National Farmers Union
Presentation to the
Agriculture Financial Services Corporation (AFSC)

On the issue of Crop Insurance

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Introduction

The National Farmers Union (NFU) welcomes this opportunity to present its views on the provincial crop insurance program administered through the Agriculture Financial Services Corporation (AFSC).

The NFU is a nation-wide, non-partisan, democratic organization made up of farm families that raise a wide variety of commodities, including crops and livestock. The NFU was founded in 1969 and is the only farm organization in Canada incorporated under a special Act of Parliament.

While the need for some form of crop insurance had been apparent since agricultural settlement began in western Canada, it was not until 1939 that the Prairie Farm Assistance Act was passed in the House of Commons. The Act, introduced by Hon. J.G. Gardiner, acknowledged the federal government's partial responsibility for opening up areas of the southern prairies, which were known to be susceptible to prolonged periods of drought, to cultivation.[1] The legislation was also intended to save the federal Treasury a significant sum by providing a "less expensive alternative to the continuation of a form of price insurance on wheat; and secondly, it was regarded as a suitable alternative for outright relief payments which the federal government felt it would be obliged to pay in the absence of such a measure."[2] The original PFAA was "the program closest to all-risk crop insurance available to prairie producers".[3]

The National Farmers Union and its predecessor organizations have continually lobbied provincial and federal governments for improvements to crop insurance coverage which provides family farmers with necessary coverage at reasonable premiums. Cooperation between provincial farmers' unions on this issue was a contributing factor in the creation and refinement of comprehensive crop insurance programs in the 1950s and 1960s. "In 1956, the joint board meeting of the Interprovincial Farm Union Council (IFUC) went on record in support of contributory all-risk crop insurance. The provincial government was to administer such plans and

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[1] Charles Schwartz, "The Search for Stability – Contemporary Saskatchewan", 1959, McClelland and Stewart Limited. Pages 5 and 6
[2] Schwartz, ibid, Pages 193 and 194.
[3] Schwartz, ibid, page 195.

pay administration costs, while the federal government provided a stabilization fund. Such a program did come into being eventually, and the protection it gave proved invaluable."[4]

One of the common recommendations provided to governments through the decades from the Farmers Union has been the need for reduced premiums and increased coverage. Unfortunately, the history of crop insurance programs has been one in which the opposite trend has taken place. Farmers have increasingly been saddled with increased premiums while their coverage has steadily eroded.

NFU Crop Insurance Policy

The National Farmers Union has adopted policy positions on many areas of direct concern to family farmers in Alberta and across Canada. Our policy is the result of democratic debate at annual national conventions on resolutions put forward by grassroots delegates. As a result, the NFU policy on Crop Insurance reflects the wishes of a majority of family farmers in this province and nationally. Our policy is as follows:

1. Farmers suffer crop losses each year from natural hazards such as hail, drought, flood, frost, wind, wildlife, etc. The federal and provincial governments have organized crop insurance programs in all provinces except Newfoundland. The NFU promotes the following policy proposals:

A. Careful research into coverages, premiums and crops covered, with a view to updating premiums and coverages each year. Once premiums are paid and contracts issued for crop insurance for any given year, that contract be honoured in full.

B. Spot loss hail damage to crops be instituted in each province.

C. The termination date for crop insurance covering fire damage should be extended until harvest is completed.

D. Full policy control of provincial crop insurance programs by appointed boards of farmers and government is needed.

E. Spot loss coverage for losses resulting from wildlife and waterfowl damage be introduced by the provinces concerned. The premiums and administration for this coverage be fully paid for by the federal and provincial governments on the basis of full compensation for actual crop value plus interest to recipients on overdue accounts.

F. Coverage be available in any province for all crops grown.

G. Coverage be provided to allow farmers the option of insuring stubble fields against the possibility of spring flooding.

H. A disaster fund be established to compensate farmers suffering a series of consecutive crop losses.

I. Studies be conducted to ascertain if crop insurance should be voluntary or compulsory.

2. In recognition of varying crops and crop conditions between provinces as well as cultural methods and practices, crop insurance protection in each province may need refinement. The NFU will study and enter into negotiations with provincial governments and/or provincial crop insurance boards to provide:

[4] Alf Gleave, "United We Stand – Prairie Farmers 1901-1975", Lugus Publishing 1991

A. Crop insurance for specialized farmers who require special kinds of insurance to cover their costs of production;

B. Updating of existing crop insurance programs to cover the specialized farmers.

3. We oppose any reduction in funding by the federal government toward crop insurance;
4. Payments for spot-loss hail damage should not be deducted from payments made under crop insurance. Spot-loss hail coverage should be separate from guaranteed crop insurance.
5. Seed companies which mislabel seed varieties as being herbicide-tolerant (such as Roundup-Ready canola) should be liable for any damages caused to plants grown from that seed which are not herbicide-tolerant. Crop insurance in such cases should not be held responsible for compensation payments involving re-seeding due to herbicide damage.

Spot-loss Hail Insurance (Hail Endorsement):

There is universal acceptance among farmers for the need for increased coverage at lower cost. The escalating price of essential farm inputs, including seed, fuel, fertilizer and chemicals, has severely cut into farmers' operating margins. As a result, the consequences of crop damage due to weather or wildlife-related causes are increasingly difficult to absorb.

Spot-loss hail insurance, also known as "Hail Endorsement", is, therefore, an important option for Alberta farmers. Without spot-loss hail coverage, damage to a portion of a crop could be offset by above-average production from the remainder of the field of the same crop that is not damaged.

According to the Alberta government's website: "*Straight hail insurance provides protection for 'spot loss' damage to crops due to hail or accidental fire. Anybody with an interest in an insurable crop grown in Alberta can participate whether they are the actual producer, tenant, or landlords. (Landlords who cash rent are not eligible.) There is a program dollar coverage limit per acre based on the crop and whether it is grown on dryland or irrigated acres. The combined dollar coverage of all insured parties cannot exceed the program coverage limit. Governments do not contribute to either administration expenses or premium cost.*"[5]

It is important that the Hail Endorsement program be maintained and enhanced. However, it is also important to make improvements to the program. One improvement would be to modify the crop cost equation in order to allow for fair compensation to farmers for sudden and unexpected escalation of input costs. Under the current program, once the crop insurance premium rates have been set, farmers are in a position where they must absorb any higher input costs, and this often puts them in a position where cash flow becomes a serious problem. Compensation would be based on the farmer's historical cash flow data (backed by receipts), similar to the way that crop yield history is currently tracked. In this way, the insurance payment would reflect a more accurate picture of the real shortfalls experienced by producers during any given crop year on any particular crop.

[5] http://www1.agric.gov.ab.ca/general/progserv.nsf/all/pgmsrv200

In the past several years, Alberta has been battered by a record number of hail storms, prompting farmers to increase hail endorsement coverage with crop insurance.[6] Any move on the part of AFSC to reduce the effectiveness of spot-loss hail insurance or to eliminate this program would not only be highly unpopular among farmers, but also highly detrimental to farmers' ability to manage their risks effectively. The importance of retaining spot-loss hail insurance was confirmed a decade ago during a review of the province's crop insurance system. The review was conducted by the government-appointed Crop Insurance Review Committee in 2000, with additional analysis provided by the George Morris Centre. That review concluded that "straight hail insurance (purchased separately from 'all risk' crop insurance) is effective and worth the cost."[7]

<u>The NFU recommends that spot-loss hail insurance, also known as "Hail Endorsement," be retained and enhanced.</u>

Spring Price Endorsements:

The Spring Price Endorsement (SPE) options offered by AFSC are also effective and important tools for farmers. Like the Hail Endorsement option, SPEs may be purchased as an addition to crop production insurance on a crop-specific basis, and are designed to protect against price drops of 10 to 50 percent between the spring and fall. An SPE payment is triggered in the autumn when the market price of the insured crop has decreased by 10% or more (to a maximum of 50%), compared to the spring insurance price under Production Insurance. Payments under SPE are the difference between the spring insurance price, and the fall market price, times the production grown, up to the coverage level elected under the Production Insurance Program.

The experience of many farmers who have purchased SPE options on various crops has been positive. By paying a premium for an SPE option, farmers are able to guarantee a price and insure against potential price drops. In light of the roller coaster ride of crop prices over the past two years, the SPE option has been of particular value to Alberta farmers.

<u>The NFU recommends that Spring Price Endorsement options – as the program is currently structured - continue to be offered by AFSC.</u>

Yield Averaging:

With input costs escalating rapidly, it is important that the coverage available to farmers under crop insurance programs accurately reflect not only their costs of production, but also the average yield of specific crops in clearly-defined areas. Canola seed is approaching $9 per pound, and because an average of over 5 pounds per acre is needed, that translates into an estimated cost of approximately $50 per acre in seed costs alone. When an average of $150 for fertilizers is added to the seed cost, that boosts the cost per acre up to approximately $200. The loss of even a relatively small number of acres due to weather-related causes, then, represents a

[6] "Crop Insurance and Uncertain Global Economy", Agri-News, April 20, 2009. http://www1.Agric.gov.ab.ca/$Department/newslett.nsf/all/agnw14913
[7] "A Review of Alberta's Crop Insurance: A Report from the Crop Insurance Review Committee", 2000. http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/…/$FILE/brochure.pdf

serious financial blow to a farmer. For example, if a farmer had 1600 acres seeded in canola, and experienced a disaster on 300 acres of that crop, the resulting loss would be nearly $60,000 in just seed and fertilizer costs alone. If the average yield on the remaining 1300 acres was relatively good, and that average was applied to the 300 acres that were lost, the resulting coverage level could effectively drop to zero. If seed and fertilizer crops were minimal, this would be fair. A farmer could accept zero coverage if his or her seed costs were only 2 dollars a pound and the total fertilizer bill amounted to only $350. But given the excessive input costs farmers must now pay, programs which rely on yield averaging are no longer working effectively.

This is especially true in the case of farmers who have widely-separated fields. It is not uncommon for fields to be 40 kilometers apart in the same farming operation. A hailstorm, frost, or damaging wind can decimate one field, while another field with the same type of crop several kilometers away will escape the damage unscathed. Farmers should not have to be put in a position where their good crop is used to cover the damage to the poor crop. Yield averaging and spot-loss provisions need to be linked together. Farmers should at least be able to recover the costs of their inputs on crops that are severely damaged.

<u>The NFU recommends that changes be made to the yield averaging component of crop insurance to take into account the excessive losses incurred as a result of high input costs. Spot-loss insurance should be available for all crops upon payment of an additional premium.</u>

Timeliness of claim payments

Given the importance of cash-flow in farmers' operations, it is crucial that payments from crop insurance claims are issued to farmers as soon as possible. It is the experience of many producers that agricultural accounts are often due before they receive claim payments. <u>Improvements to the system which would speed up the processing and delivery of payments to farmers would be greatly appreciated.</u>

Liability implications for farmers due to loss of KVD

While insurance coverage on weather-related liabilities has traditionally been the focus for farmers, there are now additional concerns arising as a direct result of government agricultural policies which must be addressed by provincial crop insurance agencies. Foremost among these is the question of farmer liability as a result of the loss of the Kernel Visual Distinguishability (KVD) system effective August 1, 2008. and the possibility of a change in the mandate of the Canadian Grain Commission (CGC).

The Agriculture Financial Services Corporation must take a critical look at the potential negative impact that changes to the *Canada Grain Act* and the Canadian Grain Commission will have on Alberta farmers – and by extension the AFSC itself.

In December, 2007, the government introduced Bill C-39, entitled *An Act to Amend the Canada Grain Act*, in the House of Commons. The bill died on the order paper. It was resurrected as Bill C-13 in the subsequent session of Parliament, but that legislation also died on the order paper when Parliament was prorogued by the Prime Minister in late 2009. It is likely a third incarnation of this legislation will be introduced by the government in the next sitting of the House of Commons. All these bills have serious implications for Alberta's farmers and the provincial economy. The aim of the legislation is to restructure the Canadian Grain Commission so that its primary mandate is to no longer operate in farmers' interests, but instead to function as a facilitator for large grain companies.

It is important to remember that Canada's farmers have not advocated any weakening of the CGC regulatory role, nor have they called for cuts to the CGC's mandate or its resources. The calls for changes to the CGA and the CGC are coming from corporate interests.

Licensing and bonding of grain companies

When the Canada Grain Act was proclaimed in 1912, a primary objective was to ensure that farmers' interests were protected when grain companies went bankrupt. Over the course of several decades, a requirement for licensing and bonding of grain companies was refined and implemented.

Despite a legal obligation requiring grain companies to be licensed and bonded, the Canadian Grain Commission for many years was not fully enforcing this requirement. Complaints from farmers and farm organizations finally resulted in the following declaration by the CGC in May, 2005:

"Simply stated, effective August 1, 2006, grain companies dealing in or handling western grain will either be licensed by the CGC, or lawfully exempted from licensing, or subject to criminal prosecution."

At the time, the National Farmers Union strongly endorsed the initiative, noting that Western Canadian farmers have been calling on the CGC to enforce the provisions of the *Canada Grain Act* for a number of years. The CGC was set up by the federal government as a watchdog agency to ensure Canadian grain quality is not compromised, that farmers are treated fairly by the grain trade, and that the rules are applied equally to all grain companies. For many decades, the CGC fulfilled its obligations and deservedly earned the respect of farmers and other interests in the grain industry. Over the past decade, however, a number of unlicensed grain companies and brokers have taken advantage of lax enforcement measures.

This lack of enforcement has put farmers at risk because they usually assume that if a grain company is in business, it must be licensed. Farmers also assume they have financial protection in the event the company they are dealing with goes out of business, as well as having full access to CGC official inspection certificates for grain grades and tolerance levels.

The reality is, of course, much different. Unlicensed grain companies do not post security, so farmers are left unprotected. Farmers also do not have access to statutory rights under the *Canada Grain Act* guaranteeing fair grading of their grain. Unfortunately, the onus at the present time is completely on farmers, a situation which harkens back to the "bad old days" of the early 20th century, when grain companies exercised excessive control over the system at the expense of farmers.

Despite warnings issued periodically by the CGC about the pitfalls of selling to unlicensed brokers and companies, the situation has not improved. In fact, it is apparent that many farmers do not take the warnings seriously because they interpret "lack of enforcement" on the part of the CGC as "implicit endorsement".

Primary, process and terminal elevators, as well as grain brokers, are well aware of the requirements of the *Canada Grain Act*, and are also well aware of the Canada Grain Regulations, with which they must comply. The fact that many companies have chosen to ignore both the letter and the spirit of the law does not mean the law should be adjusted to suit these companies. It simply means the companies know they can get away with these violations, and take for themselves an unfair advantage over both farmers and their competitors in the marketplace.

The NFU urged the CGC to immediately step up enforcement of licensing requirements, adding that any potential loopholes which put farmers at financial risk should also be closed immediately. The NFU concluded that licensing and bonding by the CGC is the most reliable and cost-effective way of ensuring farmers' financial interests are protected in the event a grain company cannot cover its payment obligations.

In 2006, a review of the CGC was conducted by the consulting firm Compas. This review recommended scrapping the licensing and bonding requirement, based on the fact that the requirement had not been fully enforced.

The NFU objected strongly to this recommendation, as well as to a number of other recommendations contained in the Compas Review.

The NFU believes the licensing principles currently contained in the CGC's legislated mandate are the best means of achieving production protection and grain quality and quantity assurance. These principles include:
1. Producer protection, including reduction of farmers' financial risk;
2. Effectiveness and accountability;
3. Fairness and equity through consistent application of requirements for all companies involved in the grain trade;
4. Cost efficiency;
5. Transparency in the form of clear definitions of licensing criteria and requirements; and
6. Enforcement and Compliance. The Canada Grain Act and Canada Grain Regulations are only effective if all players involved in the industry comply with the law. Voluntary compliance has clearly not worked in the past. The integrity of Canada's grain quality system, and the rights of farmers, depend on effective enforcement.

Loss of Mandatory Inward Inspection

A recommendation in the Compas Review which has also been incorporated into Bill C-39 is the elimination of inward inspection and weighing.

Inward inspection ensures that:

- The identity of the grain is established before co-mingling;
- The identity of the grain is preserved so that the sample will be available to resolve disputes or facilitate the appeal process;
- Substantive and valuable statistical information is available to: a) establish the basis for warehouse receipts; b) identify current stock positions; c) facilitate future audit processes; and d) predict cargo quality prior to shipment;
- Grain is collected to allow for future reviews of grain grades and specifications;
- The final grade assigned by the CGC can be checked against the grade initially assigned by the elevator manager to ensure consistency in accuracy, and to reduce the incidence of penalties imposed by the Canadian Wheat Board (CWB) for "missed grades;
- The presence of illegal or ineligible varieties is detected before these varieties enter the system;
- CGC-approved automatic sampling systems are monitored; and
- Railway freight rates are based on CGC-monitored weights.

These benefits are of primary importance to farmers, who understand the importance of a strong CGC which operates on their behalf.

Mandatory, immediate, and on-site inward inspection by CGC inspectors provides substantial benefits to the system. It allows inspectors to "catch" contaminated, off-condition or incorrectly-represented carloads while they are being emptied, weighed, and elevated, and before they are mixed with large quantities of other grain.

Even if contaminated or off-spec grain is binned, current inward inspection procedures allow problems to be spotted and isolated almost immediately. If a shipment of grain is contaminated due to the loss of inward inspection, it is highly likely that farmers will end up paying the financial penalty.

Loss of Kernel Visual Distinguishability (KVD)

The loss of the Kernel Visual Distinguishability (KVD) system effective August 1, 2008, carries severe potential ramifications for producers. Producers will likely be held liable for knowingly or unknowingly misrepresenting a variety that may eventually contaminate a shipment. The only protection farmers may have under this scenario is to ensure they retain a sample obtained on their farm by a licensed inspector.

Farmers may also be at risk financially if they buy a variety that is misrepresented by a seller, and consequently suffer lower yield and/or quality.

The pressure for removing KVD is coming from those interests who stand to benefit from the introduction of lower-quality, higher-yielding varieties, and those who will benefit as a result of contractual control of certain varieties. There is at present no reliable method, other than KVD, for quick and accurate identification of grain varieties. While research needs to be done on **complementing** the KVD system with additional methods of identification, is it in the public interest to spend millions of taxpayer dollars to **replace** a system that has proven its reliability and consistency for more than a century? Identity-preserved systems are not infallible, and in fact may seriously impair Canada's ability to maintain quality standards throughout the system. The KVD system is essential to maintaining the existing grain quality standards for which Canada is justifiably renowned. The NFU has consistently recommended the KVD system for variety identification be reinstated and retained.

The NFU worked diligently to educate Members of Parliament in an effort to prevent the passage of Bill C-13. The suspension of Parliament in late December, 2009 meant that Bill died on the order paper. However, a similar piece of legislation is likely to be put forward again by the government in the spring of 2010.

<u>The removal of KVD in August, 2008 has now forced farmers into a position where they must bear the default liability for any problems that arise with regard to grain quality</u>. But in the final analysis, whatever problems that farmers encounter as a result of losses due to these changes to the CGC and CGA will eventually filter back to the Agriculture Financial Services Corporation and become problems for Alberta taxpayers.

<u>In the event that this new regulatory regime is implemented, farmers will face situations that are not necessarily covered under normal crop insurance circumstances.</u> For example, if a farmer takes out crop insurance under the provincial program and then applies for assistance, only to discover that his grain is not a registered variety, what happens then? What are the implications for the Saskatchewan Crop Insurance Corporation?

In another example, if a farmer suffers a severe financial loss due to an unlicensed grain company declaring bankruptcy, what policies – if any - would the Agriculture Financial Services Corporation implement to offset such an occurrence?

These and other questions need to be taken into account if the Agriculture Financial Services Corporation is to ensure its interests, and the interests of Alberta farmers, are protected.

Recommendations:

1. <u>The NFU recommends that spot-loss hail insurance, also known as "Hail Endorsement," be retained and enhanced.</u>

2. <u>The NFU recommends that Spring Price Endorsement options – as the program is currently structured - continue to be offered by AFSC.</u>

3. <u>The NFU recommends that changes be made to the yield averaging component of crop insurance to take into account the excessive losses incurred as a result of high input costs. Spot loss insurance should be available for all crops upon payment of an additional premium.</u>

4. <u>The Agriculture Financial Services Corporation must ensure that the full implications of:</u>

    a. <u>the loss of mandatory inward inspection,</u>
    b. <u>loss of grain company licensing and bonding,</u>

c. loss of Kernel Visual Distinguishability (KVD), and
d. potential changes to the Canadian Grain Commission, are understood and conveyed to farmers.

All of which is respectfully submitted
By the National Farmers Union