

Technical Information Circular #6

Structural Change

General Information

Structural change is a change in ownership, business structure, size of operation, farming practices, type of farming activity, method of accounting, moving from one province to another, or any other practice that a participant might undertake that may alter Production Margins. If the AgriStability Program Administrator determines that there has been a significant change in a farming operation's productive capacity or potential for profit as a result of a Structural Change, adjustments will be made to the reference year margins to reflect the change.

Productive Capacity

The following table is a list of examples that the Administration considers to be productive units when calculating Structural Change.

| Commodity | Productive Unit |
|---------------------------|------------------------|
| Crops | Acres |
| Forage | Acres |
| Cow/calf - beef and bison | Calves born |
| Beef and bison feeders | Eligible animals sold |
| Hogs | Marketed hogs |
| Greenhouse | Productive sq. footage |
| Dairy | HL sold |
| Poultry | Birds/kg sold |
| Eggs | Dozen sold |
| Honey | Productive hives |

The above information is to be used as a general guideline only. The Administration may use alternate productive units to establish a reasonable Structural Change.

NOTE: All information provided by applicants is subject to verification and acceptance by the Administrator.

Benchmark per Unit (BPU) Margins

A benchmark per unit (BPU) margin is calculated from commodity specific economic data for a particular region, BPU margins represent the estimated industry return per unit of productive capacity for a commodity, based on the average allowable income and expenses associated with producing that commodity. BPU margins are used in calculating the adjustments to the participant's actual Reference Margin when applying a Structural Change.

Structural Change

The standard Structural Change (*i.e. ratio method*) is calculated as follows:

1. For each year in the reference period, the number of productive units (for each commodity or commodity group) in the current Program Year will be multiplied by the applicable BPUs in that reference year. The total of all Program Year productive units multiplied by their respective BPUs is commonly referred to as the “*current size margin*”.
2. For each year in the reference period, the number of production units (for each commodity or commodity group) in that Reference Year will be multiplied by the applicable BPUs in that reference year. The total of all Reference Year productive units multiplied by their respective BPU's is commonly referred to as the “*historic size margin*”.
3. The difference between the current size and the historic size margins is divided by the historic size margin. *Current Size Margin (Step 1) – Historic Size Margin (Step 2) / Historic Size Margin (Step 2) = % of change*.
4. The percentage calculated in Step 3 will be multiplied by the actual production margin for each reference year to determine the structural adjustment for that reference year. These structural adjustments will be added or subtracted from the Program Year Margins in **each** reference year to arrive at the adjusted margins.
5. Structural change will be applied where the average unadjusted Reference Margin and the average adjusted Reference Margin differ by more than 10% and \$5,000. The Administrator may apply structural change where the amount is less than \$5,000 but the change is at least 50% of the Reference Margin.

| EXAMPLE | | | | | | |
|--|--|----------|------------------|------------------|------------------|--------------|
| | Reference Years | | | | | Program Year |
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Acres in Reference Year (a) | 460 | 460 | 480 | 480 | 490 | |
| Acres in Current Program Year (b) | | | | | | 640 |
| Per acre BPU for Reference Year (c) | \$50 | \$60 | \$70 | \$80 | \$90 | |
| Current size margin (b x c) | \$32,000 | \$38,400 | \$44,800 | \$51,200 | \$57,600 | |
| Historic size margin (a x c) | \$23,000 | \$27,600 | \$33,600 | \$38,400 | \$44,100 | |
| Difference | \$9,000 | \$10,800 | \$11,200 | \$12,800 | \$13,500 | |
| % of change (Difference / historic size margin) | 39.13% | 39.13% | 33.33% | 33.33% | 30.61% | |
| Unadjusted year margin (d) | \$135,000 | \$65,000 | \$90,000 | \$115,000 | \$125,000 | |
| Unadjusted Reference Margin (e) | <i>(Olympic average: highest and lowest numbers removed)</i> | | | | | \$110,000 |
| Structural change adjustment (% of change x d) | \$52,826 | \$25,435 | \$29,997 | \$38,330 | \$38,263 | |
| Adjusted Production Margins | \$187,826 | \$90,435 | \$119,997 | \$153,330 | \$163,263 | |
| Adjusted Reference Margin (f) | <i>(Olympic average: highest and lowest numbers removed)</i> | | | | | \$145,530 |
| Difference in dollar value (f - e) | <i>(Must exceed \$5,000 OR 50% of Unadjusted Reference)</i> | | | | | \$35,530 |
| Difference in percentage (f - e)/e | <i>(Must exceed 10%)</i> | | | | | 32.30% |

In this example the proposed Structural Change adjustment meets the criteria of exceeding \$5000 and 10%.

Note: Where the standard Structural Change adjustment cannot be calculated or does not accurately reflect the change in the farming operation, alternate methods of calculating the Structural Change may be applied by the Administrator.

Structural Change (Expenses)

Where a structural change was applied to a reference year the Administrator may also apply a Structural Change adjustment to the allowable expenses. If the Administrator finds there has been a significant change in the allowable expenses (increase/decrease) a structural change may be applied to the allowable expenses.

Structural Change and Disaster Circumstances

The Structural Change adjustment may be waived by the Administrator in a disaster circumstance. These situations are dealt with on a case-by-case basis to ensure that all relevant factors affecting production in the Program Year are considered. Disaster circumstances include only those events occurring for reasons outside of a participant's control. They do not include circumstances arising from a participant's health or business decisions.

- See 4.7 or page 31 of the Canadian Agricultural Partnership Guidelines.