MANAGING RISKS

CFA FCA

BACKGROUND

Agriculture is a high risk business that faces volatile prices, unpredictable weather, and a global market influenced by government supports to competing producers in other countries. Canada's producers require a stable economic foundation from which they can continue to build on the strength of the Canadian brand – at home and abroad. For risks that cannot be addressed through on-farm management practices, Canadian producers require access to effective risk management programs to limit fluctuations in income. Without stability, investments in growth and innovation can't be made. The need to invest in innovative technologies, adapt to evolving market demands, and maintain long-term economic growth is essential to maintaining and advancing the Canadian food supply and facilitate thriving agricultural communities across Canada.

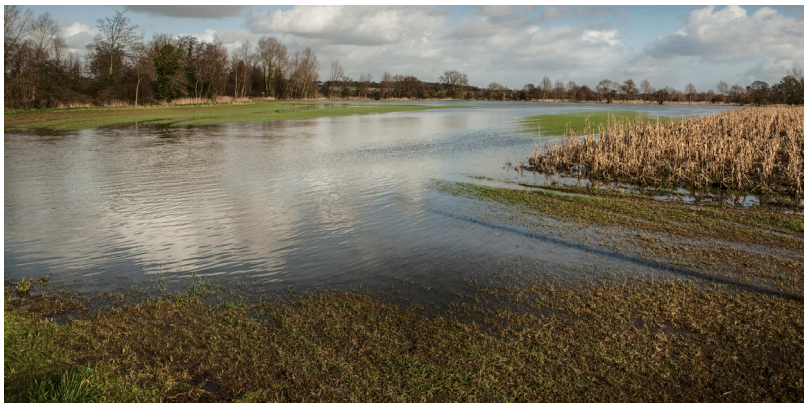
Farmers manage opportunity and risk every day with a variety of on-farm and off-farm tools including crop rotation, tile drainage, timely application of crop protection products, and forward contracting to name just a few. These risks continue to evolve, with competition for access to emerging market opportunities around the world exposing producers to additional risks and imposing new costs on producers. As a result, on-farm risk management can only represent one part of the solution. The other is ongoing investment in predictable, bankable and timely Business Risk Management programs that target the effects of short-term volatility in weather and markets, while providing the necessary tools to make long-term investments in risk mitigation and global competitiveness.

The development of a credible Business Risk Management suite of programs represents a strategic investment into Canadian agriculture. A proper suite of programs, alongside the daily risk management measures producers implement on their farms will position Canada's agriculture sector to effectively maintain income stability, promote flexibility, and provide the liquidity needed to ensure farm businesses are adaptable to both global and domestic market opportunities as they arise.

THE DETAILS: WHAT IS NEEDED FOR PROPER RISK MANAGEMENT ON CANADIAN FARMS?

The transition from *Growing Forward* to *Growing Forward 2* in 2013 saw a significant cuts in the support made available through Canada`s BRM programs, resulting in a suite of programs that does not meet the needs of Canadian farmers and left the Canadian agricultural sector in a disadvantageous position, internationally. This is evidenced through ongoing declines in the participation rate for the AgriStability program, which has now declined below 40% of Canadian farms.

Cuts to AgriStability – a program that manages producer's risk by providing payments based on their historic operating margin – have taken a program that was central to the entire BRM suite and relegated it to a disaster program with little credibility amongst producers across Canada. Cuts to that program mean that farmers have to see a loss greater than 30% of their operating margin – double what it was previous to the cut, before receiving any support. For many Canadian farmers, tough decisions around the future of their operation would be required



ENTERING FARMING: WHAT ARE THE RISKS?

Beginning farmers and start-up operations face risks and challenges that are unique from those facing more established farming operations. Central to these challenges is the significant debt loads taken on in acquiring farmland, equipment, and other assets, which can weigh heavily on their operations' access to working capital. For those new farmers struggling to maintain sufficient working capital, the costs to participate in BRM programs for operations without sufficient historical reference margins or production costs can be prohibitive.

CFA believes that improving access to financial capital for beginning farmers and new operations must be a core component to any long-term strategy **to ensure the viability of future farm generations**. While only part of the solution, ensuring new operations can reduce volatility through robust, effective risk management tools is an essential foundation for producers looking to secure access to additional capital.

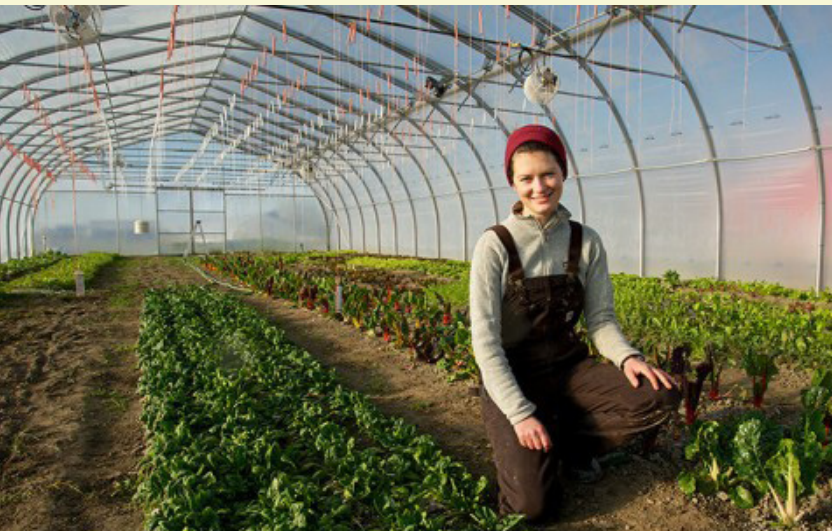
Recognizing that good management is a prerequisite for success, CFA believes an effective Business Risk Management suite must encourage participation to ensure new producers can take advantage of programs that can help manage risks – especially necessary for a new business. By ensuring short-term income declines beyond their control do not jeopardize the long-term viability of new operations, these programs help set the stage for continued success in Canadian agriculture.

CFA recommends the following program design features be implemented to mitigate participation barriers faced by beginning farmers.

1. ***Establish premium credits*** for beginning farmers to assist with the costs of participation in AgriInsurance during the first 5 years of any new farming operation.

2. ***Waive the AgriStability fee*** for first 5 years of enrolment in the program in order to encourage beginning farmers' participation in the program.

3. To encourage participation and support beginning farmers, ***provide a government-only unmatched (kickstart) deposit*** of 3.25% of Allowable Net Sales spread over the first 5 years for a new Agri-Invest account for new participants only



THE DETAILS... CONTINUED

following a couple of years with losses that no longer receive any such support. The reduction in payment trigger from 85% of one`s historical reference margin to 70% has reduced the frequency of payments and left many to question whether the payments made would be sufficient to maintain farm viability.

CFA agrees that BRM programs should not provide payments to producers in profitable situations, however the recently imposed payment limitation goes well beyond that and limits payments when they are truly warranted. Not only does it limit farmers from receiving much needed support, it makes an already complex program impossible to bank upon or predict. Predictability is essential for farmers' planning and overall risk management strategies, of which BRM programs are just one component. If producers can`t trust the program to support them through the rare disaster situations that do result in payments, there is little hope for getting them to participate in such a program. There is also less chance they will want to invest in growth if proper assurances aren't in place. This is damaging to the producer, but also the industry as a whole and the economy.

If Canadian agriculture is to continue to invest in growth, productivity and rural economies across Canada, it needs a credible suite of risk management tools that provides producers with the confidence that they can weather the next major shock.

Unfortunately, the changes seen under Growing Forward 2 illustrate a knee-jerk response to high commodity prices during one specific period, which has undermined risk management programming and exposed Canadian agriculture to unnecessary risks. Short-sighted program design can have disastrous effects on an industry – which is why it is important to take the time to consider the nature of the industry and the recommendations and feedback of those on the ground, those using the programs. Agriculture, susceptible to regular market and weather fluctuations, is an industry that requires short and long-term responses. In order to reposition the current BRM suite as a credible source of risk management support, the CFA recommends the following:

1. Eliminate AgriStability's Reference Margin Limitation provisions and explore alternative approaches that limit payments for producers in profitable situations while ensuring coverage of allowable expenses for those facing negative margins.

2. Restore AgriStability's payment trigger to when program year margins fall below 85% of a farmers' historical reference margins.

3. Programs delivered through AgriRecovery must be clearly defined as disaster-related and be decoupled from other Business Risk Management programs so that disaster payments are not clawed back under another program.

INVESTING IN CANADIAN AGRICULTURE: A FOUNDATION FOR LONG-TERM GROWTH

Another program important to Canadian agriculture's long-term growth is AgriInvest - a savings account with matching government contributions. Trends in retail food markets continue to evolve at a rapid pace, imposing new requirements and costs on producers looking to expand. However, this potential remains untapped due to limited program funding and a narrow perspective on the program that focuses almost exclusively on managing small financial risks. In order to capitalize on emerging opportunities, investment through flexible tools like AgriInvest are essential to assist with the investments associated with diverse demand-driven trends, shifting concerns regarding public trust, and the increased prominence of private standards that often require considerable investments at the primary production level without any associated premium in the marketplace.

As an industry, Canadian agriculture is at the heart of an agriculture and agri-food sector that contributes 6.7% of Canada's GDP ($106.9 billion as of 2013), one in eight Canadian jobs, and well over $50 billion in wages and salaries. These contributions are not limited to rural areas or traditional agricultural supply chains, but are spread across a wide array of industries including a host of manufacturing and service industry segments. As an industry, primary production alone includes over 200,000 businesses, and as global markets continue to integrate, even the smallest operations have boundless growth potential via global markets. ***Competitiveness in modern agriculture requires a shift in perspective that appreciates each of these 200,000 businesses as potential global enterprises with significant opportunity to increase sales and create new jobs.***

Unlike many other Canadian industries, investments in Canadian agriculture are guaranteed to remain in Canada and encourage growth within an industry that has seen sales remain resilient within periods of faltering global economic conditions. The need for increased investment in Canadian agriculture isn't about maintaining the status quo, it is about capitalizing on untapped potential in the vast geographic diversity and wealth of natural resources available to Canadian agriculture - positioning agriculture and agri-food as the most competitive and trusted source of food in markets around the world. Major reforms in other food-exporting countries are increasing global competition. Canadian agriculture is facing a unique opportunity through the next Agriculture Policy Framework to strategically invest in Canadian farms.

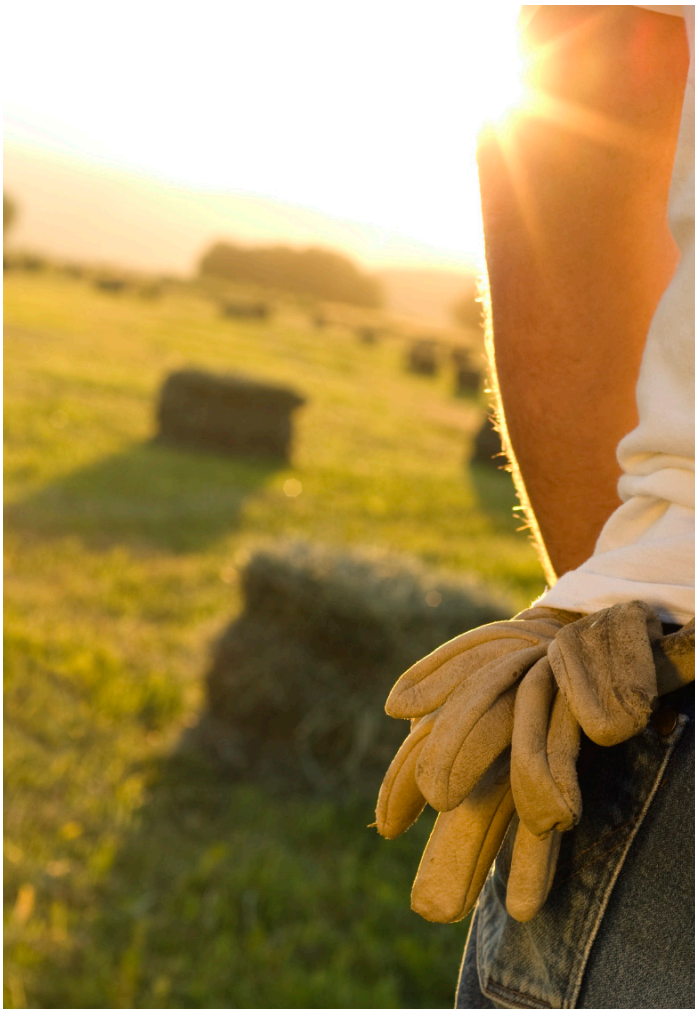
This investment will help producers optimize resources, improve productivity, and address rapidly evolving supply driven demands in markets around the world. By giving Canadian producers a tool with the flexibility that allows them to develop additional risk management capacity while enabling them to invest in the competitiveness of their operations, where needed, we are positioning Canadian agriculture to increase its presence on food shelves domestically and around the world. As a key driver of the Canadian economy with deep roots in communities across Canada these additional investments into Canadian agriculture will reverberate through local economics across Canada via increased employment, additional spending, and provide a significant economic boost to rural communities across Canada.

Given the diversity of Canadian producers and the evolving market demands they are facing, there is no one-size-fits-all solution for investment. We believe that AgriInvest represents the ideal platform. As a program that is bankable for producers and governments, enhancing support and capacity within the AgriInvest program provides a platform to facilitate market-based adjustments and proactive investments in risk mitigation. We believe the following recommendations represents the first step of an action plan that positions Canadian agriculture for long-term, continued success:

1. Increase the basic maximum matched producer contribution rate to 4.5% of Allowable Net Sales;

2. Establish a $100,000 annual maximum for matching contributions; and

3. Encourage investments into a set of pre-approved, proactive risk mitigation and income generation investment opportunities by allowing producers' to access their own AgriInvest contributions without triggering taxable government funds.



WHEN DISASTER STRIKES

Weather-related risk is a significant source of volatility for Canadian agriculture. As a country with a colder climate and short growing season, Canadian producers are accustomed to dealing with problematic weather events. However, as the Canadian climate continues to alter, producers have seen repeat instances of what were previously 100 year cycle events occur over a short span of time, leaving producers with little time to recover between events that are historically anomalous and often carry multiple years of extraordinary recovery costs.

These changing weather conditions pose unique challenges, which Canada`s BRM programs are ill-suited to currently address. Recent flood events in Western Canada illustrate this issue quite clearly. Producers with land that has historically been productive for the majority of the past century have seen anomalous excess moisture events compromise acreage over multiple years. While AgriRecovery programs were implemented to assist with recovery costs and subsequent efforts were dedicated towards improving relevant crop insurance programs, producers were limited to one-time payments (AgriRecovery) and continue to see insurance coverage for unseeded acres provide little compensation after the initial year.

In order to address these changing weather patterns, CFA recommends the following:

1. Amend AgriRecovery to cover multiple years of extraordinary costs/losses resulting from the short-term impacts of a single event or recurring events that could not be effectively addressed through alternative mechanisms.

2. Ensure producers in all provinces have extended access to adequate AgriInsurance coverage when facing short-term, multi-year consequences from disaster events, including excess moisture events.

RAISING THE BAR

Improving agriculture programs isn't just limited to making one-time program changes. Industry and government must also work together towards setting appropriate policy outcomes and targets that ensure the programs are meeting both parties' needs in measurable, meaningful ways. Behind each policy is a set of performance measures and goals that help drive policy-making and ensure programs are accountable.

Improving performance should be an ongoing, collaborative task between industry and government in order to maximize the value of the government & producer funds involved and improve the utility of these programs for farmers. Based on this approach, **CFA has put together a series of modifications to the existing program measurements that can be found at www.cfa-fca.ca for those seeking additional information.**