Two Consequences of the AgriStability Program

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Jointly-funded by federal and provincial governments, AgriStability ‘is a margin-based program that provides support when a farmer experiences larger farm income losses’ (AAFC 2009). AgriStability is the primary Canadian agricultural risk management program. Yet, even with its importance, many of the program’s implications are unknown. Two consequences of AgriStability are: i) payments to farms are highly subsidized and ii) riskier and wealthier producers get a disproportionately larger share of total program benefits.

STRUCTURE OF AGRISTABILITY

AgriStability is a margin-based program that charges farmers a fee to participate. Payouts are triggered when the farmer’s margin crosses a tier-based threshold.

AgriStability Margins. Two margins are critical for the calculation of AgriStability program payments: the program year or production margin and the reference margin. The program year margin, calculated annually, is determined by subtracting allowable expenses from allowable income. It is equivalent to the annual net enterprise cash flows after adjustments. The reference margin is an Olympic average of the five previous program year margins (an Olympic average is where the highest and lowest production margins are excluded and then an average is taken of the remaining three).

Fee Calculation. Farmers pay a fee of $4.50 per $1000 of margin coverage plus a $55 administration cost share fee to participate in AgriStability. Program fees are calculated via four steps. First, multiply the reference margin by 85%. Next, divide by $1000. Third, multiply this value by $4.50. Finally, add the administration cost share fee of $55.00. So, if the reference margin is $100,000, fees would equal: ($100,000 * 0.85 * $4.50/$1000)+$55 = $437.50.

Fees are based solely on the reference margin. Risk plays no role in calculating AgriStability fees.

Program Payments. Figure 1 depicts the three-tier payment structure of AgriStability. Payments are dictated by Tier 2 if the program year margin drops below 70% of the reference margin. So, if a farmer’s reference margin equals $100,000 and she experiences a 100% margin decline, the total AgriStability payment is Tier 2 plus Tier 3: (70% * $100,000) * 80% + (15% * $100,000) * 70% = $66,500. AgriStability also includes a provision that if production margin declines exceed 100% the program pays $0.60 for each dollar of negative margin (Tier 4).
For example, a ranch with 310 cows-wintered would expect to receive an annual subsidy of $4,263 on a reference margin of $82,251.

CONSEQUENCE 1: PAYMENTS ARE HIGHLY SUBSIDIZED

**Example.** Assume a farm has a reference margin of $100,000. AgriStability fees for this farm total $437.50. Suppose this farm earns $100,000 for nine years and $60,000 in the tenth year. In the tenth year, the farmer will receive a payment of $18,500 after having only paid cumulative fees of $4,375. In fact, even if that producer has an incredible luck streak and earns exactly $100,000 for 40 years and in the 41st year earns $60,000, the government would still transfer more money to the producer than the producer pays in fees.

**Simulation Results.** The level of AgriStability subsidies can be demonstrated via a simulation model. For example, a ranch with 310 cows-wintered receives an annual expected subsidy of $4,263 on a reference margin of $82,251. Payments to farmers through the AgriStability program are highly subsidized.

CONSEQUENCE 2: RISKIER AND WEALTHIER FARMS COLLECT DISPROPORTIONATELY LARGER SUBSIDIES

**Simulation Results.** In the long-run wealthier farms (in terms of reference margin) collect a disproportionately greater share of total AgriStability benefits compared to farms with smaller reference margins. Figure 2 plots three curves. The green line shows distribution of benefits for a risk management program that treats all farms proportionally based on their risk profile and reference margin. The other curves show how reference margin size and risk profile interact under AgriStability. The more bowed the curve, the more AgriStability benefits larger and wealthier farms. Thus, riskier and wealthier farms collect more program benefits.

FOR MORE INFORMATION:


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