

# Ontario's Risk Management Program: MPP Resource Book



**Ontario Agriculture Sustainability Coalition**

Ontario's RMP Commodity Organizations

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## Welcome Message

On behalf of our farmers, we are pleased to provide you and your office with this binder containing information about Ontario's Risk Management Program (RMP). RMP was first created as a pilot program in 2006/7 in the Grains and Oilseeds sector. In the 2011 provincial budget, RMP became a permanent program and was extended to the livestock sector, including cattle, hogs, veal, and sheep. In 2012, over 7,700 farmers participated in the program.

RMP is an important program for all Ontarians whether they live in cities or rural areas. Producing local food in Ontario faces many challenges. Our farmers believe that without RMP, producing food locally for our residents would be put at risk and increasingly our population would need to depend on farmers in other countries to feed them. Local food production and food security is important to Ontarians. They want food produced locally for a variety of reasons, including a desire for an environmentally responsible food supply that it is also reliable and safe. By sustaining local farmers through challenging times, RMP is an investment in protecting Ontario's food supply for current and future generations.

RMP is what is generally referred to as a business risk management program. In other words, RMP helps farmers to respond to the various financial risks that their farm business faces, including providing a partial source of funding to cover expenses, pay staff and suppliers and ultimately to make ends meet. RMP is a need-based program, which is not intended to make payments every year, but only when farmers meet program need criteria, and only after they have enrolled in the program and have paid the insurance co-payment premium. RMP is one of the building blocks of a national system of agricultural business risk management programs including federal and federal-provincial programs.

Farmers face many risks including weather, disease, global competition, trade barriers, and historically high costs for fertilizer, energy and other inputs. Our farmers use many modern tools to manage these business risks, including investing in biosecurity measures to prevent disease, environmental improvements and soil protection, diversifying the products they grow to spread risk over a number of markets, and financial tools like hedging as well as investments in innovation to add value or increase productivity. RMP does not replace these important tools, but it is a vitally important program in the suite of actions farmers can take.

The support of your caucus in helping to create RMP in the first place is very much appreciated and we continue to call upon your support to preserve RMP for future farmers and consumers. We hope this information binder proves to be useful to you in your role as an MPP.

## How RMP Works

### Ontario's Risk Management Program

Announced in the 2011 budget as a permanent program, RMP is an insurance-like program which helps farmers manage risks beyond their control, like fluctuating costs and market prices. The program is available for the cattle, grains and oilseed, hog, sheep and veal sectors. RMP complements AgriStability and Production Insurance. AgriStability was designed to stabilize whole farm income and production insurance was created to mitigate production loss. RMP is comprised of two major components: an RMP program for Livestock and RMP for Grains and Oilseeds. A third program, Self-Directed Risk Management Program (SDRM) is available for the edible horticulture sector. All three program components were created after extensive consultation with the sectors involved.

RMP Livestock and RMP Grains and Oilseeds works like insurance to help Ontario farmers to offset losses caused by low commodity prices and rising production costs. Participants pay premiums based on their annual anticipated sales and chosen coverage levels. Program payments are made if market prices for enrolled production fall below a targeted support level (Target Price). Within the Livestock RMP, there can several subcategories in the plan such as the cow-calf, backgrounder, and feedlot categories within the cattle RMP plan. Eligible crops for the Grains and Oilseeds RMP include Ontario-grown grain and oilseed crops, including farm feed grains and crops grown for seed. Many major and minor crops are covered under the Grains and Oilseeds program.

RMP is treated as an advance against the provincial portion of the federal/provincial AgriStability program. Participating farmers will keep the greater of either the RMP program payment or the provincial portion of the AgriStability payment. Because RMP is provincially funded, it has no impact on the federal portion of AgriStability payments.

RMP payments are capped to individual producers at \$1.2 million per category, as is consistent with the AgriStability payment cap. For SDRM, the cap is based on a percentage of your allowable net sales up to an established maximum.

Participants in all three RMP plans can enrol in more than one plan. Participants must also meet a number of compliance requirements including enrolment in AgriStability, providing a valid premises identification number, and for Grains and Oilseeds, participation in Production Insurance. These mandatory requirements encourage farmers to participate in all the government risk management programs offered to them and to adopt the industry standards that are mandated, such as premises ID.

Additional details from the Agricorp website follow below.

## **Additional Livestock RMP Details**

RMP payments are issued for sold livestock when the average market price for the payment period and category falls below the support level. The support level is the target price multiplied by the coverage level for that livestock category. The average market price and support level are calculated separately for each category.

- Payments are issued at the end of each sales reporting period after your sales report is processed. Cow-calf, pork, veal and sheep payments are calculated and issued twice per year and three times per year for the other livestock categories.
- Backgrounder and feedlot payments are calculated every week and compiled after each sales report has been submitted and processed. Payments are issued three times per year.

An additional payment may be made, if applicable, depending on remaining funding.

Payment rates are based on the difference between the support level and the average market price for the payment calculation period.

To ensure annual funding is not exceeded, payments may be prorated. Prorating may be applied to each payment over the year, and final payments may include an adjustment to reflect total funds available for RMP payments.

For further information on individual livestock programs or categories, please refer to the Agricorp website.

## **Additional Grains and Oils Seeds RMP Details**

Payments are made if a crop's market prices fall below the annual support level. The support level is based on the target price, which is calculated annually by the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA).

RMP payments are the product of average farm yield (AFY), reported acreage, and the difference between support level and the market price. Each payment calculation is based on 50 per cent of AFY because there are two pricing periods for each year.

To ensure annual funding is not exceeded, payments may be prorated. The prorating may be applied to each payment over the year, and final payments may include an adjustment to reflect total funds available for RMP payments

For further information on individual programs or sub-categories, please refer to the Agricorp website.

## Why RMP is Important

### Reason #1 - Agriculture creates jobs and is a key economic driver for Ontario

RMP is important because it represents an investment in preserving jobs and increasing employment in one of the province's most important industries - agriculture. Most Ontarians may not know that Ontario is Canada's leader in the value of the agricultural products produced. Roughly one-fifth, over \$11 billion, of the entire value of Canada's agricultural economy is grown or produced in our province. Not only is our agricultural economy large, but it is also diverse, with well over 200 agricultural products being grown or produced.

#### Total Farm Cash Receipts by Province, (\$'000)

	2007	2008	2009	2010	2011	2012	2013
Newfoundland	106,103	109,323	107,805	117,294	118,750	130,004	137,574
Prince Edward Island	384,753	394,369	410,721	410,321	484,584	482,709	496,163
Nova Scotia	458,952	488,520	462,744	496,162	527,812	580,327	593,193
New Brunswick	457,102	476,515	501,530	477,287	540,805	538,736	573,134
Quebec	6,920,080	7,573,278	7,442,757	7,213,365	7,959,103	8,345,754	8,300,141
Ontario	<b>9,272,840</b>	<b>10,046,738</b>	<b>9,684,732</b>	<b>10,206,796</b>	<b>11,094,699</b>	<b>12,054,263</b>	<b>12,289,715</b>
Manitoba	4,389,123	4,843,809	4,853,362	4,780,519	4,970,757	5,146,436	5,766,503
Saskatchewan	7,803,887	9,427,015	9,244,398	9,117,239	11,043,371	11,787,750	12,137,966
Alberta	8,691,514	10,178,520	9,326,081	9,000,917	10,289,441	11,945,828	11,772,826
British Columbia	2,381,213	2,521,749	2,525,388	2,505,164	2,604,723	2,752,273	2,776,211
Canada	<b>40,865,566</b>	<b>46,059,835</b>	<b>44,559,519</b>	<b>44,325,063</b>	<b>49,634,044</b>	<b>53,764,079</b>	<b>54,843,426</b>

Source: Statistics Canada, Catalogue No. 21-011

Because of its large provincial population and easy access to the US market, Ontario also has a very significant processing and agrifood sector which has become the sixth largest cluster of agrifood companies in North America. Ontario's agriculture sector employs approximately 164,000 people, and farm outputs contributed \$22 billion in gross economic stimulus to Ontario in 2009. Additionally, Ontario's food and beverage processing sector, a vital part of the agrifood value chain, is a \$34 billion industry, employing over 110,000 directly and over 100,000 Ontarians in related industries.

According to the University of Guelph, a 2013 survey of over 100 agrifood companies discovered that the agrifood sector has emerged as the single most important economic driver in the Ontario economy. Ontario's agriculture and food industry is booming, with more job openings than qualified people to fill them.

## **Reason #2 - Linkage to AgriStability and inadequacies of AgriStability**

During the period from 2003 to 2011, when RMP was finally made a permanent program, Ontario's non supply managed commodities lurched from crisis to crisis, none of which were of their own making. These included the 2003 BSE crisis in the beef industry, historically low prices a few years later in the grains and oilseeds sector and finally the back-to-back perfect storm of impacts on all livestock near the end of the decade, including the rapid escalation of the dollar, rising feed and energy prices and specific disease issues such as H1N1.

Before RMP, Ontario's farmers could only rely on federal provincial programs such as AgriStability and AgriInvest or on ad hoc responses from the federal or provincial governments such as the 2008 Ontario Cattle, Hog and Horticulture program. The problem with the former, AgriStability, was that it only provides funding for a short period of time which is insufficient to address longer term market depressions. Once a period of three consecutive years of margin declines happens, farmers are ineligible for funding. As a whole farm program, AgriStability did not address the needs of increasingly specialized farms that relied on a major commodity. Programs that recognized this specialization were needed. Moreover, AgriStability was and is too slow to provide funding during times of industry crisis. By definition it is always at least a year too late. Consequently, AgriStability did not deliver the predictability, bankability or timeliness that Ontario's farmers required.

Ad hoc programs, that attempt to patch up the weaknesses in these programs, while welcome in many ways can be even worse. They can put pressures on the province's fiscal plan as they are totally unplanned expenditures and they are financially expensive to administer and to allocate funds fairly to all that need them.

RMP helps to correct all of this by being firstly an advance on AgriStability, so it is timelier. Secondly, it helps to make all programs more predictable and bankable which helps farmers hire staff and grow their farms and most importantly it helps them obtain bank operating lines and loans to grow their businesses. Finally, RMP can do away with ad hoc funding during times of crisis and it makes expenditures more predictable for government as well as involving farmers as co-payers in a jointly financed government/farmer market insurance program.

## **Reason #3 - Ontario farmers face unique challenges compared to other provinces**

A further issue with the federal provincial suite of farm business risk management programs such as AgriStability is that they tend to reward farms which can increase their reference margin quickly through rapid expansion or by specialization. In contrast, Ontario's farmers have typically addressed business risk through diversifying the commodities they produce - particularly grain and livestock farmers, as well as horticulture. This form of self risk coverage has meant that Ontario's draw on these federal provincial programs has been less than its size would dictate. RMP helps make this right by allowing farmers to pay premiums and apply to more than one RMP program which more directly address commodity risk.

## **Program Updates**

### **Changes for the 2013 Program Year**

The Ontario government's 2012 budget and fiscal plan provided \$100 million, plus farmer premiums, for RMP including its administrative costs. RMP and SDRM commodity organizations were challenged with finding a way to ensure that RMP and SDRM did not exceed the \$100 million program budget for the 2013 program year and in subsequent years of the fiscal plan. Since the budget speech was delivered, the six RMP commodity groups have worked collaboratively with the Ministry of Agriculture, Food and Rural Affairs and Agricorp, with the assistance of the Ontario Federation of Agriculture, to redesign RMP, including the SDRM program. The revised program will put in place new features which would cap the government's contribution while providing additional flexibility to industry to maximize both premium funds and government contributions to meet the needs of farmers.

The RMP programs for Grains and Oilseeds and Livestock will be capped after taking into account the requirements of the SDRM horticulture sector program. Individual commodity "reference committees" are currently working out the details of sector and category premium levels as well as the timing of payments from the government program. Under the revised program, and depending on the need across all sectors in a given year, farmers may not receive a final government program payment until the end of fiscal year, when the need of all participating commodities is known and the dollars available for payment can be calculated and equitably disbursed among all farms in need. Farmers should check their commodity organization website and Agricorp.com for additional details on program changes. All details are expected to be finalized over the next few weeks.

### **RMP Premium Fund**

Perhaps the most innovative and positive outcome of the redesign effort is the formation of the RMP Premium Fund. Under the current program, premiums are collected and deposited into the general revenues of the provincial government. Currently there is no mechanism for a commodity to track and roll over premium funds from one year to the next. Starting in 2013, premiums will continue to be collected but will be transferred to a new, independent, commodity-led organization which will manage the RMP premium funds on behalf of each commodity. Commodities will now have the option to use the funds to augment government payments in order to help meet the overall program need, or to roll over funds from one year to the next to be used in a future year when program demand may outstrip the government funds available.



## **Changes for the 2014 Program Year**

### **Removal of AgriStability as a requirement for enrolment of RMP**

In the fall of 2013, Premier Kathleen Wynne responded to requests from farm leaders for program enhancements by tasking the Deputy Minister of OMAFRA and senior Ministry staff to work collaboratively with the commodity groups to try and find ways to ensure the existing program and funds were best serving farmers.

After a year of working together, the detailed analysis, measured against clear criteria, have led OASC to conclude that the current RMP program is far superior to any other alternative.

Through the review, it also became clear that the mandatory requirement of enrolment in AgriStability was not meeting the criteria given the cuts to the program and other challenges.

In November, Minister Jeff Leal announced the removal of AgriStability as a requirement for enrolment.

## Contacts

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## Links

<b>Agricorp</b>	<a href="http://www.agricorp.com">www.agricorp.com</a>
<b>Ontario RMP YouTube Channel</b>	<a href="http://www.youtube.com/ontariomp">www.youtube.com/ontariomp</a>