Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

Canada

Canadian Agricultural Partnership

Business Risk Management Programming for New and Existing Farmers

2018 Hazelnut Symposium

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Outline & Objectives

- To provide information on government tools available to help farm businesses, including new/beginning farmers.
  - What are the risks/challenges for farm businesses?
  - What government tools are available to help farm businesses?
    - Federal-only loan programs (Advance Payments Program and CALA Program)
    - Federal-provincial-territorial Business Risk Management (BRM) programs under the new Canadian Agricultural Partnership (CAP) framework
  - What are other proactive risk management strategies?
    - e.g. business planning, tax-based strategies, best management practices

Sector is faced with risks that can impede entry and impact on farm viability…

- Barriers to entry:
  - Start up costs, input costs, credit availability, etc.
    - High asset values/capital requirements: Farms with NOI of $50 - $100K have median asset values between $1.1M and $3.8M
    - Banks indicate that they would be hesitant to lend with less than 50% equity
  - Knowledge and Experience are important to manage a farm
    - 95% of farms have operators with greater than six years experience
    - 72% of farmers have 21 years or more of experience
    - 55% of farmers are 55 years of age or older
- There are acute risks that can cause significant income volatility, impact credit availability and threaten farm financial viability:
  - Extreme weather, disease, pests impact production
  - Trade/exports, macro shocks (XR, oil), government policy can impact price volatility
- Governments help the sector by providing tools that support a competitive and innovative sector that proactively manages business risks

Available government tools…

- Federal-only government loan programs are available to help farmers get started:
  - **Canadian Agricultural Loans Act (CALA) Program**: Establish, improve and develop farming businesses
  - **Advance Payments Program**: Improve cash flow over the production period

- The new Canadian Agricultural Partnership (CAP) framework includes a suite of cost-shared federal-provincial-territorial Business Risk Management programs to manage major risks
  - **AgriInvest**: For income declines and investments to manage on-farm risks
  - **AgriInsurance**: For production losses resulting from a variety of perils
  - **AgriStability**: For large declines in producer margins
  - **AgriRecovery**: Framework to develop initiatives to assist with extraordinary costs to recover from natural disasters
  - **AgriRisk**: For developing new tailored risk management tools

Getting Started

Establish and improve farms with the ***Canadian Agricultural Loans Act (CALA) Program***

- Loan guarantee program to increase the availability of loans to existing and new (less than 6 years of farming: proof – CRA, business plan) farmers and agricultural co-operatives to establish, improve, and develop their farm businesses

Loan amounts and fees:	Examples:	Program Benefits:
Up to **$500,000 for land and buildings**	- Buy an existing operation - Intergenerational transfers - Expand an operation	Competitive interest rates - Prime +1 maximum
Up to **$350,000 for all other purposes**	- 10 acres and 108 Hazelnut Trees per acre = 1080 trees - $15 per tree = $16,200 - Equipment and machinery purchases - Consolidation/ refinancing	Fixed or variable financing
Overall maximum loan amount of $500,000		Flexible repayment terms: -15 years for buildings and land -10 years for other
Fees include a 0.25% application fee and a 0.85% loan registration fee		Backed by Government of Canada (up to 95% of loan loss)

- Incentives for new farmers, including only 10% down (vs 20% down for existing farmers)
- ***CALA loans are available now through your local banks and credit unions***

Operating needs

Improve your cash flow with the ***Advance Payments Program (APP)***

- APP provides cash advances (i.e. loans) to producers to improve their cash flow and allow them greater marketing flexibility for their products during the production period

- APP advances are calculated based on the value of agricultural products farmers are producing or have in storage
  - Up to 50% of the average market value
  - Advances are available for the majority of agricultural commodities (545 active commodities)
    - Currently no APP Administrators offer advances on hazelnuts.
    - To be eligible, an advance rate must be able to be established for the commodity and an APP Administrator must be willing to offer advances on it
  - Maximum advance is $400,000 per program year, with the Government of Canada covering the interest on the first $100,000 advanced and preferential rates on the remainder
  - All advances MUST be secured through the agricultural product itself
  - Enrollment in an appropriate BRM program is required for pre-harvest APP advances (typically AgriInsurance, AgriStability)

Advance Payments Program (Cont'd)

- Producers must repay their advance as they sell their product, using their proceeds of sale and all advances must be fully repaid by the end of the production period
  - Production Period is 24 months for cattle and bison, 18 months for most other typical agricultural commodities (e.g., April 2018 to September 2019)

- Benefits:

  - Lower interest rates and financing costs

  - Improved cash flow and marketing flexibility: Sell when you want, repay as you sell

  - Improved profitability

- From 2013-2017, producers benefitted from nearly $11 billion in APP advances, including more than $1 billion to producers in Ontario.

	Advance Amounts	Annual Rate	Costs
Interest-Free Portion	$100,000	0%	$0.00
Interest-Bearing Portion	$300,000	3.45% (Prime)	$15,900
Total	**$400,000**	**2.63% (blended)**	**$15,900**

*When held for the full 18 months. Values subject to change based on Prime rates and the interest rates and fees charged by APP Administrators.

- Apply for APP advances on a variety of crop and li
third-party administrators across Canada (typically producer organizations)
  - The main APP Administrator in Ontario is the Agricultural Credit Corporation (ACC).

Self-Manage Your Risk

*Address small income declines and on-farm risks with **AgriInvest***

- A government matched contribution savings account program to help producers address income declines and make investments to manager on-farm risks
- Producers can contribute up to 100% of their Allowable Net Sales (ANS) annually, of which 1% is matched dollar for dollar by governments (up to $10,000 max)
  - ANS = Sales – Purchases of allowable commodities
  - Local financial institutions, flexible, timely access to funding
  - **New producers** are eligible once farming revenues have been reported to CRA
- Producers are free to withdraw funds from their accounts as they see fit to address:
  - Market price fluctuations, increased operating expenses, production losses and cash flow needs, and
  - Investment in risk management tools and strategies and in farm operations
- There is over $2.3 billion in AgriInvest accounts across Canada, with approximately $22,100 on average per account.
- Over $1 billion in government contributions over the Growing Forward 2 period (2013-2017)

Protect your investment

*Protect against production losses with **AgriInsurance***

- AgriInsurance provides protection against production and quality losses due to natural hazards
  - e.g., drought, flooding, wind, frost, excess moisture, diseases, infestation, and wildlife
- Producers choose the commodities to insure, the type of plan and the level of coverage and governments share in the cost of premiums
  - Generally 60% of premiums are paid by governments, with the remaining 40% covered by the producer. Governments cover the full cost of administering the program
  - Over the Growing Forward 2 period (2013-2017), FPT governments contributed $4.7 billion towards premiums costs to cover approximately 76% of all cash crops in Canada
- Indemnities are paid when production volume or quality falls below insured level
- AgriInsurance is available to new and existing producers and is delivered by provincial administrations and plans are tailored to regional needs.
  - Agricorp is responsible for establishing insurance plans in Ontario.
  - In Ontario, Agricorp currently offers insurance plan for some tree fruits, which can include yield and tree replacement coverage.
- **New producers** can get coverage under the program, which is usually based on area average yields

Protect yourself against disasters

*Address large margin declines with **AgriStability***

- AgriStability provides assistance against large declines in whole-farm margins
  - Provides support when producers experience declines of more than 30% to the margin (i.e. farm revenues less allowable expenses) compared to their historical average (reference margin).
  - Provides support for all commodities against all major risks, including production declines, market fluctuations, increased expenses
  - Support is tailored to each individual's farming operation and circumstances
  - Under CAP, AgriStability has been adjusted to:
    - Guarantee coverage of at least 70% of the reference margin
    - Include a late participation option, which can be requested by provinces when there are large income declines and low participation in province but payments reduced by 20% for producers who enrol late
  - To participate in the program, producers are required to pay a fee of $315 per $100,000 of margin covered (0.315%), as well as a $55 administration fee
- Over the Growing Forward 2 period (2013-2017), the program has paid out more than $1.1 billion, with an average payment of approximately $40,000
- **New producers'** reference margins are calculated based on benchmark/average farms and it is an important tool to help manage disaster level losses, especially for beginning farmers

Help with recovery

*Recover from natural disasters with the **AgriRecovery Framework***

- AgriRecovery is a federal-provincial-territorial framework that facilitates the development and implementation of programming to help producers recover from natural disasters
  - e.g., extreme weather, pest infestation, disease outbreaks
- Under the Framework, initiatives are developed on a case-by-case basis to help producers with the extraordinary costs required to recover following a disaster
  - Not meant to replace coverage available under AgriInvest, AgriInsurance and AgriStability
  - Not intended to provide responses to recurring disaster events, as this would indicate that longer term options are necessary
- Over the Growing Forward 2 period (2013-2017), there were eight initiatives implemented responding to a variety of disaster events (diseases, wildfires, etc.) across Canada.

BRM Program Review

- Governments also made a commitment to undertake a review of BRM programs to assess their effectiveness and impact on growth and innovation
- There will be an early focus on the ability of the programs to respond to market risk, with a specific focus on AgriStability
  - Options will be developed with early results from the Review, to improve timeliness, simplicity and predictability, while being cost-neutral
  - These options will be presented to FPT Ministers’ in July 2018
- An external Expert Panel consisting of producers, academics and experts has been established to provide feedback and guidance on the review
  - The panel will meet through the winter and spring of 2018
- Broader industry engagement will also ensure an understanding of the nature of risk faced by the sector and effectiveness of current programs

Other Proactive Risk Management Strategies…

- There are a number of other risk management strategies that should be used to manage farm business risks:
  - Business Planning:
    - Farm Business Plans, forward contracting, hedging, rent vs own, specialization and diversification
    - Succession Plans – only 8% of farms but larger farms are more likely to be transferred, 25% larger farms ($1M and over) have succession plans;
    - Tax Planning (Cash Accounting, Lifetime Capital Gains Exemption, Capital Cost Allowance)
  - Knowledge Transfer:
    - Industry Associations and Educational Institutions – agronomics, genetics, precision agriculture, technology adoption
    - Government Resources - Best Management Practices (e.g. swath grazing, zero till farming, etc.)
    - Market Information

Summary

- Agriculture has a bright future and wants to attract new farmers
- Agriculture can be risky due to market and production related risks
- There are tools available to help producers get started and manage their business risks, including government programming and other tools
  - Producers need to be proactive in managing their farm business risks by using the available tools
- More information on government programs can be found on Agriculture and Agri-Food Canada's website at WWW.AGR.GC.CA; OR

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Questions?