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What's Inside?

This edition of *FARE Share* was inspired by a special issue of the *Canadian Journal of Agricultural Economics*. Titled "COVID-19 and the Canadian Agriculture and Food Sectors: Thoughts from the Pandemic Onset," the publication features research from several accomplished academics, including University of Guelph faculty.

We've summarized six of these articles in this edition of *FARE Share*. For the complete papers, scan this QR code:



We hope you stay safe and healthy during this unprecedented time.

Contact:
Getu Hailu
Editor, *FARE Share*
ghailu@uoguelph.ca

The FARE Share Newsletter features research and analysis from faculty and students in the Institute for the Advanced Study of Food and Agricultural Policy in the Department of Food, Agricultural and Resource Economics (FARE).



COVID-19 Impact in Canada's Food and Agriculture Sectors

By: Alan Ker, OAC Research Chair in Agricultural Risk and Policy; Professor, FARE; Director, Institute for the Advanced Study of Food and Agricultural Policy; and Ryan Cardwell, Associate Professor, Department of Agribusiness and Agricultural Economics, University of Manitoba

The COVID-19 pandemic, which is caused by the novel coronavirus (SARS-CoV-2), continues to cause significant economic hardship and death throughout the world. While governments have many concerns, an affordable and secure food supply is certainly a top priority.

Based on years of a consumer-driven food system, Canadians have come to expect any food in the form, time, and location desired, always available at a reasonable price. COVID-19 has caused immediate and pronounced changes in consumer food demand. Nonetheless, Canadians are still consuming a vast array of foods at reasonable prices despite a few short-lived stockouts. To date, we see this as an affirmation, not an indictment, of the global food supply system.

It is important to weigh in on issues regarding COVID-19 and the Canadian agricultural and food sectors at the onset of the pandemic.

Here is what you'll read in the pages ahead:

- The effect of COVID-19 on food security.
- Consumer response to COVID-19.
- The effects of COVID-19 on Canadian food processors.
- The resilience of supply managed sectors.
- The impact of COVID-19 on the Canadian pork industry.
- The ability of current business risk management (BRM) programs under COVID-19.

We have no precedents on which we can base macroeconomic predictions, but a deep understanding of agricultural and food markets allows the authors featured in this special issue to identify possible effects, highlight specific concerns about vulnerabilities, and shape public debate about policy responses to the pandemic.

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Canadian Food Security Challenged by COVID-19

By: B. James Deaton, FARE Professor, McCain Family Chair in Food Security and Brady J. Deaton, former Chancellor of the University of Missouri, Department of Agricultural Economics, University of Missouri

The effect of COVID-19 on Canadian food security is examined from two different perspectives. The loss of income to Canadian households and challenges to the food supply chain are our primary focus, as those are the only factors that we can readily speak to with any degree of confidence.

The loss of income associated with COVID-19 is expected to increase measures of food insecurity as derived from the Household Food Security Survey Module (HFSSM) of the Canadian Community Health Survey (CCHS), conducted by Statistics Canada. Importantly, by this measure, the ‘income shock’ associated with COVID-19 will likely increase the prevalence of households identified as food insecure.

Food insecurity

COVID-19 has some important characteristics that make its deleterious effects on employment and income generation unique and different from previous income shocks like the financial crisis of 2008. First, COVID-19 impairs the health and vitality of the work force, both directly, through illness, and indirectly, as some workers stay home to avoid carrying the virus back to their families and friends. Another unique aspect of COVID-19 is that the policies of social distancing significantly limit the range of public agency, university, organizational, and entrepreneurial responses that might accompany other recoveries and serve to stabilize household income – thereby reducing food insecurity.

Even before the pandemic, approximately 12.7% of Canadian households experienced some level of food insecurity according to results from the CCHS (Tarasuk & Mitchell, 2020). The First Nations Regional Health Survey (RHS), employing a similar survey approach to the CCHS, found that 50.8% of First Nations adults living in First Nations communities reported their households as food insecure (First Nations Information Governance Centre, 2018). Income is a key factor influencing both whether a household identifies as food insecure and self-reports on the intensity of food insecurity.

Food availability

The paper also examines the threat that COVID-19 poses to more fundamental aspects of food security: society-wide expectations that food availability and food prices will be adequate to meet national needs and remain relatively stable.

More fundamentally, COVID-19 heightens household concern about the capacity of the Canadian food system to ensure food availability. Despite surges in demand and supply chain disruptions, we currently do not observe broad, rapid appreciation in food prices. This suggests that there is an adequate supply of food for the near term. There is less certainty over intermediate and longer time

periods because so many factors are in flux, particularly the rate of increases in sicknesses and deaths across the country and globally. Data on these health factors and elements of the food supply chain are needed to predict beyond a short time frame. In this regard, we discuss three ongoing considerations – ease of capital flows, international exchange, and maintaining transportation – that will help ensure food availability in the longer run.

Conclusions

From the perspective of food insecurity as measured by the CCHS, COVID-19 is a unique ‘income shock’ that is expected to increase the prevalence of household food insecurity. Moreover, because this income shock is associated with unique, detrimental health effects, COVID-19 has the potential to increase the proportion of households identified as ‘moderately’ and ‘severely’ food insecure.

Unfortunately, COVID-19 has threatened Canadian food security in more fundamental ways than the CCHS is designed to assess. Specifically, Canadians worry that COVID-19 might limit the capacity of our food supply chain to ensure adequate food availability.

“While food remains available in the near term, food availability in the longer run will depend on the effect of COVID-19 on health, trade, transportation, and farm financial stability.”

Despite short-term surges in demand and the challenges of ensuring worker safety, we expect that food availability will be stable over the course of the next six months. Nonetheless, temporary shortfalls in food supply and increased prices for certain foods might still occur. This cannot be determined due to the unprecedented nature of this global tragedy. What we do know is that the magnitude of the COVID-19 tragedy demands that it be studied in great detail in terms of key variables that impact food security, the comparative weight of variables impacting food security, and how amenable they are to policy interventions. Finally, we look with great expectation to the regional- and country-specific data and global meta data analysis that will certainly follow in the aftermath of COVID-19 to provide a more confident basis for responding to comparable tragedies in the future.



Framing Consumer Food Demand in a Pandemic

*By: John Cranfield, FARE Professor and Associate Dean
(External Relations), Ontario Agricultural College, University of Guelph*

All of Canadian society will feel the impact of the COVID-19 pandemic. Beyond the immediate threat to health, employment, and income, food is one area where we will see an impact across all Canadians. What is more, the entirety of our agri-food supply chains will feel this impact. Given that consumer demand pulls food through these agri-food supply chains, it is important to understand food demand in the immediacy of the pandemic and related economic downturn, and through the shadow of both.

This paper explores how COVID-19 could impact consumer demand for food, and it offers thoughts intended to stimulate discussion. It is structured around five areas: the structure of preferences, household budgets, price effects, socio-economic factors, and consumer behaviour. It is important to emphasize that the impact of COVID-19 on consumer food demand (and shopping behaviours) will differ across the intersection of individual and household experiences, characteristics, and contexts.

Preferences, price and income

The structure of preferences will be an important issue in understanding how consumers respond to COVID-19. I see three immediate areas where the structure of the preferences should reflect the circumstances around COVID-19. The first concerns what is in a consumer's utility function. Second, the temporal nature of choice needs consideration when thinking about consumer demand for food in a pandemic. Excess inventory holding leads to the third structure of preference issue, namely uncertainty.

While the structure of preferences is important, so too are limits on choice through income and time constraints. Continuance of income/cash flows is important in understanding consumer response to COVID-19, as is the changing nature of time constraints in the household.

At the time of writing, we cannot attribute COVID-19 to widespread, persistent changes in the price of food. While stockouts have occurred, the price impact of these stockouts appears muted by a responsive supply chain. Unlike legislated or regulated rationing and price controls implemented during WWII, we have not seen institutional rationing or price controls. This is not to say that price gouging has not happened in the face of spikes in demand, but we have the ability to protect consumers through established Federal and Provincial consumer protection and emergency legislation.

Preferences, prices, and income are important considerations in understanding how demand for food responds during the COVID-19 crisis. But so too are socio-demographic factors that reflect the lifecycle of the individual and household. This is not to say that socio-demographic factors drive changes in demand; rather, that changes in food demand arising from COVID-19 may have a differential effect across individuals and households with different characteristics.

COVID-19 is affecting where and how people shop, and may well influence what people buy and consume. Weeks into the COVID-19 pandemic and we are seeing changes in the channel and venue that people use to acquire food. Restaurants are almost universally closed for order-in or sit-down service, and those that remain open are doing so with reduced hours, a limited menu selection, and delivery or drive-thru/curbside pick-up options. This means Canadians have likely reduced their frequency of eating out of the home.

In this paper, I explore several issues related to the potential impact of COVID-19 on food demand. It offers casual observation with no analysis. Moving beyond a static, certain approach to the structure of preferences will help us understand observed behaviour (e.g., stockpiling) and possibly understanding future behaviours in a COVID-19 world. Income and time constraints will matter. Tighter incomes will likely lead to substituting behaviours within and between food groups. However, people shifting food expenditures to in-home consumption will temper this effect.

New routines forced by work-from-home requirements, school closures, and physical distancing will impact the opportunity cost of time, and may lead to new food behaviours. Muted short-run retail food price effects are evident. However, how the agricultural sector fares in light of physical distancing and possible disruptions to agricultural labour markets and production practices lends itself to the possibility of higher food prices in the long run.

It will be important to understand the impact on food demand arising from policy interventions related to wages and income. This understanding should take account of socio-demographic factors, and the intersection of these factors. Lastly, where and how people shop has and will continue to change as the COVID-19 pandemic evolves in Canada. Whether these changes persist will depend on the duration of the pandemic and associated economic downturn.

Like all countries, Canada has groups vulnerable to and affected by food insecurity. However, as a nation, Canadians have come to expect an assured supply of food. While recent spikes in demand at the food retail level have led to stockouts, the responsive nature of our food supply chains means these shortages have been short-lived. Given that COVID-19 has not led to restrictions on food and agricultural trade, and given the resilient nature of our agricultural sector, I remain optimistic about the continuity of the food supply. Barring significant disruption to agricultural production, my thinking leads me to conclude that demand-side factors will drive most of the changes we will observe in food markets. In this respect, income/expenditure, the opportunity cost of time, and longer planning horizons will account for the lion's share of these demand-side drivers.



Economic Thoughts on COVID-19 for Canadian Food Processors

By: Getu Hailu, Professor, FARE, and Editor, Canadian Journal of Agricultural Economics

In this paper, I explore the potential effects of COVID-19 on Canadian food processors. I provide thoughts on how it may impact the Canadian food processing industry, food manufacturers' response, and what may happen post-pandemic. Despite the initial upsurge in the derived demand for processed food from retail grocery stores and a sharp decline in derived demand for processed food from foodservice establishments, the effect of COVID-19 on economic activities and employment in the food processing industry is unclear. Undoubtedly, the COVID-19 pandemic is not just a public health issue but a food supply issue as well.

Demand shocks

First, at the onset of the pandemic, the demand shock for food manufacturing comes from a sharp increase in the derived retail demand and a sharp decline in foodservice demand for processed food. In the COVID-19 economy, regardless of the presence or absence of non-pharmaceutical public health measures (NPMs) such as social distancing, COVID-19 will have positive effects on derived retailer demand for processed food and negative effects on derived foodservice demand for processed food. However, the magnitude of the effect depends on the nature of NPMs and the trust and access to accurate and reliable information about food supply.

A decline in processed food exports because of the thickening of the border is another demand shock. Many countries have imposed travel restrictions, closed borders, and closed factories, disrupting the global trade and supply chains. Canada exports processed foods to more than 180 countries.

In the face of demand slumps from restaurant closures and slowdowns in exporting, many food processing firms will inevitably switch supply efforts from foodservice to retail channels. The switching strategy depends on whether the products are destined for export, retail, or food service, and whether they are perfect substitutes in production. The challenge to meet the surge in orders from the retail store is the amount of time, resources, and engineering required in a product assembly line change, new packaging, and factory floor-redesign for a different format of products. This strategy is unlikely for some processors because the process of switching entire production lines to processing new items to meet demand is hardly smooth.

Supply-side shocks

The first supply-side shock is the effect of the thickening of the border on imported raw material causing a supply disruption. Food processors in Canada rely, in part, on imported raw materials from the US and other countries. The claim that "there is no food shortage" globally and locally does not mean that the pandemic does not pose a threat to the food supply chain, which is a much more nuanced phenomenon than strictly "volume of food."

Second, as the pandemic persists, the shortage in the supply of labour for transportation and logistics, for food processing, and for other areas of the supply chain could prove to be a challenge. Border measures that limit the free movement of people might hurt food processing. Food processors facing a labour shortage may be forced to implement various practices including an increase in shift hours, overtime, and incentive packages and a scaling down of operating hours. Small- and medium-sized enterprises (SMEs) – with limited cash flow flexibility – may struggle to survive the added cost of disruption to support themselves and their employees. Food processors face new cost categories, such as increased employee screening, staggering shifts, safety, sanitation practices, and creating workspaces that maximize physical distance.

COVID-19 may affect small and large firms disproportionately. For many SMEs, with higher liquidity risk and limited working capital, the survival rate may only be counted in days or weeks. As a result, SMEs will tend to go out of business more than larger businesses. Layoffs by SMEs will only exacerbate the economic downturn brought on by the pandemic and lead to a further negative demand shock for processed food. Temporary plant closures will cause a ripple effect throughout Canada's food supply chain.

Post current-pandemic, public institutions and industry need to equip themselves for the danger of subsequent waves of infections. Empirical evidence on manufacturing activity for the 1918 Spanish Flu shows that the US economy performed better in areas with more aggressive NPMs after the pandemic (Correia, Luck, & Verner, 2020). While reducing negative economic effects is first order, the main task now is saving lives. That is exactly what the food processors are doing. "This common economic shock requires a common economic policy effort" (Baldwin & Mauro, 2020).

Conclusion

The COVID-19 pandemic has already and will continue to have effects on food processors. The industry has seen a growth in retail demand for processed food, a decline in foodservice demand for processed food, a slowdown in food processing activities because of labour and raw material inputs shortages, and a decline in export and import activity.

Also, the impact of the pandemic may depend on the type of products and the size of the processors. The overall effect of the pandemic on food processing economic activities and its GDP depends on the magnitude and persistence of the consequences of COVID-19 and the initiatives and investments processors undertake to manage disruptions.



Potential Implications of COVID-19 on the Canadian Dairy and Poultry Sectors

By: Mike von Massow, Assoc. Professor and OAC Chair in Food Systems Leadership; Alfons Weersink, Professor; Brendan McDougall, Graduate Student, FARE

In this paper, we discuss the repercussions of COVID-19 on the supply chain for dairy and poultry in Canada. Although there are significant short-term disruptions as highlighted by the dumping of milk and the temporary closure of poultry processing facilities, the focus on a domestic market by these sectors along with the stability and coordination of its supply management marketing systems has mitigated, to an extent, the economic implications of COVID-19.

The discussion highlights the importance of distinguishing between the farm output (i.e., milk, chicken, and eggs) and the products stemming from that output, the difference in the demand for those products for home consumption versus dining out, and the difference in the distribution systems for grocery retailers and the hospitality industry.

Retail sector

The first change stemming from COVID-19 is the reduction in the demand by the hospitality sector and a corresponding increase at the food retail sector. The one-third reduction in total consumer food dollar from foodservices would be expected to shift to food retail. Overall sales in grocery stores for the week ending March 14, 2020 compared to 2019 were 46% higher in grocery stores — significantly higher than the 33% suggested if expenditures were simply shifted from hospitality to grocery.

Food distribution

The shift from food service to food retail and its impact on the type and amount of product required alters the whole supply chain, which cannot adjust instantaneously as the system tends to be operating near capacity with minimal inventory carryover. It also requires an adaptation or re-allocation in the food distribution system that tends to focus on either food retail or foodservice sectors.

Processors

The impact of the changing volume and mix of their offering by individual processors will differ depending upon their portfolio of customers. Even when product changes are not required, alterations to packaging may be necessary. For example, a dairy processing plant sells cream to coffee shops in large bags that fit in dispensers, while sales to grocery stores are for households wanting small amounts in a carton that fits in a fridge. In some cases, both processors and retailers are adjusting in the short run.

On-farm production

While production systems have not been altered in the short term by the pandemic, the level of output has been affected for both dairy and poultry. In the middle of March, it appeared that quota-

free days (producers are allowed to ship milk in excess of their quota without penalty) might become available to dairy producers in some parts of the country as a means to create incentives to meet reduced overall supply of milk combined with a run on dairy products resulting from panic buying in the immediate onset of COVID-19. A few weeks later, dairy farmers were forced to dispose of certain milk shipments (DFO, 2020). Similarly, chicken farmers are being forced to shorten the production cycle with their current allotment of birds and will likely face smaller production quota levels along with raising smaller birds in the future (CFO, 2020).

Conclusions

There have been some clear and significant disruptions to dairy and poultry supply chains that can be directly attributed to challenges arising from COVID-19. The structure of supply management in dairy, poultry, and eggs may allow the industries to recover more quickly from the disruptions caused by the pandemic.

Producers in the supply-managed sectors are generally more financially stable, which should allow them to weather any decreases in returns more easily than producers in other sectors. Losses are shared across individual producers and marketing/transport is coordinated, providing resilience within the system. The supply chain has adapted relatively quickly in the short term to both shortages and surpluses, resulting in the changes in volume and nature of products offered through the shift from hospitality to grocery.

There are several longer-term implications on the dairy and supply managed sectors arising from the pandemic. One relates to what will be the new 'normal' once businesses, including restaurants, return. By then, the volume and nature of demand for dairy and poultry products may be altered permanently, or at least become slow to adjust due to income effects associated with the job losses suffered by a large number of Canadians. The resulting adaptation over the longer term will be easier to manage based on both experience and rate of change.

Second, the process of automation will accelerate at all levels of the supply chain. The movement to labour-saving technology will be spurred by the increase in wages paid to workers during the crisis and an increased reliance on machines not vulnerable to disease.

The third implication is the enhanced desire for local production as opposed to dependence on global distribution chains to supply goods, from food to safety masks. Since the supply managed sectors already have a focus on domestic production, the impact of such a shift in preferences will not significantly impact its supply chain but could have implications for other sectors.



Potential Implications of COVID-19 on the Canadian Pork Industry

By: Ken McEwan, Professor and Campus Director; Lynn Marchand, Max Shang and Delia Bucknell, Research Associates; University of Guelph, Ridgetown Campus

COVID-19 has brought tremendous uncertainty to global markets in terms of human health, the economy, and food security. While the impact to human health is of utmost importance, this disease has the potential to be extremely disruptive to the Canadian pork supply chain.

This paper provides thoughts on the potential implications that this pandemic could have on the pork industry, although there are still many unknowns at this time.

Pork industry value chain

In 2019, 21.7 million pigs were slaughtered in Canada (AAFC, 2020). A further 5.1 million pigs (weaner pigs and market hogs) were exported to the US for finishing and slaughter (AAFC, 2020). The US is a key market for Canadian pork, with a quarter of pork exports by volume going there in 2019.

Canadian pork production is integrated and has multiple stakeholders including producers, processors and retailers. Given the complexity of the value chain, the number of stakeholders involved, and the economic activity generated by provinces puts into perspective the importance of the pork value chain and the need to maintain human health, pig production, and both North American and global trade.

Market access

Exports are the foundation of the Canadian pork sector. In 2019, Canada exported 1.3 million tonnes of pork, worth \$4.2 billion. Sixty-six percent of Canadian pork exports in 2019 by volume went to three countries – the US (25%), Japan (21%), and China (20%). In total, Canada exports to more than 90 countries. Together, Japan and China represent 41% of Canada's exports.

Of note, however, is the impact COVID-19 might be having in these export markets, whether their borders are open to receive Canadian pork, and whether they are able to distribute it. Difficulties could arise if countries or areas within countries restrict the movement of people within their borders, such as the lockdown that occurred in Wuhan, China, during the COVID-19

outbreak. An open border with the US is extremely important to the sector as Canada relies on exporting pork; as implied, domestic consumption only accounts for 32% of production.

In addition, approximately 100,000 pigs/week are exported from Canada to the US (USDA, 2020). To date, there have been no reports of lengthy delays at the border for Canadian pigs crossing into the US. The number of Canadian pigs that are exported to the US and the total value and volume of Canada's pork exports show the importance of maintaining market access in North America and globally.

Market dynamics

The general uncertainty in the global market creates volatility across all markets, including commodities. There are some unique market dynamics within the Canadian pork industry; in particular, prices of feed inputs (e.g., corn, soybeans, wheat) and hogs in Canada are based off US prices. The exchange rate significantly shapes Canadian prices. As the Canadian dollar drops relative to the US, the CAD/USD exchange rate increases, which causes Canadian pig or pork prices to increase.

Following the COVID-19 pandemic, a prolonged period of low pig prices and moderate feed costs could result in financial challenges for producers and a reduction in hog numbers.

Labour

The pandemic has the potential to amplify the labour shortage in the pork sector based on at least two factors: (a) illness in the current workforce reducing labour, and (b) travel restrictions and concerns regarding travel for foreign labourers.

Critical to all businesses in the pork value chain is the availability of labour. If any of these businesses start having high absenteeism due to COVID-19, the outlook can change quickly. Once employees start testing positive for the virus, businesses such as processing plants may close temporarily in order to sanitize and allow time for all employees to self-isolate (Olymel, 2020).

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“The impact of COVID-19 on the Canadian pork industry ultimately depends on its ability to maintain markets and a healthy labour supply.”

Due to the shortage of domestic labour, some segments of the pork industry rely on foreign workers to augment the labour force year-round. The reliance of the agricultural industry on foreign workers has been acknowledged by the government, and, despite international travel restrictions, Minister Bibeau (Federal Minister of Agriculture and Agri-Food) confirmed that temporary foreign workers in agriculture, agri-food, seafood processing, and other key industries will be permitted to enter Canada (Immigration, Refugees and Citizenship Canada, 2020). Measures such as this are positive; however, concern regarding the ability of these workers to travel to Canada may impact the supply of foreign workers.

Policy actions

Support measures and policy announcements have been directed toward many sectors of the Canadian economy to cushion the impact of this global pandemic. Policies that have impacts across the economy, such as lower interest rates and wage subsidies, will help the entire value chain in terms of reducing operating costs and maintaining the workforce.

These measures to reduce operating costs and increase credit availability provide support to the Canadian swine sector, but the external nature of the threat of COVID-19 and the constantly changing dynamics of the situation make the ultimate impacts unknown.

Conclusion

The impact of the COVID-19 outbreak on the Canadian pork industry is evolving. In the short term, panic-buying and a weak Canadian dollar pushed up hog prices. Changes in consumer shopping behaviour to practice social distancing also challenged the sector's ability to meet volatile demand.

Over the long term, the impact of COVID-19 on the Canadian pork industry ultimately depends on the industry's ability to maintain markets and people. Labour shortages due to absenteeism and concerns about exposure to the virus, the shutdown of processing plants, and trade interruption with the US and the rest of the world are the industry components of most concern.

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These articles are very unique in that they offer speculative expert thoughts. There will be plenty of opportunity for in-depth, data-driven analyses in the months and years ahead.

Summarizing the articles, the biggest concerns at the onset of the pandemic for the Canadian agricultural and food sector appear, in no particular order, to be: (i) availability of labour; (ii) thickening of the border; (iii) declines in consumer income; and (iv) worsening of food insecurity in some populations.

The only silver lining in this pandemic will be the identification of unforeseen weaknesses and unappreciated strengths in the Canadian food system. No doubt, the pandemic has already and will continue to be used by rent-seeking interests for specific policy reforms. The performance of the current food system under this unprecedented upheaval will determine not only the success of these rent-seeking activities but also the institutions that will shape the economic behaviour of the agricultural and food sector over the coming years.

Finally, the COVID-19 pandemic is a Black Swan event. Governments have the option to deal with Black Swan events in real-time as they arise. Other than short-run emergency policies, such as the \$107 billion federal emergency aid and economic stimulus package, governments should tread carefully in making structural policy changes at this time.



Risk Management in Canada's Agricultural Sector in Light of COVID-19

By: Alan Ker, OAC Research Chair in Agricultural Risk and Policy; Professor, FARE; Director, Institute for the Advanced Study of Food and Agricultural Policy; and Managing Editor, Canadian Journal of Agricultural Economics

The unexpected introduction and spread of COVID-19 have presented significant challenges for every aspect of Canadian society. While the food and agricultural sector is positioned better than most, there are many risks that will need to be managed in the coming months.

The suite of Federal-Provincial-Territorial (FPT) Business Risk Management (BRM) programs delivered under the Canadian Agricultural Policy (CAP) framework are meant to assist farmers in managing risks; however, there are no corresponding specialized programs for agribusinesses. Here I consider to what extent the BRM program and, more broadly, government programming will assist farmers in managing new risks. By default, the article is speculative in nature given we are currently at the onset of the pandemic in Canada.

On March 23, 2020, the federal government announced new measures to assist farmers in managing risk during the COVID-19 pandemic. Canadian farmers have access to a suite of Business Risk Management (BRM) programs, which begs the question: to what extent are these lacking, necessitating the need for these additional measures during this pandemic?

The current CAP framework came into effect in April 2018. Under CAP, approximately \$1.5 billion per year has been allocated for BRM programs. Though CAP was designed without the assumption of a global pandemic, it would not necessarily have been efficient to do so. So, while it is necessary and important to ask where the gaps may be in our current BRM policy with respect to issues related to COVID-19, the presence of gaps should not necessarily be an indictment. Furthermore, any shortcomings as they relate to the COVID-19 pandemic, while informative, should not in themselves warrant BRM policy changes.

The COVID-19 pandemic will present many new challenges for farmers. Issues surrounding farmer sickness, farm labour and specifically out-of-country seasonal farm workers, delivery of inputs (seed, fertilizer, chicks, etc.), planting and harvesting, transportation of livestock/harvest, temporary or extended closure of processing and packing facilities, border thickening or closures, exchange rates, and, finally, changes in consumer demand all represent areas that will likely be affected by the pandemic. Managing these risks, many of which may be considered new because of their sheer magnitude, will be non-trivial.

The first announced measure gave support to Farm Credit Canada (FCC) for an additional \$5 billion in lending capacity to farmers,

processors, and other agribusinesses. The second additional measure gives eligible farmers who have an outstanding Advance Payments Program (APP), a Stay of Default, allowing them an additional six months to repay the loan. The third additional measure provides \$50 million in support to farmers who are bringing in temporary foreign workers during the COVID-19 crisis.

Although welcomed by the farm sector, it is not likely that the first two measures will have any significant impact on the farming community. Both measures provide very marginal liquidity, and liquidity is not a binding constraint in the operations of farms now (nor is it likely to be over the next 6-12 months). Self-insurance and BRM programs will continue to be the mainstay for farms to manage risk. Conversely, the third measure will provide support to farmers, particularly in the horticultural sector.

The federal, provincial, and territorial governments already had in place various BRM programs (AgriInvest, AgriInsurance, AgriStability, and AgriRecovery) to help farmers manage risks. However, these programs were developed without due consideration to a global pandemic. This is not an indictment; it is almost always more efficient to deal with these Black Swan events in real-time as they arise.

The most notable risks farms will face because of the COVID-19 pandemic are with respect to border closures, transportation issues, labour issues, and consumer income losses. My expectations are that any resulting losses are not going to be of sufficient magnitude to trigger mass claims under the current BRM program. Farmers will, and are by default, self-insuring against these losses. Nonetheless, if losses are sufficient to trigger AgriStability payments, farms will necessarily absorb the majority of those losses anyway. Fortunately, the farm household is in a stronger financial position to do this versus the average Canadian household.

The federal government has stepped in with three new measures to assist farmers. The additional lending capacity of FCC and stay of APP payments are relatively inconsequential whereas the assistance with temporary foreign workers is not. Should the government wish to assist farmers in managing these shallow losses, the parameters for AgriStability could revert back to Growing Forward 1 where only 15% of losses in net margin triggered payments. While this would certainly be welcomed by the farm sector, there are no strong economic reasons to suggest that this is necessary to ensure a stable food supply at affordable prices during this pandemic.



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Food
Agriculture
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Environment

University of Guelph
Department of Food, Agricultural and
Resource Economics (FARE)
J.D. MacLachlan Building
Guelph, Ontario, Canada N1G 2W1
Telephone: 519-824-4120 x53625

<https://www.uoguelph.ca/fare/>