Growing Forward 2
A federal-provincial-territorial initiative

Business Risk Management

Presented by Agriculture and Agri-Food Canada to Flower Growers Canada and the Canadian Nursery Landscape Association

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Farming is a risky business…

- As the agricultural industry continues to evolve, the complexity and risks are increasing

- Depending on the operation, producers may face risks that impact production (e.g., shortened growing season, extreme weather events, diseases and pests, etc.) and/or market risks from supply or demand shocks (e.g., exchange rate, increased input costs, increased trade barriers, etc.)

- How a producer strategizes to manage these and other risks has a significant impact on the farm’s viability and success
  - *Producers expose their operations to significant negative financial consequences by ignoring or leaving risks unaddressed*

What is risk management?

- Risk management is more than just responding when a risk materializes, it requires considering what can be done to:

  - ✓ **Prevent** (identify the risk);
  - ✓ **Prepare** (be ready if the risk materializes);
  - ✓ **Respond** (mitigate the impact of the risk); and,
  - ✓ **Recover** (resume operations)

- Being proactive (i.e., focusing on prevention and preparation) can reduce reliance on response and recovery and increases resiliency

- One way to be proactive is by having a formal risk management plan in place
  - 35% of respondents to a Farm Credit Canada survey indicate they do not currently have a plan, but are considering putting one in place

Some examples of risk management…

- Crop rotation significantly decreases the risk of some pests and diseases;
- Diversified farms (e.g., multiple commodities, markets, farm sites, etc.) reduces the impact on the overall farm if one of the commodities faces a problem;
- Use of financial products, such as insurance or hedging;
- Implementing biosecurity measures and traceability; and,
- Participating in ***Business Risk Management (BRM) programs***

Business Risk Management (BRM) Programs

- The federal, provincial, territorial BRM suite of programs, including *AgriInvest, AgriInsurance*, and *AgriStability*, are designed to work together to provide coverage to assist producers in managing risk
  - *The varying needs of producers means that different combinations of programs work best for them*
- These programs are a key element of the partnership between producers and governments in risk management
  - *The intent is that government programs will provide assistance to producers in disaster situations, while producers manage normal risks*

AgriInvest – What is it?

- A producer savings account, which governments contribute to
  - Contributions are based on a producer's allowable net sales (ANS) – sales minus purchases of allowable commodities (e.g., flower or tree sales less seed or seedling purchases)

- Producers can deposit up to 1% of their ANS annually, which is matched by governments (up to $15,000)

- There is effectively no maximum account balance or trigger for withdrawal, producers manage their account as they see fit

- Taxes on government contributions are not due immediately, they are due in the year you choose to withdraw those funds from your account

- ***Flexibility is key***. Producers know best how to manage their income declines, and what investments to make on their farm. You decide when and how to use your money

AgriInsurance – What is it?

- Addresses production declines caused by natural hazards (e.g., wind, frost, excessive rain or heat, snow, disease and pests, etc.)

- ***Responsive*** – plans are tailored by provincial administrations to producers' needs
    - Provinces monitor the industry (e.g., new crops, new production techniques, etc.) and respond to the needs of producers by developing insurance plans to address gaps in coverage

- ***Flexible and affordable*** – you choose the commodities to insure, the type of plan, and the coverage level, and governments share in the cost of premiums with producers.
    - generally 60% of premiums are paid by governments, and governments cover the full cost of program administration

- Indemnities are paid when production volume or quality falls below the insured level of production

AgriStability – What is it?

- Assists producers who experience large margin declines

- Covers all major income-related risks of your farm in one program (i.e., decrease in production or commodity prices or increases in input costs)
  - Payments are made when producers face a 30% or greater margin decline, with assistance of 70% of loss covered beyond that point (up to $3 million per year)

- ***Targeted*** – coverage is available for all agricultural commodities, and is tailored to individual circumstances

- ***Affordable*** – the fees charged represent exceptional value as governments pay the lion's share of the program administration and program payments (over 90% funded by governments)
  - E.g., the fee for a farm with a $1,000,000 reference margin is $3,205

- ***Bankable*** – program assistance should improve access to credit because of the range of risks covered

Consider AgriStability

- AgriStability provides considerable support for severe income declines, rather than providing a small amount of support every year

- In a sense, AgriStability is similar to home or car insurance
  - For a small fee, you are protected against the majority of risks your farm operation might experience
  - In the event that an unforeseen problem arises, support will be there

- AgriStability reuses the same financial information you would use for other business purposes (e.g., income tax return, loan applications, financial statements which would include inventory values, etc.)

- If you estimate your exposure to all risks, such as price volatility and market disruptions, you might see great value in participating in BRM programs, including AgriStability

- You are encouraged to discuss your risk profile and management options with your financial advisor, or accountant

Scenario - Natural Disaster

- Trees/shrubs affected by a natural disaster (e.g., tornado, hail, severe drought, pest/disease, etc.)
- Assume:
  - 5 year production cycle of trees/shrubs
  - 20% of trees damaged/destroyed
- Normally:
  - Revenues $2 million / year
  - Allowable Expenses $1 million / year
  - Program Margin $1 million / year
- Impacts of Natural Disaster
  - Reduces revenue and inventory by $2 million
  - Increases expenses due to tear out and replacement – assume $250k
  - Program payment would be estimated at $1.365 million
    - Program year margin minus $1.25 million

Scenario – Price Decline

- Normal production, but with a price decline (e.g., contract not paid, exchange rate change, etc.)
- Assume:
    - 20% price decline
- Normally:
    - Revenues $2 million / year
    - Allowable Expenses $1 million / year
    - Program Margin $1 million / year
- Impact of price decline
    - Reduces revenue to $1.6 million ($400,000 decline), assuming no decline in inventory value
    - Program payment would be estimated at $70,000
        - Program year margin equals $600,000

Applying to AgriStability

- As soon as you know your income for the tax year, you have the information required to complete your application
    - *the earlier you apply the earlier you should receive any benefits*

- Applications for the 2015 program year are being processed now

- For the 2016 program year, the deadline to enrol in AgriStability is April 30, 2016. There is also an interim payment option that may provide benefits sooner

- Applications are available through this link: www.agr.gc.ca/agristability
    - Ensure you select the province in which you farm to find the correct forms

- For more information, contact the federal AgriStability administration at **1-866-367-8506** (toll-free)

Other opportunities for risk management tools….

- Outside of the BRM suite of programs there are options for risk management products which target specific risks (e.g., disease, prices)

- Under Growing Forward 2, the AgriRisk Initiatives (ARI) program was introduced to compliment the BRM suite

- The objective of ARI is to facilitate the development and adoption of new private sector or producer-funded agricultural risk management tools
  - *ARI can be used to develop insurance products or similar risk management tools*

- Industry stakeholders and the private sector have an opportunity to work together to develop products tailored to meet commodity-specific or sector needs, depending on the identified gaps in protection

AgriRisk Initiatives (ARI) Program

- ARI is a $55 million dollar, five year program under Growing Forward 2, ending in 2018. Currently, there is approximately $25M in funding available for projects under ARI
  - *ARI is accepting applications. There is no deadline, apply at anytime*

- The ARI Program consists of two project funding streams:
  - Stream 1 – Research and Development (R&D)
  - Stream 2 – Administrative Capacity Building (ACB)

- ARI is unique as it offers the opportunity to explore and develop a new tool under the R&D stream and, under the ACB stream, can also provide the seed funding and administrative costs to help launch and administer a tool in its initial years

- Flower Growers Canada received funding for an R&D project which focused on updating insurance models (exposure, premium rating, etc.) for quarantine coverage in the Ontario floriculture sector. There is an ARI project application currently under consideration to seek a license to operate the Green CHIP-Q Program

Key Messages

- Programs in the BRM suite are designed to work together to provide coverage to assist producers in managing risks, in particular, disasters

- Given the unique nature of your business, you will have specific needs, some of which may be covered by the BRM suite, and others by private sector tools (i.e., insurance)

- You know best how to manage your risks, and so we want to consider the options available to you including the BRM programs

- If you see gaps in protection, talk with your sector organizations. There may possibilities, through the AgriRisk Initiatives program and AgriInsurance to address those gaps

- Contact AAFC or your provincial government for additional information on available programs and eligibility criteria

ANNEX

Other contact information

- Visit AAFC's website for a list of available programs and services: www.agr.gc.ca/programs-and-services

- Additional information on AgriInvest can be found here, www.agr.gc.ca/agriinvest or by contacting the federal administration at 1-866-367-8506 (toll-free)

- AgriInsurance is delivered provincially. The provincial administrations websites can be found here: www.agr.gc.ca/agriinsurance

Apply to AgriRisk Initiatives

- **R&D stream** – Apply online through AAFC's website: http://ari-iar.agr.gc.ca/appl/

- **ACB stream** – Industry stakeholders are encouraged to contact the provincial/territorial (PT) government(s) to collaborate and build a proposal. PT government(s) submit the proposal to AAFC's ARI program.

- ARI project funding is not limited to the develop of insurance products.

- Contact AAFC if you have any questions – email us at ari-iar@agr.gc.ca or call **1-877-246-4682** (toll-free)

ARI - Research and Development (R&D)

- Up to $500K per year, per recipient

Objective

- Support stakeholder groups in developing new risk management tools to fill identified gaps
- Increase the participation of the private sector in providing risk management tools

Types of Projects

- Risk assessments, including sector risk profiles and benchmarking analyses
- Tool development
  - Insurance-based (e.g., price, mortality, business interruption, credit)
  - Protecting market returns (e.g., price discovery, hedging and options)

ARI - Administrative Capacity Building (ACB)

- Up to $5M per year, per project

Objective

- Support pilot administrations in early years of delivering new tools
- Promoting FPT innovation to develop new risk management tools

Types of Projects

- Industry consultation and product refinement
- Launch strategy, communication products and advertising
- Securing financial requirements to launch the tool (e.g., licensing fees)
- Securing entity delivery infrastructure (e.g., office space, material, IT systems)
- Costs of delivery (e.g., salaries, office expenses)