

Farming in Canada:

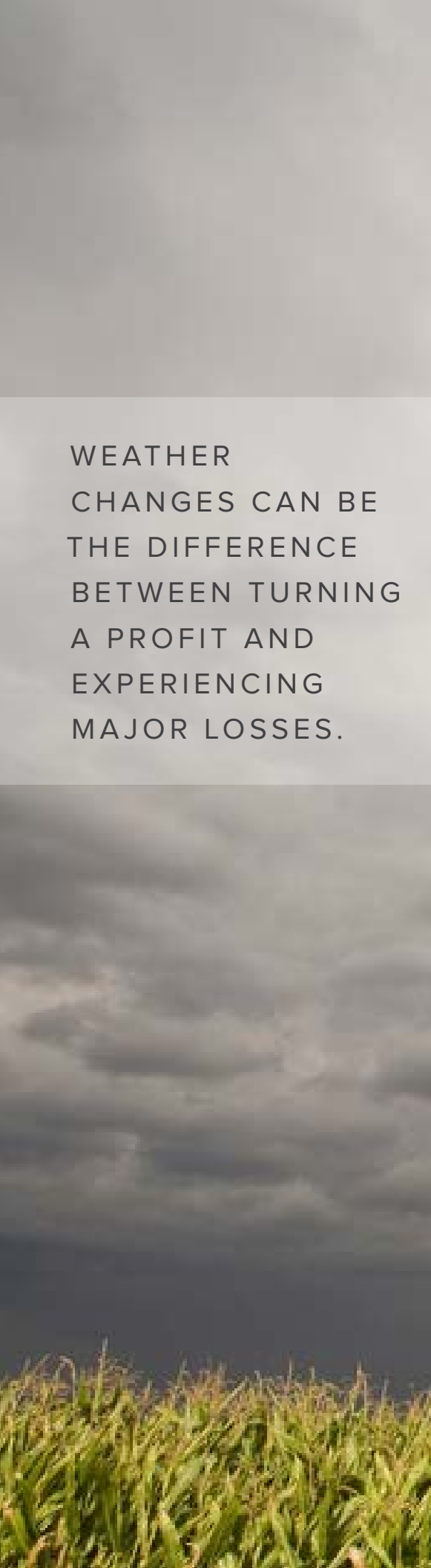
THE BIGGEST RISKS,
AND HOW TO MITIGATE THEM



Canada's Farm & Small Business Tax Specialist

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WEATHER
CHANGES CAN BE
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Introduction


Farming is a major component of the Canadian fabric. If it weren't for the hard work and devotion that producers commit to their field – both in the occupational sense and literal meaning of the word – Canada wouldn't be a leading breadbasket of North America, if not the world.

But the farming business is not without its risks. Weather conditions are important to everyone, as no one can escape the effects of Mother Nature. For farmers, though, weather changes can be the difference between turning a profit and experiencing major losses. These losses can be debilitating when they include the likes of severe droughts, hurricanes, floods, frost and a wide variety of other catastrophes that spell disaster for professional growers.

Unfortunately, nothing can get in the way of weather's wrath. What will be, will be. But there are ways of mitigating losses so that growers can ensure their farm is able to withstand the downs associated with maintaining one.

This white paper will examine the state of the farming industry in Canada today and moving forward. It will also look at its history, in terms of what challenges routinely present themselves that farmers need to account for, specifically as they relate to weather. It will then focus on what options you have as a farmer to mitigate these risks by way of insurance, one of which is a government program called AgriStability.

By its conclusion, farmers should have an idea of how to best protect their financial solvency when life hands you lemons.



FARM-LEVEL
NET OPERATING
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‘The Future For Farmers is Bright’

That’s the conclusion of the Government of Canada. Agriculture and Agri-Food Canada says that there’s a lot to be optimistic about in the country’s farming sector, forecasting that average worth per farm is expected to reach \$2.1 million in 2015, up from \$2 million in 2014. Additionally, farm-level net operating income levels per farm are forecast to reach nearly \$78,150 for 2014, an all-time record.

“*The future for Canadian agriculture remains positive. Our Government will continue to work with industry to strengthen agricultural research and innovation, break down trade barriers, open new markets and enable producers to improve their incomes, support their families, and grow the Canadian economy.*

GERRY RITZ, MINISTER OF AGRICULTURE

This projection, however, is contingent on there not being any severe weather incidents. And as history has shown, this is rarely the case, as there’s always something that seems to come up that affects farmers’ productivity and profitability.

Frequent Flooding Events in Recent Years

The massive flooding that occurred in Alberta is one example. Farmers no doubt remember that in late June 2013, the province received one of its worst environmental disasters in recorded history, when heavy rainfall caused rivers to breach and dams to buckle. The high water levels that resulted forced more than 100,000 people to abandon their homes. Insured damages were in excess of \$5 billion, according to estimates from the Insurance Bureau of Canada.



“It is vital that farmers and landowners have a plan in place prior to the threat of floods,” said Kenda Lubeck, farm safety coordinator with Alberta Agriculture and Rural Development.

While farmers weren’t entirely unscathed, most had already seeded their acreage, so the damage was fairly limited, according to the Agricultural Financial Services Corporation.

But the same couldn’t be said for Manitoba farmers in 2011. During that event, excessive moisture prevented 3 million acres from being seeded. And in 2014, nearly 1 million acres went unseeded as flood waters affected 25 percent of arable land in the province, according to data from Keystone Agricultural Producers.

Saskatchewan farmers haven’t been spared of Mother Nature’s wrath either. In 2010, a high percentage of the province’s farmland was swallowed up by flooding. In fact, 5 million hectares of central Canadian acreage went unseeded, according to the Canadian Wheat Board.

\$90 Million in Insured Losses from November 2014 Windstorm

Heavy winds are another issue to account for. In November 2014, wind gusts and massive amounts of precipitation caused \$90 million insured damages, IBC reported from Property Claim Services. At one point during the storm, winds were clocked at speeds in excess of 100 kilometers per hour.



Including other weather-based disasters during the year—which included a tornado in Angus—insured damages in 2014 reached \$200 million, according to IBC’s Ralph Palumbo.

Weather Can Affect Maple Syrup Harvest

Even though most of Canada’s agriculture grows in the spring, summer and fall, the brutal cold associated with the country’s winters brings its challenges. This is particularly true for one of Canada’s renowned exports—maple syrup.

At 80%, Canada is the world’s largest maple syrup producer, pumping out nearly 9.5 million gallons of syrup for distribution in 2014 alone, the Wall Street Journal reported.

For there to be a good harvest, there has to be a fairly even ratio of cold days and warm days—the ideal being cold nights and warm days. With maple syrup season starting as early as February for many, a prolonged cold spat can leave a shorter time in which to sell maple syrup because of limited production.

Between New England and Canada, virtually all of North America’s supply of maple syrup comes from these respective areas, with Quebec as the biggest producer.

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AND ICE.



Disease Affects Productivity

It isn't just the weather that farmers have to be concerned about. There are also the pests and diseases to contend with.

One of the more common fungal diseases found on crops in both the United States and Canada is called corn smut.


Though known as a fine delicacy in Latin America—often used as an accompanying ingredient in a variety of Mexican dishes—the fungus is anything but appetizing to farmers' cash crops. *Ustilago maydis* chiefly grows on corn stalks. Once a stalk contracts the disease, it eventually works its way to the ears of corn, producing black spores that line cobs and their corn kernels.

Once it develops, it's hard to get rid of it, spreading to other stalks rapidly. Some estimates say that it can lead to production losses of 20%, according to Public International Radio.

Bee Populations Depleting

Yet another variable for farmers that can influence yield are honey bees. As agricultural enthusiasts know, much of their livelihood depends on bees, as without them, crops wouldn't be able to get the pollen they need to grow and produce, particularly fruit trees like apples, pears and peaches as well as berry bushes.

A number of studies suggest that bee populations are diminishing, however. There are a variety of reasons for why this is the case, including excessive pesticide use and the bitterly cold temperatures of winter. Based on numbers crunched by the Financial Post, an estimated 58,000 bee colonies were lost in 2014 as a result of factors like cold, snow and ice.



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In an effort to offset these losses, many Ontario farmers support restricting pesticide use. According to the Ontario Beekeepers' Association, 97% of the province's residents would support applying more stringent measures at curbing neonics, or neonicotinoid pesticides.

“*The government invited feedback on its proposal to restrict neonics, and the response is loud and clear: Ontario should not delay action to protect the health of bees.*

TIBOR SZABO, OBA PRESIDENT

Actions have already been taken at the international level to regulate neonid use. In 2014, the European Commission announced that they could no longer be used on certain crops because the effects were too harmful to the environment.

Though regulations may ultimately save millions of bee colonies, there's no knowing what the outcome will be, as population rates have waxed and waned over the years, leaving farmers to do nothing more than hope for the best.

Insurance Helps to Mitigate Risk

With so many questions left unanswered, every farmer has to ask themselves the following: What can I do to drive risk out of my farming business?

Risk is part and parcel of the farming profession, so there's really no such thing as getting rid of it completely. But there are a number of ways in which you can mitigate the effects, experiencing as little blowback as possible when worst-case scenarios present themselves.



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AT FBC ARE
HIGHLY QUALIFIED
PROFESSIONALS
WHO STAY ON TOP
OF THE LATEST
DEVELOPMENTS
TO KEEP YOU AND
YOUR BUSINESS
UP TO DATE.

Here are a few of the possibilities that help with risk management:

1. SELF-EDUCATE

To paraphrase English scientist Michael Faraday, best known for his contributions to the field of electromagnetism, self-education is a fundamental facet of every component of daily life. And this certainly rings true in the world of farming. Rule changes are in an almost constant state of flux, and if you're not paying attention to them, you may be caught flat-footed at the worst possible moment.

You can self-educate by subscribing to industry magazines, which do a pretty good job of tracking rule changes. You may also want to consider a year-round membership with FBC. The associates at FBC are highly qualified professionals who stay on top of the latest developments to keep you and your business up to date. With a year round membership, you'll never be caught by surprise, becoming proactive rather than reactive.

2. SELF-INSURE

Going the self-insure route is one of the more cost-effective ways of dealing with risk. This process works by setting aside an amount of money that's left untouched. It goes into use only after there's a loss or there's the potential for one. Unlike commercial insurance, which requires you to pay a specific premium on an annual basis, the person or company that needs the coverage does all the work, hence the "self" prefix. In other words, you have to be sure to save up enough money so that a loss will be covered.

Perhaps the best part of taking the self-insure avenue is that you don't have to worry about annual premiums, meaning that more of what you earn will go toward the development of your farm. But the downside is that there's no guarantee what you save will ultimately cover what's lost after a weather event, disease or down year in terms of production. This is why many insurance experts say that it's good to balance self-insurance with a commercial insurance policy.



AGRISTABILITY
PROTECTS
FARMERS FROM
MAJOR LOSSES
THAT CAN COME
WITH BEING IN
THE AGRICULTURE
BUSINESS.

3. COMMERCIAL INSURANCE

This is the strategy that most farmers take, likely because it's the most straightforward and safe. In exchange for an annual premium, the private insurer promises to pay for the damages resulting from a natural disaster or other incidents in which revenue is lost. Similar to car insurance, there are several types of crop insurance, like multi-peril, crop yield and crop revenue. Each has its own set of standards as far as what perils are covered.


It's this variation that can be frustrating for farmers. For example, crop-yield insurance is pretty narrow in terms of what risks are covered. It may provide for damage caused by hail, but leave growers uncovered if losses stem from disease or insects.

There's also the deductible to take into consideration, which is the amount of damage that the farmer has to pay for before the insurer picks up the difference.

4. AGRISTABILITY

Yet another option is going through the government and taking advantage of the services that it provides. One of the more widely utilized insurance-related federal products is called AgriStability. Maintained by Agricorp – which is an agency owned by the province of Ontario, as well as national and provincial legislatures – the appropriately named AgriStability provides a sense of security for farmers because it protects them from major losses that can come with being in the agriculture business. These losses may stem from diminished production, higher costs – which often translate to lower returns – as well as market fluctuations that present themselves from year to year.

AgriStability works by comparing farmers' production in a given year versus what they normally do. For example, suppose that a fruit

A photograph of a large red barn with a green roof, partially submerged in floodwater. The water is murky and filled with debris, including dry corn stalks and branches. The sky is overcast and grey.

A FARMER IS
COMPENSATED IF
THEIR MARGINS
FALL BELOW
70% OF THEIR
REFERENCE
MARGIN.

grower experiences a deep freeze that severely jeopardizes their harvest. Lower production typically translates into diminished returns, whether due to limited supply or the effects of having to raise prices because of supply and demand dynamics.


At the end of the year or selling period, if farmers' net income is lower than what they normally make – i.e. experiencing a large margin decline – the government will pay whatever the difference is through the AgriStability program. To be compensated for losses, production margins have to fall below 70% of the typical income made in a season.

The AgriStability program uses margins to determine compensation. There are two types: program and reference. Program margin is determined by subtracting allowable income from allowable expenses in a given year or growing season. It also takes into account any adjustments related to inventory and receivables. These adjustments are made in accordance with the information provided by the farm owner.

Reference margin is a farmer's average income over the previous three to five years. Because there are always aberrant years for money made or lost, the lowest and highest margins are not included in the calculation. Whatever the lowest historical number is for earnings serves as the reference margin.

Once these factors are all accounted for, a farmer is compensated if their margins fall below 70% of their reference margin.

There are a few important components, however, to determining eligibility for AgriStability. For starters, farmers have to be sure they're up to date on all of their payments, as participation in the program comes with fees. Farmers usually pay a fee of \$4.50 for \$1,000 of margin coverage. There is also usually an administrative



FOR MORE
INFORMATION
ON HOW TO GET
STARTED, SPEAK
WITH AN FBC
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TODAY.

fee that comes with participation. Additionally, farmers have to submit an application for every year they want to take part. Lastly, they have to make an accounting of their taxes, reporting all necessary documents and statements to the government.

Because farmers can always count on the full faith and credit of the government, they can rest assured that AgriStability will be there when they need it. However, detractors of the program say that it provides an unfair advantage to larger farms by paying them a greater portion of government subsidies.

There's no one right answer to protection your losses. What's important is finding the right plan for you and your farm. The professionals at FBC can help you make an informed decision. FBC will help you assess your risk, understand the ins and out of each program, along with what steps are needed to initiate that plan. The decision is yours, but FBC can help walk you through the options so that it's as seamless as possible.

For more information on how to get started, speak with an FBC consultant today.

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