AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

GEORGE MORRIS CENTRE

Canada's Risk Management Policy Choices and The Whitehorse Agreement- Prudent Steps in the Right Direction?

Bob Seguin
Executive Director

October 2012

Introduction

On September 14, 2012, the participating Federal-Provincial-Territorial (FPT) Ministers of Agriculture concluded their Whitehorse meeting by announcing changes to the BRM and non-BRM portions of the proposed national Growing Forward II (GFII) policy framework. The FPT Ministers acknowledged the evolution of this new suite of risk management programs based upon input from the Ministers, and participating producers or producer groups. This new BRM direction was coupled with an announced commitment of increased FPT expenditures for non-BRM initiatives. It could be argued that the FPT Ministerial decisions in Whitehorse met the goals the Ministers set out in their 2011 St. Andrews Statement. However, it is clear that there are a number of outstanding policy, programming, and market issues to be resolved before determining if the newly established GFII framework has fully achieved these goals.

This commentary briefly reviews the key elements of the Whitehorse Agreement. The analysis examines the BRM changes and possible impacts on governments and participating producers, as well as on the less defined future changes to the non-BRM programming. This commentary discusses the prudence of the Whitehorse Agreement and whether it fulfils the ambitions articulated in the 2011 St. Andrews Statement of FPT Ministers. The analysis identifies the challenges of effectively "investing" additional funds for non-BRM initiatives for the full benefit of the agri-food sector. Finally, the paper concludes on whether this proposed mix of national- and existing provincial only-programming is the most suitable set of options for primary producers and others in the sector. The paper identifies those additional measures which would improve the new GFII framework during the five (5) year timeline, and into the next FPT framework.

FPT Ministers of Agriculture Whitehorse Agreement

In Whitehorse, the FPT Ministers of Agriculture completed their discussions on GFII, identifying the final suite of BRM programming, as well as the funding implications for a next set of bilateral non-BRM initiatives. The ultimate goal of GFII is similar to the current framework: to assist the sector to improve its market performance, reduce long term costs and risks, and increase the longer term prosperity of the agri-food sector and its participants. The FPT Ministers did reduce the overall cost of the GF II policy framework.

The FPT Ministers agreed to a series of changes to the AgriStability and AgriInvest initiatives including lower levels of coverage, reduced expense for both governments and participants, and some additional flexibility for those wishing to further utilize the AgriInvest program but with reduced or no matching government contributions. The Federal Government agreed to "reinvest" some of its savings toward new bilateral non-BRM initiatives in the areas of innovation,

competitiveness and market development. The Federal Government committed to a 50% increase in its funding for these cost-shared initiatives.

These changed directions do have substantive funding implications[1]. The federal/provincial BRM program payments since the inception of Growing Forward since 2007 to date (August 30, 2012, with program payments still occurring) totalled some $10.1 Billion. In the FPT Ministerial communique of September 14, 2012, the specifics on the estimated program savings and the actual amounts for the planned non-BRM expenditure increases are only roughly described.

As expected, there were a variety of comments on the September 14th communique[2] from representatives of the Canadian farm community, and from some of the Ministers[3]. Canada's mainstream farm/commodity organizations seem to have accepted the Ministers' decision so far, while acknowledging that more changes may be forthcoming.

In summary, these changes in the suite of BRM programming do achieve the desired savings for some of the respective governments. The changes do allow for "re-investments" into other non-BRM initiatives. A key market challenge is the timing of these changes given the price outlooks for the Canadian agri-food sector. An equally critical challenge for producer acceptance of GFII, and its overall effectiveness is the determination of industry or sectoral benefits from the increased non-BRM expenditures.

On the face of the FPT Ministerial communique, it would seem that the participating FPT Ministers did move the GFII framework towards the direction of their 2011 St. Andrews Statement. The steps taken by the FPT Ministers are more modest in comparison to earlier proposals. In light of market contexts for 2012/2013 and the changed parameters of both

---

[1] "New Growing Forward Agreement Will Drive Innovation, Market Development and Long-term Growth in Canadian Agriculture" September 14, 2012, Whitehorse, Yukon, Agriculture and Agri-Food Canada press release
[2] Ibid.
[3] "Province Reluctantly Signs New Agriculture Funding Agreement", September 14, 2012, Whitehorse, Yukon, Government of Saskatchewan press release.
"New Growing Forward framework will provide stability and long-term benefit for Alberta producers", September 14, 2012, Whitehorse, Yukon, Alberta Government press release.
"Canada's Agriculture Ministers reach new Growing Forward Agreement", September 18, 2012, Charlottetown, Prince Edward Island Agriculture and Forestry press release.
"CCA pleased with FPT Ag Ministers' focus for GF 2", September 14, 2012, Calgary, Alberta, Canadian Cattlemen's Association press release.
"GF 2: Budget Document or Policy Framework?", September 18, 2012, Ottawa, Ontario, Canadian Federation of Agriculture press release
"Increased Funding For Non-BRM Positive For Ontario's Grain Farmers", September 20, 2012, Guelph, Ontario, Grain Farmers of Ontario press release
"CFFO Welcomes Progress on Growing Forward 2", September 2012, Guelph, Ontario, Christian Farmers Federation of Ontario press release.
"While details about changes to the program are still vague, changes to reference margins can have a big impact on income protection", September 28, 2012, LeeAnn Minogue, Grainews, Alberta.

AgriStability and AgriInvest, it is still unclear if the effectiveness of the revised BRM programing, and projected non-BRM programming, will successfully meet stakeholder expectations. If not, then the steps taken may have to be reversed, modified, or additional resources added to the newly established GFII.

FPT Ministers of Agriculture and Whitehorse BRM Policy Choices: Are These- Prudent Steps?

The early consultations on GF II with the Canadian agri-food sector and both levels of government were fuelled by the then positive market outlooks for many commodities. The more optimistic pricing outlooks offered unique opportunities to realign (reduce) the BRM programming so as to "reinvest" some of the potential savings into other initiatives geared at improving longer term competitiveness and innovation of the Canadian agri-food sector. As noted in earlier papers released by the George Morris Centre[4], the decades of public sector assistance for these income support/risk management initiatives remain the clearest signals that governments or industry were not prepared to "walk away" completely from the BRM initiatives.

The risk management framework identified in the third paper in this series[5] still provides a focus for the BRM changes made by the Ministers in Whitehorse. The changes announced are not sufficient as to dramatically shift/realign the positioning of the BRM programs within that risk management framework. The revised GFII initiatives maintain the basic public policy direction for national risk management, but now at lower costs, and at lower levels of income protection/risk management for some BRM programs.

As noted in the farm media[6] and in the AAFC backgrounder[7] changes in AgriStability do indicate that the public funding available to program participants would be reduced, and in some cases substantially. This may discourage certain participating producers from continued participation due to limited margin coverage and subsequent payouts. However, for Canadian

---

[4] "Canada's and Ontario's Agri-Food Risk Management Policy: A Historical Commentary to Prepare for Future Directions", July 25, 2012;
"Business Risk Management Programming in Practice: The 2011 Risk Management Program in Ontario", August 16, 2012;
"The Political Economy of Risk Management Programming in Canada: Strategic Commentary on BRM and RMP Policy and Programs", September 7, 2012, Bob Seguin, George Morris Centre, Guelph, Ontario.
[5] Ibid
[6] "New Growing Forward agreement initiates seismic shift in agriculture policy", Barry Wilson, September 20, 2012, The Western Producer
"Ottawa pushes through farm support program deal", Editorial, September 20, 2012, The Western Producer
"Governments Offside on Farm Supports", September 25, 2012, Ontario Farmer, London, Ontario
"Growing Forward 2: A reshaping of public policy at what cost?", Doug Chorney, The Manitoba Co-operator, October 18, 2012, Winnipeg, Manitoba.
[7] AAFC Backgrounder, September 14, 2012, "New Growing Forward Agreement"

cash crop producers the anticipated higher margins from very strong 2012 crop prices may encourage ongoing participation in AgriStability as an appropriate safeguard from fears of significant price declines in 2013. For Canadian horticulture producers, the changes in AgriInvest may, in turn, discourage some from participating, given the reduction in the government incentives in that program.

These market contexts may provide the earliest and greatest challenges to the longer term sustainability of GFII and the BRM programming decisions. The FPT Ministers of Agriculture did not pursue earlier suggestions for even more aggressive BRM program changes, but still succeeded in establishing program savings. The newly revised BRM programs under GF II provide improved risk management coverage than earlier options. But, if the market outlooks for 2013 and beyond do not fall in line with earlier estimates of more optimistic outlooks-then lower coverage levels will be seen to be less favourable to participants, will discourage program participation, or lead to much higher costs to the governments despite program changes. Alternatively, the newly established GF II programs could be replaced with either ad hoc programs, or revisions to address stakeholder concerns (if significant).

In light of the above developments, the following observations would apply to the prudence of the Whitehorse BRM policy options:

1. The basic suite of BRM programming ratified at Whitehorse continues the three decade FPT government commitment to a level of risk management policy available to most Canadian primary producers. It also continues the basic program framework-indeed for two of the BRM initiatives, little to no change at all-for participating producers so as to minimize concerns over program administration;
2. Even with the reductions in government funding, and reduced risk management protection under AgriStability, and AgriInvest, the BRM suite of programming still provides a significant, if lower than original programs, level of risk management protection (income support). Whether this is substantive enough will be tested by the hog markets in 2012/13, and other markets in the future (e.g. grains and oilseeds markets in 2013/14);
3. Given the continuance of the basic BRM program designs, there should be limited trade policy concerns with the changes;
4. The program cost reductions and program changes particularly in reduced margin coverage within AgriStability should heed some (but not all) concerns of those worried about undue dependence upon these BRM initiatives;
5. The program "savings" over the 5 year period are substantial enough for a share to be "reinvested" into non-BRM programming so as to attract provincial governments and some commodity groups with the opportunities to expand some non-BRM programming to meet regional/commodity needs;

6. Barring a major price collapse in one or more commodities, the low annual fees, continued program administration, and relatively easy program access for existing producers should encourage most primary producers to remain with the GFII suite of programming; and,
7. The more modest program changes finally agreed upon in Whitehorse better reflect the marketplace volatility for many of the participating producers and commodities, rather than the more optimistic implications of the GFII consultations and the realities of increased global competition as well as other non-commodity impacts on farm prices.

All of these comments reinforce the prudence of the FPT Ministerial decisions in Whitehorse for the BRM programming. Indeed, a number of program changes requested, but not made- e.g. addressing concerns about declines in multiyear margin coverage- reinforce the efforts made to both reduce costs, and provide levels of risk management without possible market distortions by program participants.

However, a key policy and program gap still remains. There continues to be little clarity on the key results from these initiatives and insufficient (or completely lacking) measurement of them to test and inform participants and governments if the desired results were achieved. At present, the defacto measure of success is whether the program budgets were spent. Greater transparency would also enhance program developments. With the uncertain outlook for commodity prices , and the variations in the preferences for BRM programming changes among producers, and the lack of full consensus on the amount of reallocated funds to non-BRM initiatives, the Whitehorse decisions are prudent steps towards the St Andrews Statement.

The FPT Ministerial non-BRM programming directions: Less Prudence, Smaller Steps

A key direction from the FPT Ministers in their 2011 St Andrews Statement, as well as by a number of farm and food groups, was to reduce BRM expenditures and to then reallocate some of the savings to increase non-BRM programming. This "reinvestment" of public funds would further public/private efforts to improve the longer term competitiveness and prosperity for the agri-food sector.

Regrettably, in the GF II consultations, and in the communiques from the FPT Ministerial meetings, there was little clarity on the best options to achieve such goals. As no questions were asked or analysis clearly undertaken by governments, or producer groups, to determine which programs or options worked best, it is difficult to determine the preferred programs to meet these non-BRM goals.

In the most recent issue of the Rotman Management Review from the University of Toronto, Dean Roger Martin and his former colleague, Jim Milway, define innovation as "providing a

new product or process that adds value to somebody's life" [8] For Canada's agri-food sector, it is well recognized that most of the statistical information on public agricultural research and development do not measure innovation as defined above. Moreover, such measures do not readily exist. This dilemma is true for many of the sustainability, market development and competitiveness programs under GF I, and now unless changed, would apply for those programs within GF II.

There are very real conceptual, design, and statistical challenges in developing appropriate measures of agri-food innovation (or competitiveness, market development or sustainability). There are equal challenges to then make such measures fully transparent to the sector participants, government and to the public. Governments and the agri-food sector continue to be unable to clearly trace public and private sector expenditures for innovation under the Growing Forward I or II policy frameworks to real, measureable prosperity results from these programs.. This makes the case for determining appropriate funding levels and linking the identified results (if any) to the marketplace, and agri-food participants nearly impossible.

This is critical when attempting to explain the real benefits of increased public and private expenditures for effective innovation programming, which would increase sector prosperity, and could become a valuable long term risk management tool for producers, processors and others in the sector.

The following comments highlight the reasons why the Whitehorse non-BRM policy directions are limited in achieving the St. Andrews Statement goals:

1. The programming details are still to be developed in bilateral negotiations with the provinces and the Federal Government. It is unclear if successful programming in one jurisdiction will be replicated to another province's agri-food sector;
2. There are no details as yet on the successes/failures of the non-BRM programming under Growing Forward I and any lessons learned;
3. The changing market and policy environment facing Canada's agri-food sector would suggest re-examination of the non-BRM programming, and the likely competition facing the sector in the next five years;
4. The lack of measures publicly reported and limited public debate within the sector may mean favouring the existing non-BRM programming; and,
5. The FPT Ministers did agree formally to involve other segments of the agri-food sector in analyzing and directing future program developments. This is not entirely a new thrust, but a more public acknowledgment of the importance of such programming across the entire food value chain.

[8] Roger Martin and Jim Milway in "User-Driven Innovation: Putting An End to Inventing In The Dark", Rotman Management Review, Fall 2012. P.5

The Whitehorse policy directions now lead to the formal development and implementation of this part of the GF II framework. It is possible for more substantive improvements in design, and development of these new non-BRM programs to arise. Until then, the program developments in non-BRM priorities must be seen as positive but limited steps towards the desired Growing Forward II results.

Whitehorse Directions and Implications for Province-Only Risk Management Initiatives

In the earlier reports on income support/risk management[9], the Centre's analysis examined the province –only BRM initiatives focusing on the Risk Management Program in Ontario. The changes to the GF II BRM policy suite do not favourably impact on the effectiveness of the existing provincial risk management programs across Canada, such as ASRA in Quebec, and RMP in Ontario for example.

The ASRA programming in Quebec has been in operation much longer, covering a wide range of commodities, and has been modified in recent years. It should be anticipated that the ASRA program will remain the backstop for many Quebec producers as it has been in the past, and will remain the major risk management initiative in Quebec for the next years (even with the change at the provincial government) . It can be anticipated that the costs of the ASRA programming could increase as the Quebec pork sector finds the current domestic markets financially challenging. The recent changes to ASRA; as driven by the previous Liberal government in Quebec, may limit the length and depth of that government's financial exposure.

In Ontario, the RMP has already been modified by the Government of Ontario's spring 2012 announcement on capping the overall program expenditure to $100 Million/year. Discussions on revising the RMP to comply with this new cap are well underway. But, the changes in the future AgriStability and AgriInvest initiatives under the GF II may further constrain the overall effectiveness of the RMP to participating producers. The hog sector income declines in Ontario will soon test the anticipated revisions to Ontario's RMP. The possible declines in 2013 crop prices could be the major cost containment and policy challenge for the 2013 RMP year if as identified earlier the North American (and global) crop production far exceeds 2012 levels.

Provincial risk management initiatives did not benefit greatly from any of the Whitehorse decisions. The linkages between the revised BRM programs and any provincial risk management program need to be re-examined. The reduced benefits of the national BRM programs will place new pressures on the existing provincial initiatives. Given the overall constraint on funding in the Ontario RMP, this may become an early federal-provincial issue in Ontario.

[9] George Morris Centre, Op cit.

A related issue and a key one in determining a preferred province only risk management program is the need for constant discipline in the analysis of, and development of, the cost-of-production models being used in these provincial programs. The longevity of the ASRA program in Quebec and the recent capacity of the Ontario RMP to pay out funds to participating producers do indicate that such models can provide public funds to participating producers. However, over time, COP models can lead to rising target prices to be covered unless sufficient discipline is brought to bear to constantly update the models for technology, scale and management improvements, accounting for accurate changes in costs at the farm gate level. These are significant challenges which can serve to worsen the interactions between existing national BRM initiatives and the provincial risk management programs.

Whitehorse Decisions on Growing Forward II and Future Policy Options

The FPT Ministers took a number of prudent steps, sometimes smaller steps, towards their goal of achieving their 2011 St. Andrews Statement for the GF II policy framework. A number of programming developments and anticipated market changes for 2013 and beyond could seriously limit the effectiveness of the decisions reached in Whitehorse last month. Still, the steps taken do represent moves to realign the existing national agri-food programming and expenditures . These steps also open up further opportunities to improve the broader public policy for Canada's agri-food sector-with full awareness that not all of the stakeholders and program participants fully agree with such directions.

It is clear that the new GF II policy framework will have to be adaptable to changing market outlooks, shifting understanding of the benefits of new agri-food innovation, competitiveness and market development programming, and shifts in the market positioning of Canada's global competitors. Without improved understanding of program results and how various sub-sectors of Canada's agri-food sector truly benefit by the increased non-BRM programming, the GF II will have its operational challenges.

While, it is clear that the FPT Ministers moved in the direction of their 2011 Statement, it is unclear if they achieved it, or will achieve it. The Ministers did make efforts to widen their consultations and even expand the stakeholder involvement in program design to agri-food participants beyond the farm community. This is a good step and a needed one. But, there have to be measureable results to these efforts to "prove" that such initiatives truly work for the sector.

This commentary concludes by identifying several steps to improve the anticipated program design for GF II and its operational effectiveness, as well as improving longer term program development for more effective income support/risk management in this sector. The desired improvements include:

- The need to clearly identify the desired results from these GF II program initiatives and to develop appropriate measures for such results to determine if these results are achieved;
- To make such measures, results, and program links more transparent to both government and industry participants;
- To better identify and link the impacts of non-BRM programming on different segments of the Canadian agri-food sector, and trace these results back to those initiatives which best obtain such desired impacts;
- To re-examine BRM programming in light of the long term consolidation within the Canadian agri-food sector, and determine if different income/scale categories require(and can sustain) differential program treatment; and,
- To improve the public verification of results desired and achieved to the Canadian public so as to affirm/reaffirm public sector support for those initiatives best suited to the longer term prosperity of the sector.

As has been noted in this series of reports, Canada has had a long history of public sector expenditures (sustained by its citizens over decades and various governments) for income support/risk management to assist primary producers. Federal and provincial BRM or risk management programming has evolved over the decades to assist participating producers in responding to the price and income impacts of changing markets, competition, and technologies. These evolving initiatives have also adapted to varying expectations of the stakeholders as well as the financial capacity of participating governments.

The FPT Ministers of Agriculture were successful in their Whitehorse Agreement on GF II framework to decrease BRM funding, reallocate a portion of the "savings" to non-BRM programming and reduce overall GF expenditures. These are bold and positive moves-and prudent ones. There are real risks that the pricing environments facing Canadian producers is more volatile than anticipated-and it is unclear if the revised BRM programming will adequately address such risks, and meet producer expectations. It is also clear that expanded initiatives in non-BRM programming may not lead to sufficient improvements in agri-food sector prosperity to justify the shifts in program. To date, there is little analysis of such impacts-and few questions asked, answered and reported back to the sector-and Canadian public-to verify or modify the GF II program changes. If, as noted above, these issues can be properly tackled through GF II then the sector may be in a much better position to develop and sustain an improved package of national BRM and non-BRM programs for the next generation of Canadian agri-food industries.