

Business Risk Management in the Next Generation APF: A CAIS Study

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Introduction

- Business Risk Management (BRM) in APF
 - Protect producers from income and production risks
 - Main “instruments”:
 - Production Insurance
 - Canadian Agricultural Income Stabilization (CAIS)
- Current BRM Review
 - Internal review and public consultations
 - Recommendations for revisions to instruments

Objectives

- Brief review of BRM instruments
 - Historical perspective
 - Current APF
- Assess performance of BRM instruments
 - esp. CAIS
- Look ahead - New and Improved BRM?

Historical Perspective

- Significant history of government intervention related to risk management
 - Support for prices
 - Subsidized insurance
 - Stabilization programs
 - Disaster payments
- Lots of programs; permanent and temporary

Changing Philosophy?

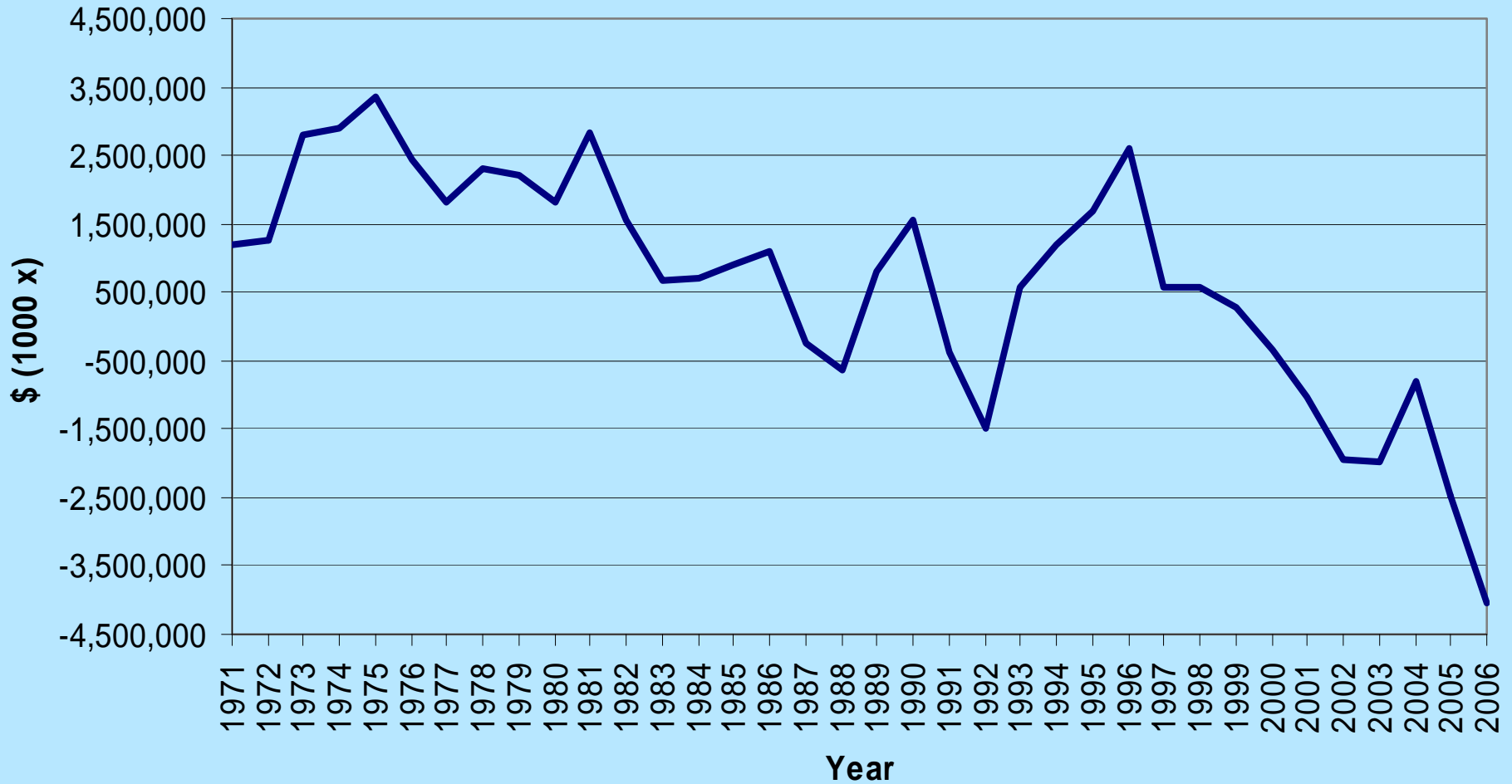
- Over time, philosophy associated with intervention has changed:
 - From commodity (e.g., WGSP, NTSP) to whole-farm (e.g., NISA, CAIS)
 - From price and revenue (e.g., GRIP) to income support/stabilization (e.g., CAIS)
 - From ad hoc (e.g., SCGP, CDAP) to permanent instruments (e.g., NISA, CAIS)

Historical Performance

- Examine aggregate farm income measures, nationally and provincially
 - With and without direct government support
- Impact of government support on level and stability of farm income
- Assess differential impacts by:
 - Province
 - Livestock versus crops

Net Income Total: 1971-2006

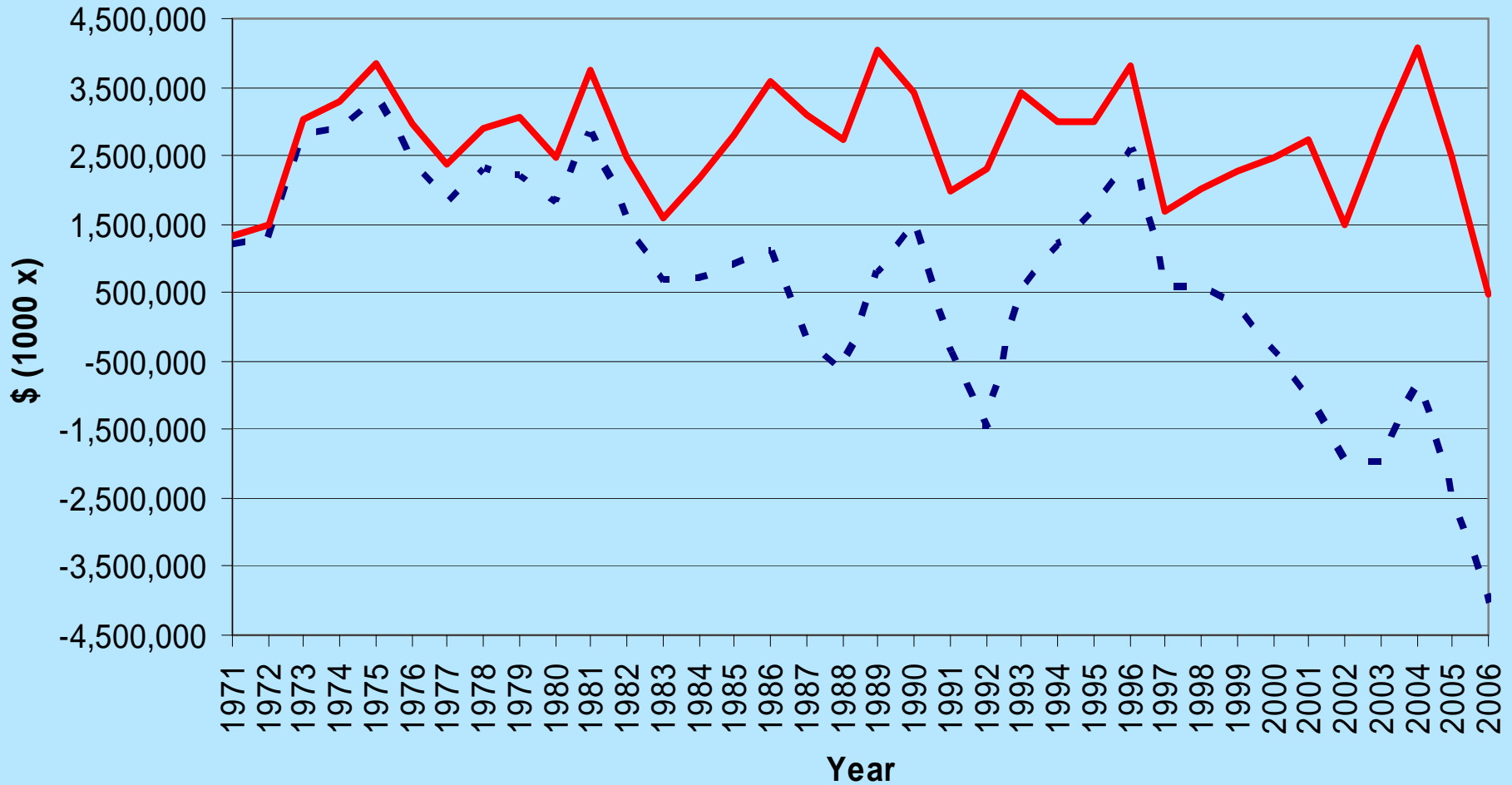
Nominal Dollars



— Net Income Total - No Direct Support

Net Income Total: 1971-2006

Nominal Dollars



■ Net Income Total - No Direct Support

— Net Income Total

Analysis of Historical Direct Government Payments 1971-2006

- increased absolute variability of cash receipts
- stabilized farm income
- payments occur close to time of negative income “shocks”
- higher payments in response to negative shocks in crop receipts versus livestock receipts
- Provincial results similar to overall Canadian results

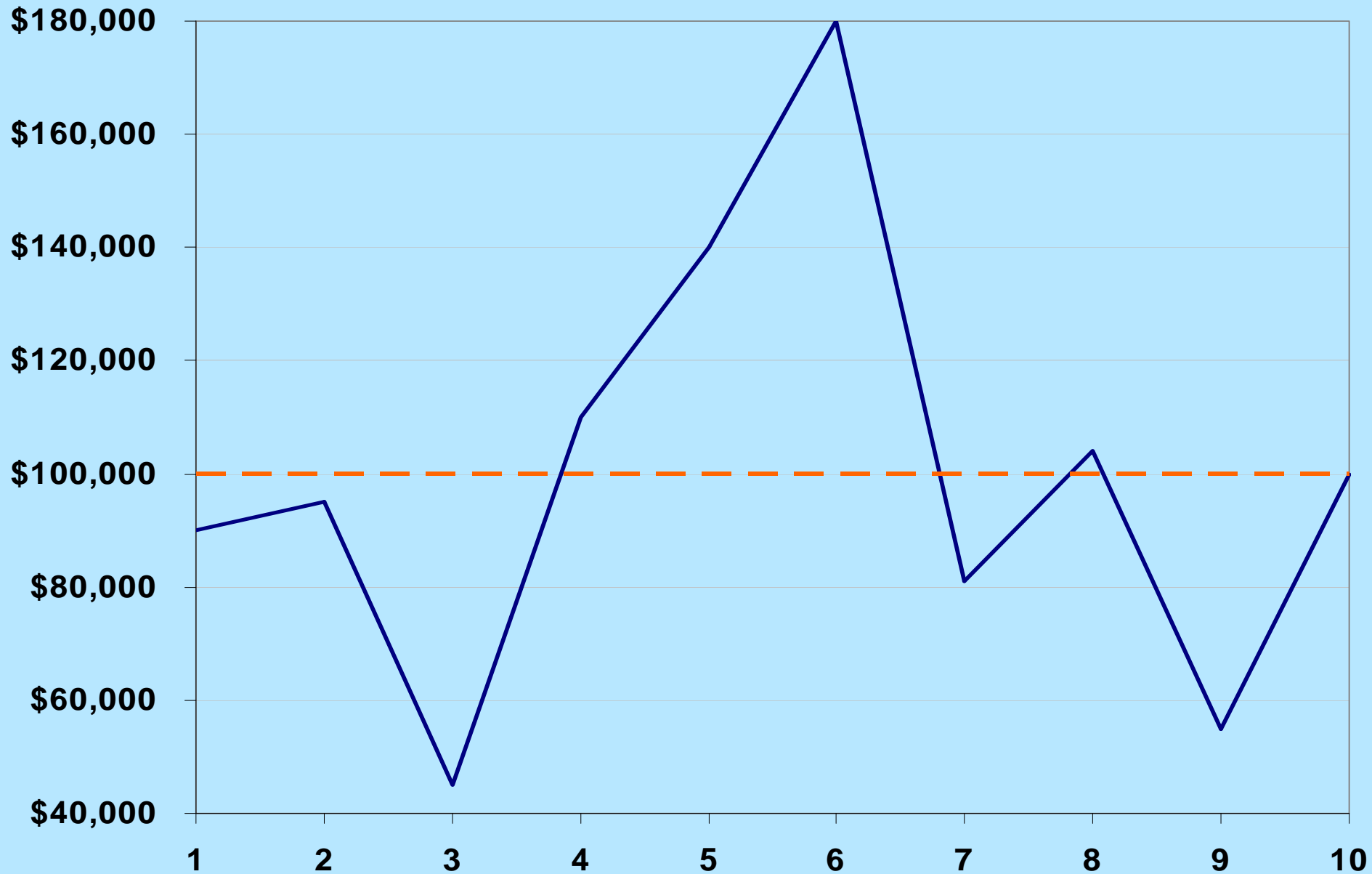
BRM in Current APF – Production Insurance

- Essentially basics unchanged from crop insurance (renamed)
- Cost shared by producers, federal & provincial/territorial govt.
- Provincial delivery
 - specifics vary by province

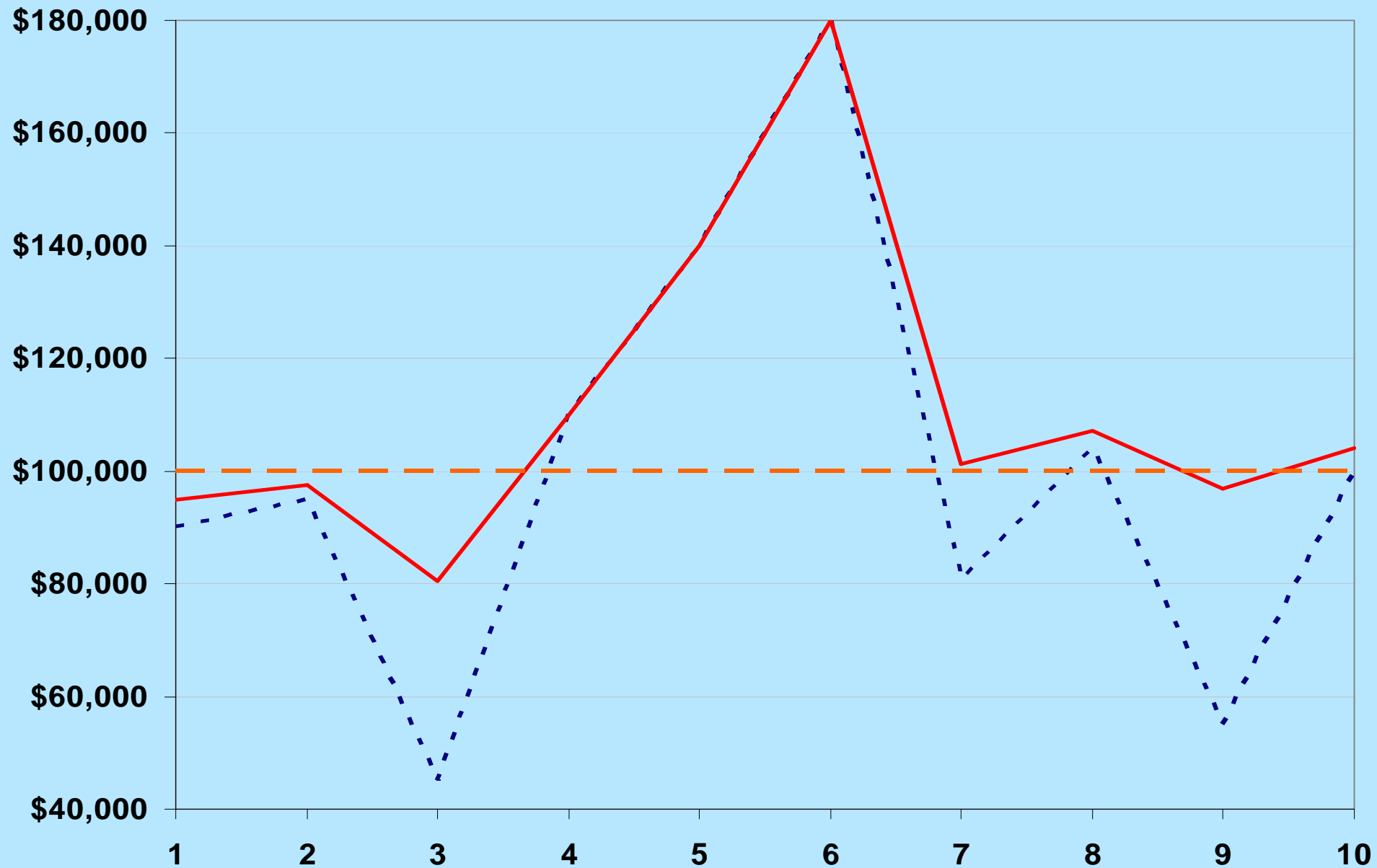
BRM in Current APF – CAIS

- Whole-farm program started in 2003
- Provides protection for “production margin” relative to “reference margin”
 - Payout if shortfall
 - % coverage increases as shortfall increases
- Producer selects coverage level and pays “premium”
- Essentially disaster insurance

CAIS Example – Production Margin



CAIS Example – Margin + CAIS



Empirical Research – CAIS Studies

- Mussell and Martin (2005)
 - Ontario; variety of farm types and sizes
 - Historical simulation
- Schaufele and Unterschultz (2007)
 - Alberta; cow-calf herd (310 cows)
 - Dynamic stochastic simulation
- Cortus (2005) – drainage study
 - Saskatchewan; crop production
 - Dynamic stochastic simulation
- Boadu (2007) – risk management study
 - Alberta; cow-calf (varied herd size and location)
 - Dynamic stochastic simulation

Summary of “Theoretical” Empirical Results

- CAIS increases farm income and decreases income variability
- Farm benefits increase with higher level of elected coverage
- Benefits are from “support”, not “stabilization”
- Possible moral hazard issues
 - Supply managed commodities
 - Decreased incentives to use other risk management tools?

Assessment of Programs – Production Insurance

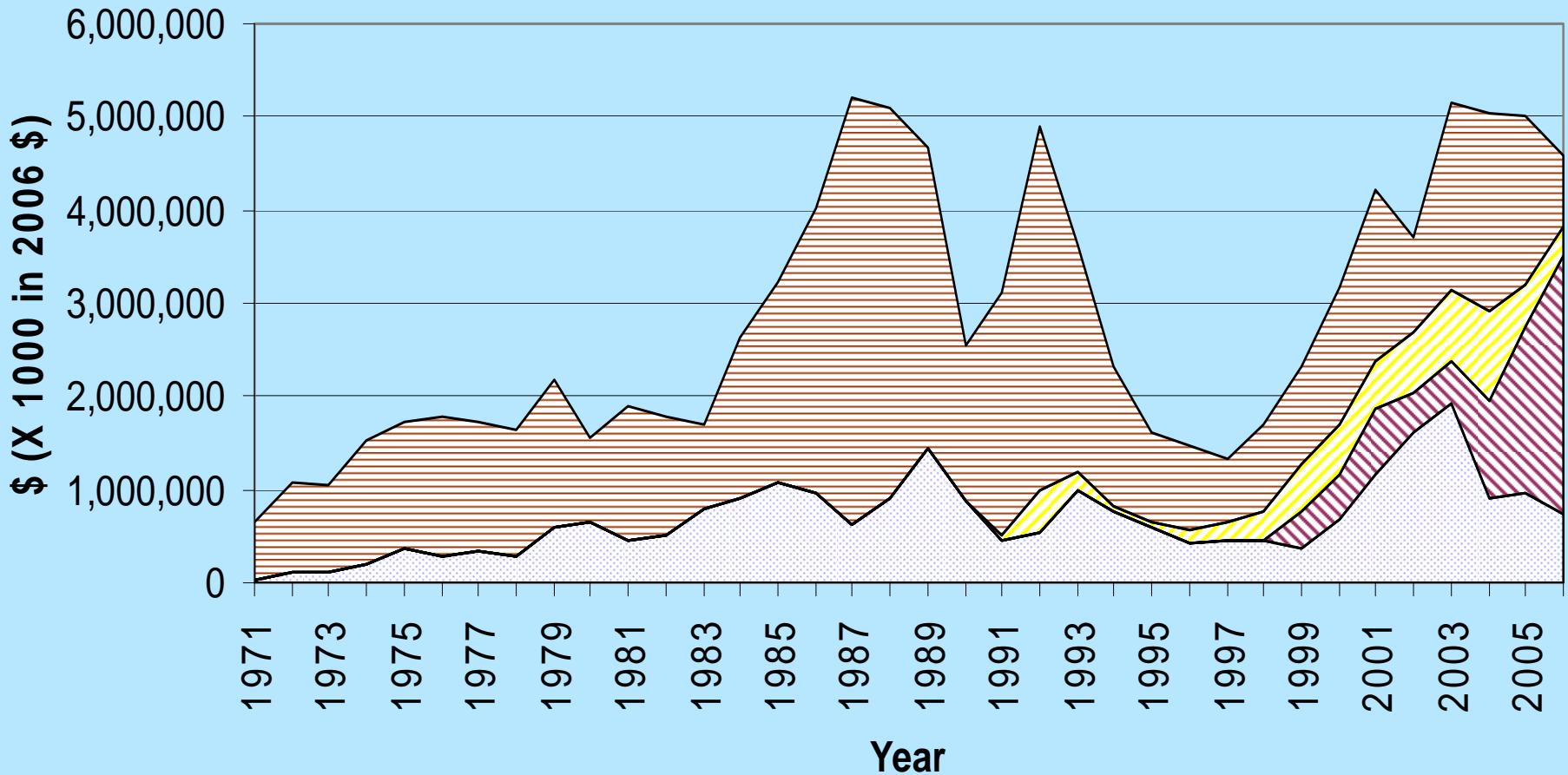
- 2005
 - almost 70% of field crop acres covered
 - 2005 payments totaled \$924 million
- Value to farms obvious
- No significant concerns

- Livestock insurance?

Assessment of Programs - CAIS

- Significant producer “uptake”
 - 82% of reference margins “covered” in 2005
- Payments
 - 2004 \$0.78 Billion
 - 2005 \$1.7 Billion
 - 2006 \$1.9 Billion
- Program structure “sound”
- “Theoretical” research shows CAIS works

Direct Government Payments To Canadian Farmers: 1971-2006



Crop and Private Hail
 Income Disaster
 NISA
 Other

Assessment of Programs - CAIS

- But there are problems, real and perceived
- Complexity
 - Program hard to understand
- Timing issues
 - Lag between income shortfall and CAIS payment
- Structural issues
 - No protection against L-T income declines
- Admin issues

Policy Recommendations

- Leave production insurance “as is”
- Retain CAIS
 - Remove top tier of CAIS
 - Recognize CAIS as disaster assistance, not stabilization

Changes?

- Livestock Insurance?
- Improved timing for CAIS
 - but how?
- What about stabilization?
 - Replace top tier of CAIS with stabilization program (something like NISA)



Other Considerations in BRM

- Links to other APF pillars
 - Cross-compliance?
- Philosophy versus politics
 - What type/level of support for agricultural production is appropriate?
 - Perseverance?
 - Stabilization?

“Growing Forward”

- Basis for new and improved APF?
- First step?
- A new set of BRM programs that are “simpler and more responsive”

Growing Forward: BRM Programs

“Back to the Future”?

- Stability: AgriInvest (=NISA?)
 - Savings account to cover small income declines
- Disaster: AgriStability (=CAIS?)
 - Margin based program providing support for more significant income losses. Top CAIS tier moved to AgriInvest.
- Insurance: AgriInsurance (=Production Insurance)
 - Existing production insurance and add new commodities
- Other: AgriRecovery (=usual ad hoc support?)
 - Rapid disaster assistance, to fill gaps not covered by existing government programs

Research Agenda

- Research questions
 - Would livestock insurance work? What design?
 - Are there moral hazard issues with CAIS?
 - What about stabilization? What type of program would work?

Thank you

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