The Margin Coverage Concept

David Walker

> Income stabilization programs have a history of not delivering as expected. The AFSC is making very deliberate plans to avoid errors of the past in developing the Margin Coverage Concept.

It might seem odd that the Agriculture Financial Services Corporation (AFSC) is considering yet another income stabilization program with the federal government's AgriStability program launch just last April. But the AFSC began the process over a year ago, well before AgriStability's launch, when crop prices were at record levels and stabilization programs were anything but a priority. But AFSC plans to proceed in a methodical manner. In this way the hope is that something lasting and effective can be developed. And the tortoise will finally beat the hare.

Past experience is that programs developed in a hurry to fix existing flaws tend to have a very short life spans, low acceptability and are expensive. AFSC has been administering stabilization programs in Alberta for the federal government since 1994 and these programs have typically lasted about three years before requiring major overhaul or replacement.

AFSC has found that the current stabilization program is complex and, therefore, both difficult to administer and not well understood by farmers, not predicable and, therefore, not much assurance to farmers or lenders, and payments are very late in being made. Not surprisingly, it is not too popular with farmers despite its high cost.

The Margin Coverage Concept (MCC) is being developed by the AFSC to address these challenges. And to triple check that the challenges will be met, it is running two pilot projects and getting feedback from the industry at a series of external focus group meetings. Further a federal provincial working group is providing input as the concept will need to receive substantial acceptance across Canada. In fact, the pilot projects are involving five commodities not seen in these parts, including maple syrup and low bush blueberries.

The greatest challenge for AgriStability and its forerunner seems to have been developing information to calculate farm cost necessary for calculating, in turn, margins. Use of tax returns makes a lot of sense, but means big delays. Tax returns needed for calculating last year's 2008 costs, will only be filed with the Canadian Revenue Agency in April 2009 and are only available to AFSC for its calculations in July or August 2009. This means that it is pretty close to the end of 2009 before payments for 2008 are made.

What is being suggested for MCC is that costs for the most recent year, which are needed for calculating the famed Olympic Average, be generated with some kind of a formula. That way it is not necessary to wait for tax returns to find their way to Ottawa, actually Winnipeg, and back. What formula might be used is up for discussion – the average of the previous four years or the most recent year's costs factored up by increases in Farm Input Price Indices, are two suggestions.

If something can be worked out on this, it would mean farmers' cost information for the program would be available even before the crop was harvested. But of course, it will be necessary for farmers to report productive capacity – acres, breeding stock, etc. From this, historic yield information and prices collected from the trade gross revenue can be calculated. And with the cost information already at hand actual margins could be calculated about a year earlier with the current system.

A further refinement would be for farmers, in winter before seeding, to report what productive capacity they planned, with the purpose of providing them, and perhaps their lending agency, with an indication of what support the program would theoretically provide if they did not change their plans.

There are of course, a multitude of details to figure out starting with beginning farmers who don't have a history, but are typically most in need of income stabilization. The hope is that most of these will be discovered by the 50 farmers on the pilot in 2008 and up to 1000 this year.

The first external focus group composed mostly of representatives of commodity groups including two from the Alberta Pulse Growers was held in January. Most of the meeting was spent getting familiar with the Margin Coverage Concept, but that did not stop some tricky questions being asked. But once the 2008 pilot project reports start being received the flood will start.

The plan is for the focus group to meet about every two months until sometime in 2010 when the tortoise will have completed the course. There is, however, a possibility that the plans will be shelved in advance of the June 2009 federal-provincial agriculture ministers meeting.

If you have any views on stabilization programs which you want to see built into the planning, please contact the Alberta Pulse Growers Commission office or David Walker.

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