Business Risk Management Programs: Growing Forward and Growing Forward II

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January 12, 2011
Business Risk Management - Economics, Political Economy, and Policy
Brief Review of Canadian BRM Programs
Issues to Consider for BRM and Growing Forward II
Concluding Thoughts
BRM Programs - by definition are programs/policies that assist production agriculture businesses (farms) in managing/mitigating risk.

- note the absence of income support in the definition;
- vehicle of choice to funnel monies to farmers;

Economic theory suggests there are gains from trading risk between agents with different risk attitudes.

- government does not require a risk premium - significantly lower premium rates versus private insurance
- moral hazard issues (no empirical literature on prevalence of this in Canadian BRM programs)
- adverse selection issues (should be small given subsidies)
Why does government participate in BRM for farms?

- other governments do (US, EU)
- solve the "Farm Problem"
- monetary support for agricultural vote and political contributions
  - Is agriculture under or overpriced?
- desire of general public to support production agriculture
  - perception of production agriculture accurate?
  - support for family farm but commercial farm?
Mixing of economics, what is politically desired, budgetary constraints, and history

BRM policy (ag policy) lacks clearly defined objectives and thus metrics of success
  - muddy objectives may be optimal for both government and agriculture and may partially explain why programs get recast with little change
  - income support for commercial farms (44% of program payments go to top 9% of farms)?
  - less than 50% of support stays with farmers (Rude, 2010)

Policy is sticky because the institutional environment (budgets, political power of agriculture, public attitudes towards supporting production agriculture, etc.) under which policy is developed is sticky

Structural changes in institutions (e.g. budgetary constraints) usually required for dramatic policy changes
BRM programs account for 67% of federal funds on agriculture (CAPI, 2010)

BRM programs account for 73% of provincial funds on agriculture (CAPI, 2010)

Supply management for some sectors (Dairy, Chicken, Eggs)


There is some dissatisfaction with suite of programs across different sectors and regions.

Objectives? – stabilize short-run income? support income? both?

Performance metrics? – loss ratios; dollars transferred; income stabilization; competitiveness of sector?
- Based on individual accounts into which a farmer can deposit 1.5% of Allowable Net Sales (ANS) annually
- Government matches
- Annual deposit cap $22,500
- Provides margin loss protection based on your program year production margin.
- Payment triggered when margin falls below 85%.
- Reference margin is olympic average of three of last five years.
- Fee is 0.45% of reference margin (minimum of $45)
- Administrative fee of $55
- Whole farm not commodity specific
- Production insurance for crops and livestock (spotty)
- For specific perils
- Coverage levels are for 75%, 80%, 85%, and 90%
- Harvest or forecast price option but not both
- Premium rate determination - black box and private
- Some provinces reinsure while others self-insure
- Commodity specific
- National disaster aid program
- Provinces must apply for on behalf of injured
Provincial-specific products
  - Alberta - Cattle Price Insurance Program and weather-based insurance
  - Quebec - ASRA and Agri-Quebec
  - Saskatchewan - weather-based insurance

Allows flexibility but there may be a tradeoff - potential negative externalities across provinces
- Unit versus whole-farm
- Subsidy structure is similar but hard to tell - rating in Canada is secretive
- Higher of harvest or forecasted price
- Intermediaries used for delivery and risk sharing
- Don’t reinsure their remaining portion of book of business
- Not tied to the tax system
- Don’t see anything changing in the near future
- Budgetary constraints for both feds and provinces and opportunity costs of supporting agriculture.
- Relations between feds and provinces (provincial disparities)
- History of programs and support
- WTO considerations
- Election
- National Food Policy - dictate farm programs - not yet
Risks are different in different regions - how do you account for these differences?

Price insurance for livestock - very little buy-up without subsidies (US and Alberta)

Cost of production insurance (Ontario, Manitoba, others) - doesn't transmit market signals; costly; likely

Should individual provinces be allowed to introduce provincial programs with negative externalities?

Targeted insurance for different producer types (GMC, 2010)
- Opportunity for private entities to submit plans of insurance with subsidies
- Derivative based insurance programs (area yield, weather index, etc.)
- Cross-compliance issues (environmental regulation, etc.)
- Trade-offs between BRM and non-BRM programs
If governments are going to be involved in supporting agriculture - insurance is an appropriate avenue.

Governments should not use intermediaries - experience suggests too costly.

Balance between recognizing different risks across regions and crops and potential externalities.

Governments should consider the trade-off between BRM and non-BRM programs and their respective returns.