GOVERNMENT OF ALBERTA **News release**

January 28, 2003

Crop insurance changes provide more options and better protection for Alberta's farmers

Edmonton... Sweeping farmer-driven enhancements to Alberta's crop insurance programs will give producers access to the most innovative and comprehensive program in Canada, helping them protect their farming operations against the volatility of weather and commodity prices.

"These significant enhancements to crop insurance mean Alberta producers will have more options and better coverage for production and price risks inherent in the agriculture industry," said Shirley McClellan, Deputy Premier and Minister of Agriculture, Food and Rural Development. "Strengthening our package of insurance options means we can move away from ad hoc programs when agricultural disasters occur such as the drought of 2002."

The changes, which will be rolled out over the next two crop years by AFSC, formerly Agriculture Financial Services Corporation, will provide farmers with a variety of cost-effective strategies to manage risk in their operations.

Significant changes for the 2003 crop year include:

- Spring Price Endorsement insurance, which protects insured Alberta farmers against significant drops in market prices between the time seeding decisions are made and crops are harvested.
- Revenue Insurance coverage, which sets a floor price to protect farmers from low market prices.
- Pasture/Forage Insurance, which provides coverage that better reflects the productive capacity of the land by region, expanded coverage for bush pasture and an incentive for continuous participation in the programs.
- Altering the forage and crop insurance deadlines to an earlier sign-up date to improve the financial soundness of the programs. The 2004 deadlines will be December 15, 2003 for forage insurance and March 31, 2004 for crop insurance.

Changes for the 2004 year include altering the forage and crop insurance deadlines to an earlier sign-up date.

Farmers can call 1-888-786-RISK (1-888-786-7475) for information specific to the crop insurance changes or to find their closest AFSC district office. Information can also be obtained at the AFSC Web site, www.AFSC.ca.

AFSC provides farmers and agri-businesses with unique financial and risk management tools, including crop and hail insurance, farm loans for beginning and developing farmers, commercial financing for the province's agri-food industries and small businesses in rural and urban centers, as well as farm income disaster relief.

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Backgrounder

January 28, 2003

Overview: 2003 Crop and Forage Insurance Enhancements

Farmer-driven changes to crop insurance aim to address the immediate concerns of Alberta farmers about the volatility of weather and commodity prices. Enhancements to crop insurance in 2003 will provide farmers with the most extensive and comprehensive set of risk management tools available in Canada.

Enhancements and the creation of new insurance programs for both crop and forage insurance work hand-in-hand with the Agricultural Policy Framework being developed with the federal, provincial and territorial governments. Improvements to current insurance and the addition of new crop insurance programs allow farmers to make business decisions about how risk should best be handled within their operations.

Crop insurance and forage insurance is provided through AFSC, formerly Agriculture Financial Services Corporation. AFSC provides farmers and agri-businesses with unique financial and risk management tools, including crop and hail insurance, farm loans for beginning and developing farmers, commercial financing for the province's agri-food industries and small businesses in rural and urban centers, as well as farm income disaster relief.

Crop Insurance

Spring Price Endorsement (SPE)

- This is a new crop insurance option available to producers. A premium will be charged for this endorsement.
- The SPE triggers if the fall price drops by at least 10 per cent to a maximum of 50 per cent from the spring insurance price offered at sign-up time.
- If the SPE triggers, it pays the producer the price difference on the grain production, up to his crop insurance coverage level.
- The SPE payment will be capped at 50 per cent, if the fall price decreases by more than 50 per cent from the insurance price offered at sign-up time.

Revenue Insurance Coverage (RIC)

- This is a new feature of crop insurance and is automatically available to farmers who purchase the Spring Price Endorsement. No premium is charged for this program.
- A floor price is set to protect farmers from low market prices.
- If the fall price at which farmers are compensated under the SPE is less than the floor price, they are

eligible for a payment on 50 per cent of the price shortfall up to their coverage level.
- If farmers have a production loss under crop insurance, and if the insurance price on which the shortfall is paid is less than the floor price, they will be eligible for an additional payment on that production shortfall equal to 50 per cent of the price shortfall.

Enhanced Risk Area Normal Production

- AFSC will use "cushioned yields" in the calculation used for risk area normal yields.
- Cushioning helps lessen the impact of low yields due to insurable perils.
- Yields that are "cushioned" are higher than the actual yield. Using cushioned yields results in higher yields being used to calculate risk area normals.
- This change will have a positive impact in every risk area in the province.

Variable Price Benefit (VPB)

- The VPB will be included in all crop insurance policies automatically. It was previously an option called the Variable Price Option (VPO).
- A premium load will be included to cover this benefit; there will be no additional premium charged if the VPB is triggered.
- If the VPB triggers for a particular crop, all insured producers in a loss position will benefit.
- The VPB will trigger for a crop when the fall market price increases by more than 10 per cent to a maximum of 50 per cent compared to the price option offered at sign-up time.

Silage - Green Feed Insurance

- A pilot program was offered in 2002 to cereal silage producers in parts of the province.
- Producers had the option of insuring their silage under a crop insurance weather-based program that paid on lack of moisture or an area-based barley proxy program.
- Now silage producers across the province will have these same options.
- Corn grown for silage has been added as an eligible crop.
- Hail endorsement is available under all three options.

Forage and Pasture Insurance

As a result of a comprehensive producer review of Alberta's two pasture insurance program options - the Satellite Imagery Insurance Pilot Program and the Lack of Moisture Insurance Pilot Program - several changes will be implemented for 2003 that will enhance the value of these programs for farmers.

Changes for 2003 affecting both Satellite and Lack of Moisture insurance programs

- Producer coverage will more closely reflect the productive capacity of the land in their area.
- More comprehensive coverage of bush pasture will be offered.
- A Variable Price Benefit will now be automatically included, using barley as a proxy crop.
- A premium discount system will be introduced to encourage and benefit multi-year participation.

Lack of Moisture Insurance Pilot Program (Pasture):

- More than 100 weather stations will be available for insurance assessment purposes, compared to 54 in 2002.
- Farmers can select up to three weather stations in their area for insurance. Last year, farmers could only select one.

Satellite Imagery Insurance Pilot Program:

- There are no changes specific to this option for 2003.
- Research is underway to expand the area eligible for this option, possibly as early as 2004.

Forage (Hay) Insurance

- This program compensates producers for production losses on hay crops due to damage caused by natural perils.
- The Variable Price Benefit will apply automatically, using barley as a proxy crop;
- Risk Area Normal Yields will benefit from cushioning, as described earlier for crop insurance.

2004 crop year enhancements

Enhanced cushioning

- Currently, crop and hay producers are cushioned when their yields are below 70 per cent of their normal relationship with the risk area average yield.
- The effectiveness of cushioning declines for producers who have multiple disasters, relative to their risk area.
- Beginning in 2004, the level of cushioning for these producers will increase.
- **New earlier deadlines**

- In order to improve the financial soundness of Forage Insurance programs, both pasture and hay, the sign-up deadline for 2004 will be December 15, 2003.
- For the same reason, the sign-up deadline for crop insurance in 2004 will be March 31, 2004.

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Backgrounder

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Questions and Answers: 2003 Crop Insurance Enhancements

How will enhancements to the 2003 crop insurance program affect Alberta farmers?

Enhancements will provide Alberta farmers with the most comprehensive set of risk management tools in Canada. Farmers have requested more coverage and increased coverage stability following poor production years. In addition, they have asked for strategies to address increasing costs of production relative to commodity prices and a measure of protection against foreign agriculture subsidies. This package will address these concerns.

Are all crops eligible for crop insurance coverage in 2003?

Crop insurance is offered on about 99 per cent of the crops that are seeded annually in Alberta. Crops for which insurance is not offered are generally newer specialty crops or those that represent a very small percentage of acres grown. Crop insurance has 140 plans available on more than 60 different crops province-wide.

How much more are the 2003 changes going to cost?

The cost of these changes is based on many factors, such as the number of farmers who participate in the program, the coverage elected and the crops insured. The program costs will be shared among the federal government, provincial government and Alberta farmers.

Will these changes mean an increase in the premiums farmers pay?

Because crop insurance is tailored to each farm, and premiums are set on a case-by-case basis, it is difficult determine whether premiums will increase for all producers. Farmers are encouraged to visit their local AFSC, formerly Agriculture Financial Services Corporation, insurance administrators to get premium rates for 2003. Administrators can present several different options and premium scenarios to the farmer before purchasing.

Will these changes address the problems Alberta farmers faced in 2002?

Yes, these changes are a multi-pronged approach and will increase the production coverage available under crop insurance; enhance the stability of crop insurance coverage; and provide market risk protection. These changes will be beneficial to both farmers who sell their crops and for those who buy these crops, whether the cause of a price swing is foreign agriculture policies or a province-wide weather disaster at home.

Will the Alberta government continue to institute ad hoc programs during future agricultural disasters because of the changes to crop insurance in 2003?

Improvements to current insurance and the addition of new crop insurance programs allow farmers to make choices about how risk should best be handled within their operations. Having these new options available means that the Alberta government will be highly unlikely to institute ad hoc programs to address agricultural disasters like they have in the past. It is important that farmers review the crop insurance changes to see how the changes fit within their risk management plans.

How is the Variable Price Benefit (VPB) different from the Spring Price Endorsement (SPE)?

VPB is automatically included in the crop insurance policy. It triggers when the fall market price is 10 to 50 per cent higher than the spring insurance price offered at sign up time, resulting in higher payments to farmers. The SPE is an endorsement that producers must select and pay an additional premium for, in order to be covered. It triggers when fall prices drop 10 to 50 per cent from the spring insurance price. This results in a payment to the producer on the production grown, up to their coverage level. Coverage under the VPB and the SPE are tied to the coverage level an individual farmer chooses under crop insurance.

How are the "floor prices" for Revenue Insurance Coverage (RIC) set?

Floor prices for RIC are determined by AFSC with input from crop market analysts with Alberta Agriculture, Food and Rural Development. Floor prices are set considering province-wide variable input costs (fertilizer, seed, fuel, chemicals), agriculture subsidies in the United States, historical relationships among commodity prices, and the provincial government's capacity to provide financial support.

Why is the Satellite Imagery Insurance Pilot Program for pasture only being offered in selected areas of southern Alberta as a pilot again this year?

The program works by comparing the satellite image in the current year to what has happened in the same township over the past 10 to 15 years. The satellite measures sunlight absorbed or reflected from the ground in the township. Differing plant species absorb and reflect sunlight in different ways. Comparing the current year to the past works best when the land base has remained similar over time. The native pasture area of the province in southern Alberta has remained relatively stable over time and the satellite program works best there. AFSC is conducting research to see if the program can be expanded to other areas of the province.

With a drought possibly repeating in 2003, will there be an overwhelming number of farmers insuring their crops for the first time?

Since Crop Insurance is a voluntary program, actual participation is hard to predict. However significant enhancements to crop and forage insurance will encourage the farmers who have not used crop insurance before to take another look at the program. In the past, when significant changes have been made to insurance programs, participation has risen.

Why are the sign up deadlines for 2004 being moved earlier for forage (December 15, 2003) and crops (March 31, 2004)?

In any insurance program, decisions to participate are required before the buyer can tell how conditions may affect or determine insurance payments. Studies in crop insurance show that some farmers buy insurance only when they think it will pay. This can occur, for example, if there is no snow-cover for pasture, or if there are no early spring rains. These farmers generate more losses than they pay in premiums and therefore cause premiums to go up for everyone. Moving the deadline ahead, in combination with premium discounts and surcharges already in place, will reward farmers who believe in forage and crop insurance as a risk management tool and help to keep premiums lower for everyone.

Will crop insurance changes affect Agricultural Policy Framework (APF) negotiations?

No. The Alberta government and AFSC will continue to work with federal, provincial and territorial colleagues on risk management issues across Canada. Alberta farmers have asked for specific provincial program changes in advance of APF agreements and these enhancements address those requests.

Why do farmers have to buy crop insurance to be eligible for Spring Price Endorsement and the Revenue Insurance Coverage programs?

The Alberta government wants to reduce the need for ad hoc assistance in areas where farmers should manage risks associated with the agriculture industry, and these programs are designed and built upon crop insurance offering comprehensive risk coverage. It is a management decision and cost of production that farmers must assume if they wish to participate. Both levels of government and farmers share the cost of these programs.

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Farmers can call 1-888-786-RISK (1-888-786-7475) for information specific to the crop insurance changes, or call 1-800-396-0215 to locate an AFSC district office nearest them. Information can also be obtained at the AFSC Web site, www.AFSC.ca.

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