be it resolved**

**That** CFFO continue to endorse the principle of producer contributions to the proposed CAISP.

#### **10. On Government Commitment to Matching Funds**

**Whereas** farmers are expected to put into a savings account enough funds to support their chosen level of risk;

**Whereas** farmers are expected to keep these moneys in a savings account for the long-term to support their chosen level of risk; and

**Whereas** the federal government continues to suggest that there is a limit in any one year on the amount of money that it will make available to match farmer money when a need is established and a payout triggered;

**Therefore be it resolved**

**That** CFFO demand that governments make a firm commitment to match all needs that are established and all payouts that are triggered no matter how large the total may become in a significant disaster year;

**That** CFFO not support any waffling on the part of governments that on the one hand requires farmers to make a firm commitment to participate in the proposed CAISP and deposit their money into a savings account while on the other hand governments themselves only make promises that moneys will be budgeted; and

**That** the commitment of governments to provide matching funds must be as firm as the commitment that farmers are required to make.

#### **11. On Modified Accrual Accounting**

**Whereas** accrual accounting creates a fairer year-to-year comparison of production margins of a farm;

**Therefore be it resolved**

**That** CFFO endorse the move to a modified accrual accounting<sup>3</sup> for the proposed CAISP.

Adopted September 24, 2003  
Provincial Board  
Christian Farmers Federation of Ontario

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<sup>3</sup> This is a modified accrual adjustment for receivables, payables and changes in inventory for the claim year similar to that used in the Canadian Farm Income Program (disaster relief).