



**FARMERS
FOR CLIMATE
SOLUTIONS**

Grounded in Resilience

**Adapting Business Risk Management Programs
to Reward Climate-Friendly Agriculture**

Business Risk Management Summary Report

February 2022

The federal, provincial and territorial governments together provide a suite of business risk management (BRM) programs that help Canadian farmers manage risk and stabilize farm incomes. These programs have become a fixture of the Canadian agricultural system, and are an important means of maintaining farmer livelihoods. BRM programs are also expensive, costing Canadian governments almost \$1.7 billion a year, or 60% of all public spending on agriculture.

Canada's current BRM programs were originally designed at a time of international trade wars, when low commodity prices and negative farm incomes were the most important threats to farmers, but environmental outcomes were always central goals of BRM programs. The enabling legislation for today's suite of programs states that BRM programs "should encourage long-term environmental and economic sustainability," and that insurance may be "withheld, restricted or enhanced for the purpose of protecting the environment and of encouraging sound management practices to ensure environmental sustainability."¹ These provisions are especially important now that climate change has emerged as the single greatest threat to Canadian agriculture.

Climate change presents a number of risks to Canadian farmers. The first and most obvious is the threat of more frequent and extreme severe weather events. The 2021 growing season was a stark warning of what is to come with a warming climate: drought, extreme heat, floods and fire. Canada's trade-focused agricultural sector is also vulnerable to market fluctuations, geopolitical conflict and supply chain disruptions caused by severe weather at home and around the world.

Beyond the direct impacts of severe weather, Canadian farmers face market and regulatory risks. The international market is increasingly demanding low-carbon products. International food companies are moving to aggressively reduce emissions in their supply chains, and foreign governments are providing hundreds of billions of dollars to their farmers to help them transition to a resilient, low-carbon future. Canadian farmers risk being left behind if they are not supported to adapt.

Federal, provincial and territorial (FPT) governments are currently negotiating the next Agricultural Policy Framework (APF) which will guide Canadian agricultural policy, including BRM programs, from 2023 to 2028. FPT ministers have stated that the number one priority of the next APF should be "tackling climate change and environmental protection to support GHG emission reductions and the long-term vitality of the sector."² Ensuring that BRM programs help farmers manage the range of risks presented by climate change and encourage the transition to climate-friendly practices will be essential to achieving this goal.

1 Farm Income Protection Act, 1991.

2 The Guelph Statement of the FPT Ministers of Agriculture, 2021



CANADA'S BRM PROGRAMS

AgriInsurance: Crop insurance to cover the risk of loss of yield due to weather, pests or other factors beyond the control of the producer. Federal and provincial governments subsidize 60% of the premium.

AgriStability: A margin-based program to cover the risk of loss of income due to market fluctuations or other factors. Available to both crop and livestock producers.

AgriInvest: A self-directed risk management account to cover small fluctuations in income. Producers receive a matching government contribution up to a maximum of \$10,000 per year, based on a percent of net sales.

Advance Payment Protection: Low-interest loans to facilitate cash flow between harvest and sale of agricultural products.

AgriRecovery: A disaster relief program to support farmers in the case of a natural disaster.

The Farmers for Climate Solutions BRM Task Force

In late 2021, Farmers for Climate Solutions (FCS) assembled a task force of experts to examine how Canada's BRM programs could be reformed to help farmers increase on-farm resilience and reduce emissions. This task force, and an associated advisory body, consisted of agricultural economists, researchers and policy advisors with expertise in Canadian BRM programs.

The task force reviewed the academic literature, examined the history of Canadian BRM programs, and looked at experience in other jurisdictions and sectors to answer the following research questions:

- Are there elements of Canada's BRM programs that incentivize or disincentivize adoption of higher-resilience and lower-emissions practices?
- How could Canada's BRM programs be reformed to encourage the adoption of climate-friendly practices?

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Major Findings

The task force found that business risk management programs impact production decisions and greenhouse gas emissions in Canada. The following are some of the major findings of the research project.

Climate Impact

1. Subsidized BRM programs may incentivize farmers to adopt riskier practices, a phenomenon termed “moral hazard”. Subsidized BRM programs may reduce the likelihood that farmers adopt practices that reduce their climate-related risk, such as diversifying crop rotations, improving soil health and adopting climate-friendly beneficial management practices (BMPs).
2. BRM programs have a greater climate-related impact on the extensive margins (bringing land into and out of agricultural production) than on the intensive margins (decisions around crop mix, inputs and farming practices).
3. Crop insurance programs provide an incentive to convert marginal land, wetlands, grasslands and treed areas to crop production, which can cause significant GHG emissions.
4. BRM programs may encourage specialization, which can increase climate-related risk. This seems to be especially true for AgriStability.

Program Delivery

5. AgriInvest is not achieving its stated objectives and makes little contribution to better risk management in Canadian agriculture. AgriInvest is providing little public benefit and is therefore at risk of elimination if it is not reformed.
6. The delivery of BRM programs varies significantly between provinces. Examples of innovative programs that encourage farmers to reduce their climate-related risk exist in some provinces. Such programs should be considered for adoption by other provinces.
7. Data collection varies significantly between provinces. Some provinces collect data on crop history, input use and farming practices at the field level, while some do not. Lack of data may constrain certain policy options in the future.
8. This research project was hampered by lack of access to data on BRM program participation and the characteristics of BRM participants. The analysis of AgriStability was especially constrained due to lack of access to data.



Recommendations

The research revealed a number of opportunities to reform Canadian BRM programs to achieve better climate outcomes in Canadian agriculture. While reforming BRM programs to achieve climate goals is urgent and important, BRM reform alone will not be sufficient. Targeted environmental programs and incentives for the adoption of climate-friendly practices will be necessary to achieve substantial agricultural emissions reductions and increased resilience in the sector. Such programs should also be included in the next Agricultural Policy Framework and are the subject of a separate research project now being conducted by FCS.

The reforms suggested in this report are intended to reduce GHG emissions from agriculture, increase on-farm resilience, and help farmers adapt to our changing climate. These reforms are expressly intended to reduce climate-related risk at the farm level. By encouraging risk-reducing behavior by farmers, BRM programs can lessen the likelihood of triggering a payment in the event of a crop failure or dramatic drop in farm revenue, and increase the stability and financial viability of the suite of BRM programs in the future.

The Business Risk Management Task Force examined the academic literature, historic BRM programs in Canada, programs in other jurisdictions and innovations in other sectors to develop a list of recommendations for Canadian BRM reform. These recommendations are presented in more detail in the [accompanying technical report](#). We suggest the following policy changes to ensure that Canada's BRM programs encourage the adoption of resilient and lower emission practices.



McCreary Land & Livestock Ltd. in Bladworth, SK



AgriInsurance

AgriInsurance is by far the most expensive of Canadian BRM programs, costing governments approximately \$1 billion in 2020, far more than all other BRM programs combined. Catastrophic weather in 2021 pushed government spending on AgriInsurance to approximately \$3 billion. It has a high participation rate among crop producers across the country. AgriInsurance already requires certain agronomic practices to be eligible for a claim, so adding requirements or incentives to encourage practices that reduce climate risk is in keeping with the traditional delivery of this program.

Encourage and incentivize more diverse rotations

1. Increase participation in crop averaging or whole-farm insurance programs, like the Saskatchewan Multi-Peril Crop Averaging Program, by promoting the programs and making them more attractive to producers.
 - Remove the cap on additional coverage.
 - Lower producer premiums.
2. Lower individual crop premiums if producers meet crop diversity requirements.
3. Make insurance available for intercropping at equitable rates and coverage levels.
4. Disallow coverage for multi-year, single crop rotations.

Encourage and incentivize the adoption of environmental BMPs

5. Pilot BMP insurance for environmental BMPs.
 - Pilot BMP insurance for split application of nitrogen.
 - Offer BMP insurance for practices such as cover cropping, strip till, reduced rate nitrogen, and others.
6. Gather data to quantify the risk reduction benefits of various BMPs with the goal of offering actuarially fair reduced premiums or increased coverage rates for resilient BMP adoption.

Discourage conversion of grasslands, wetlands, and trees

7. Remove the subsidy and limit coverage for newly converted permanent grassland (uncultivated), trees or wetlands for a period of time.

Remove the requirement for practices that increase GHG emissions

8. Eliminate requirements for prior tilling/burning/mowing to receive payment under the Unseeded Acreage Benefit.

Implement pilot projects to trial indexed insurance

9. Pilot indexed insurance for appropriate crops and practices, including those that are not well covered by existing insurance programs.



AgriStability

Our analysis of AgriStability was hampered by lack of access to data on program participants and payments. AgriStability is relatively undersubscribed across the country. Anecdotal evidence indicates that AgriStability may encourage specialization, which can increase climate risk.

1. Determine the characteristics of farms accessing AgriStability and re-design the program to better encourage the adoption of resilient and lower emissions practices.

AgriInvest

AgriInvest is a popular and widely subscribed program, but it is not achieving its stated goals and provides little public benefit. In order to preserve this program and contribute to Canada's climate goals in agriculture, AgriInvest should be redesigned to focus on incentivizing reduced emissions and increased resilience on Canadian farms.

Repurpose AgriInvest to promote farmer-directed, farm-level climate risk management

1. Increase the matching percent of allowable net sales for farmers who complete a new climate module of an Environmental Farm Plan (EFP). This EFP and climate module should be updated annually, with farmer input.
2. After two years, make participation in the EFP mandatory, and require participants to adopt practices that increase resilience and reduce climate-related risk.

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Amara Farm in Courtenay, BC
(Photo by Michaela Parks)



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About Farmers for Climate Solutions

Launched in February, 2020, Farmers for Climate Solutions is a national coalition of farmer-led and farmer-supporting organizations advancing policies and programming that support farmers to reduce emissions and build resilience in the face of climate change.

Current members of Farmers for Climate Solutions include:



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