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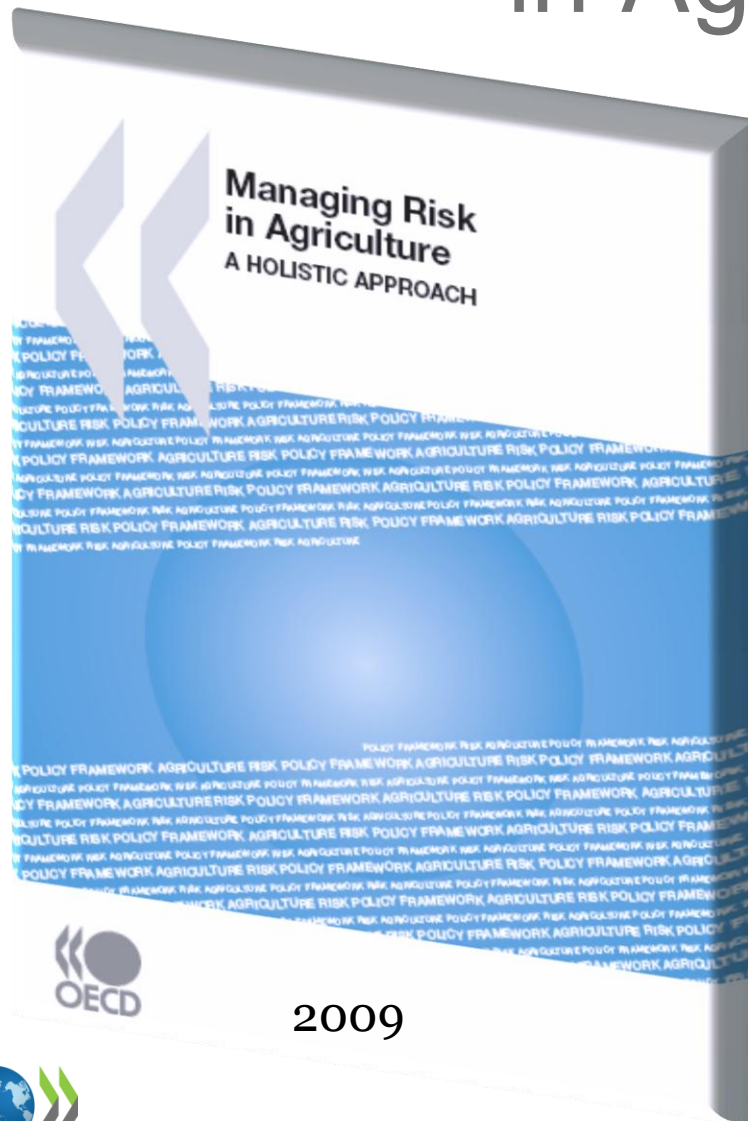
Risk management in Agriculture: What Role for Governments?

Jesús ANTÓN
OECD Trade and Agriculture

123 EAAE seminar « Price volatility
and Farm Income Stabilization »

Dublin, 23-24 February 2012

OECD Work on Risk Management in Agriculture



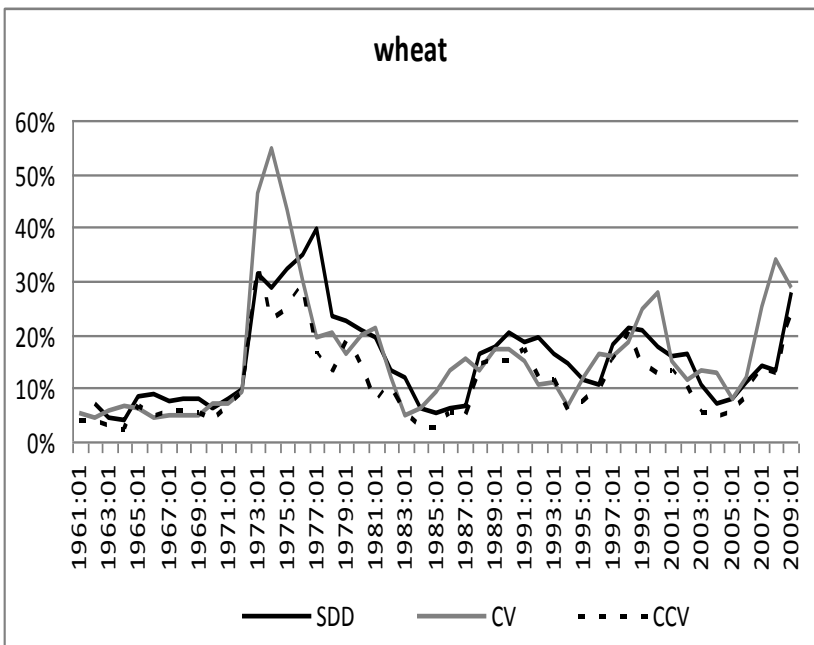
Outline

- Volatility and stabilization
- A framework to think of policies
- Policy experiences
 1. Direct Payments
 2. Price Interventions
 3. Insurance support
 4. Mutual Funds
 5. Income stabilization
 6. Food aid
 7. Funds for “crisis”

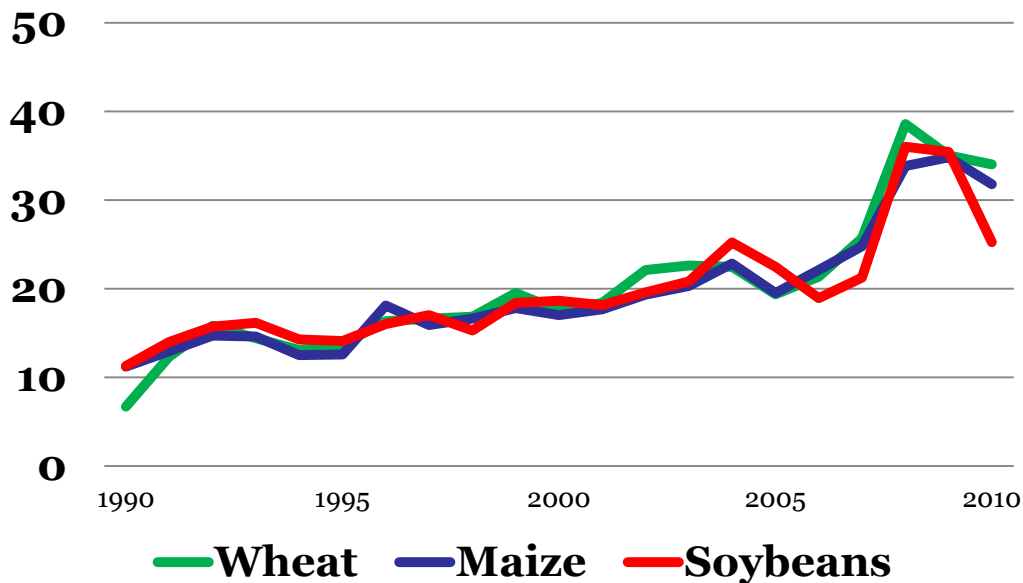
Has Price Volatility Increased?

Annual Price volatility

wheat



Implied Price volatility (CBT)

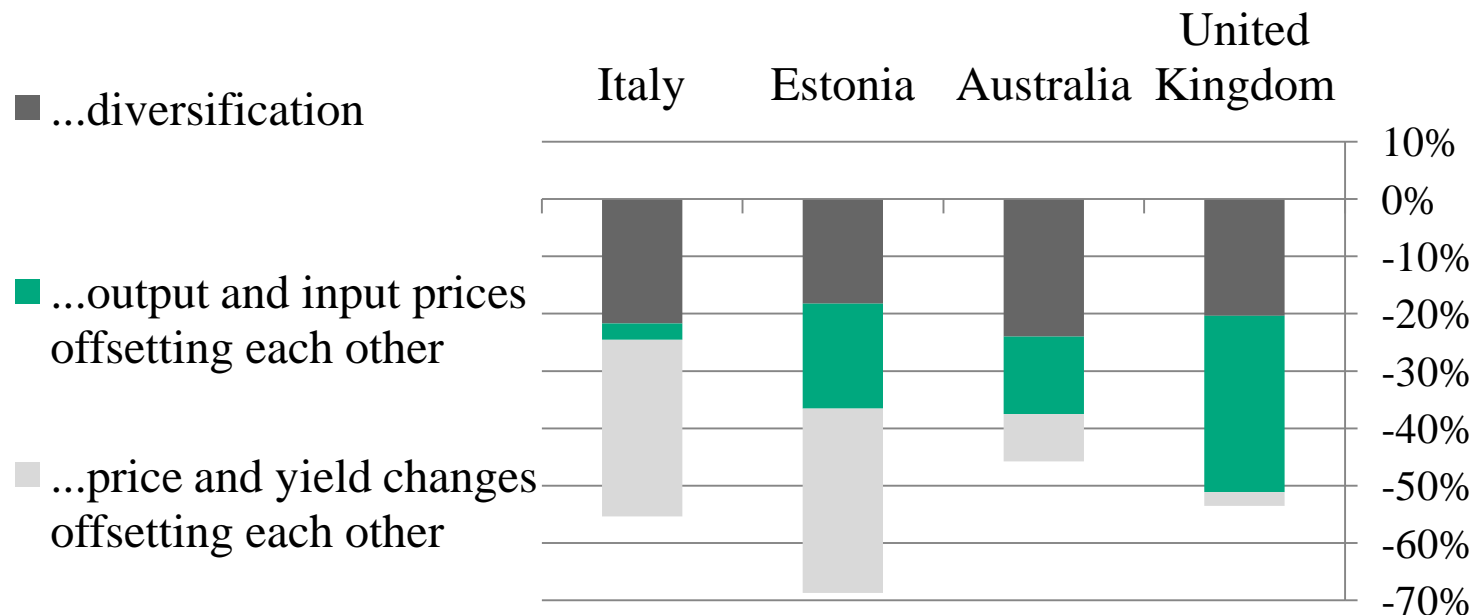


What does it mean for farm income?

Not much: interactions between risks, strategies and policies

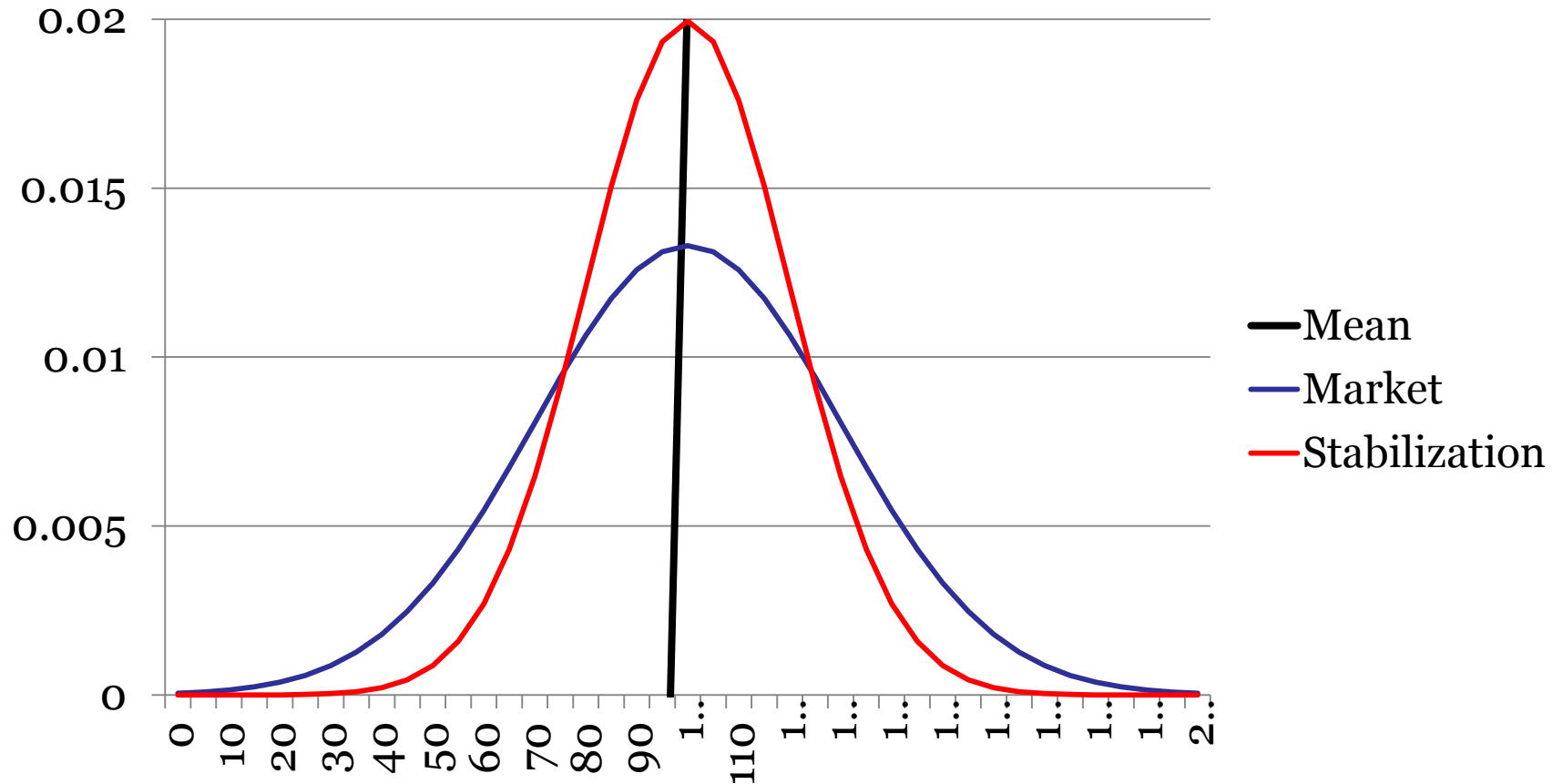
- *Correlations, diversification, government's programmes*

Farm income variance is reduced by ...

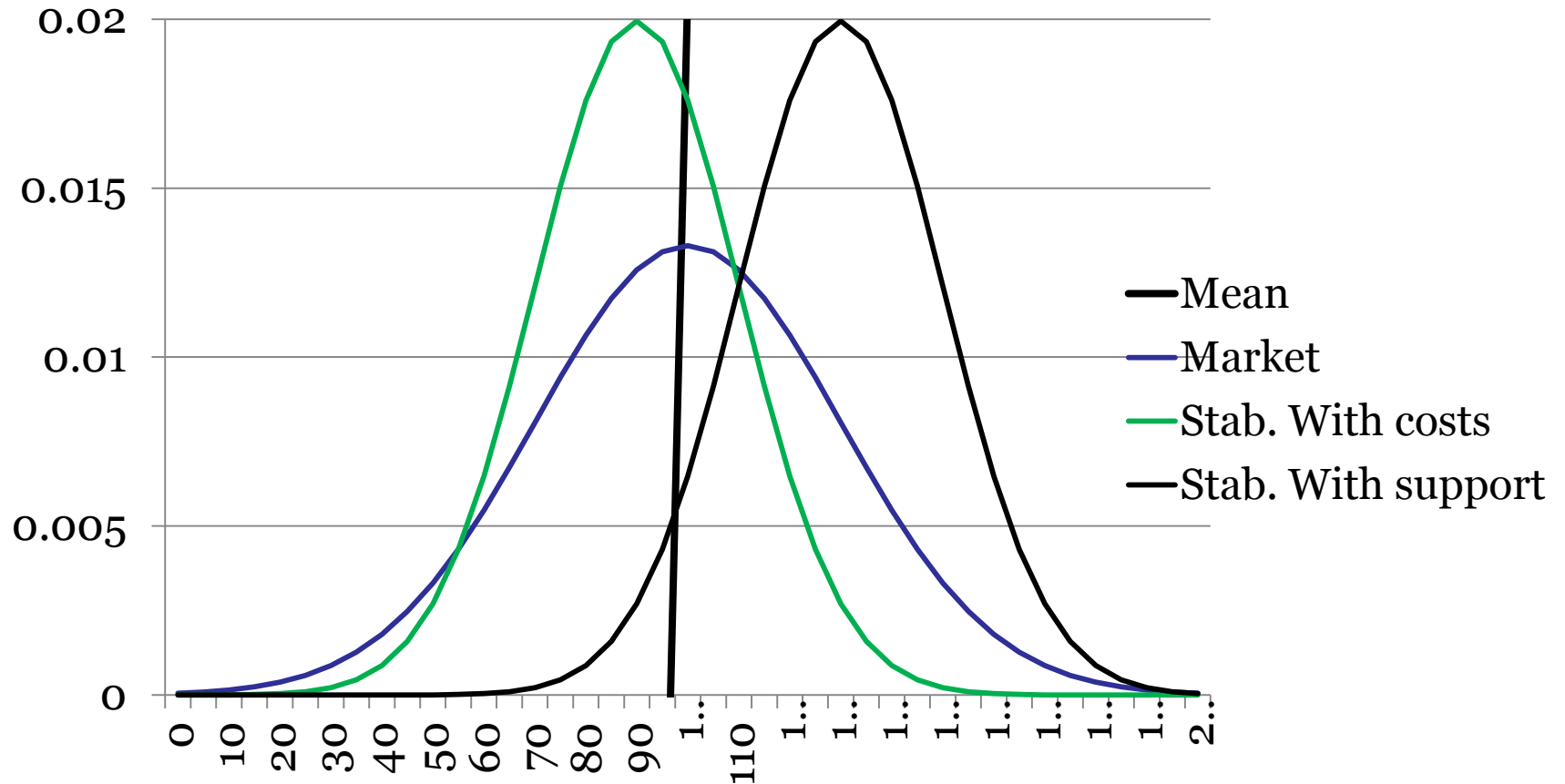


Decomposition of the variance of income of arable crop farms. The reference level of risk is the calculated variance in the counterfactual case of zero correlations, co-variances and diversification. Based on time series of individual farmers.

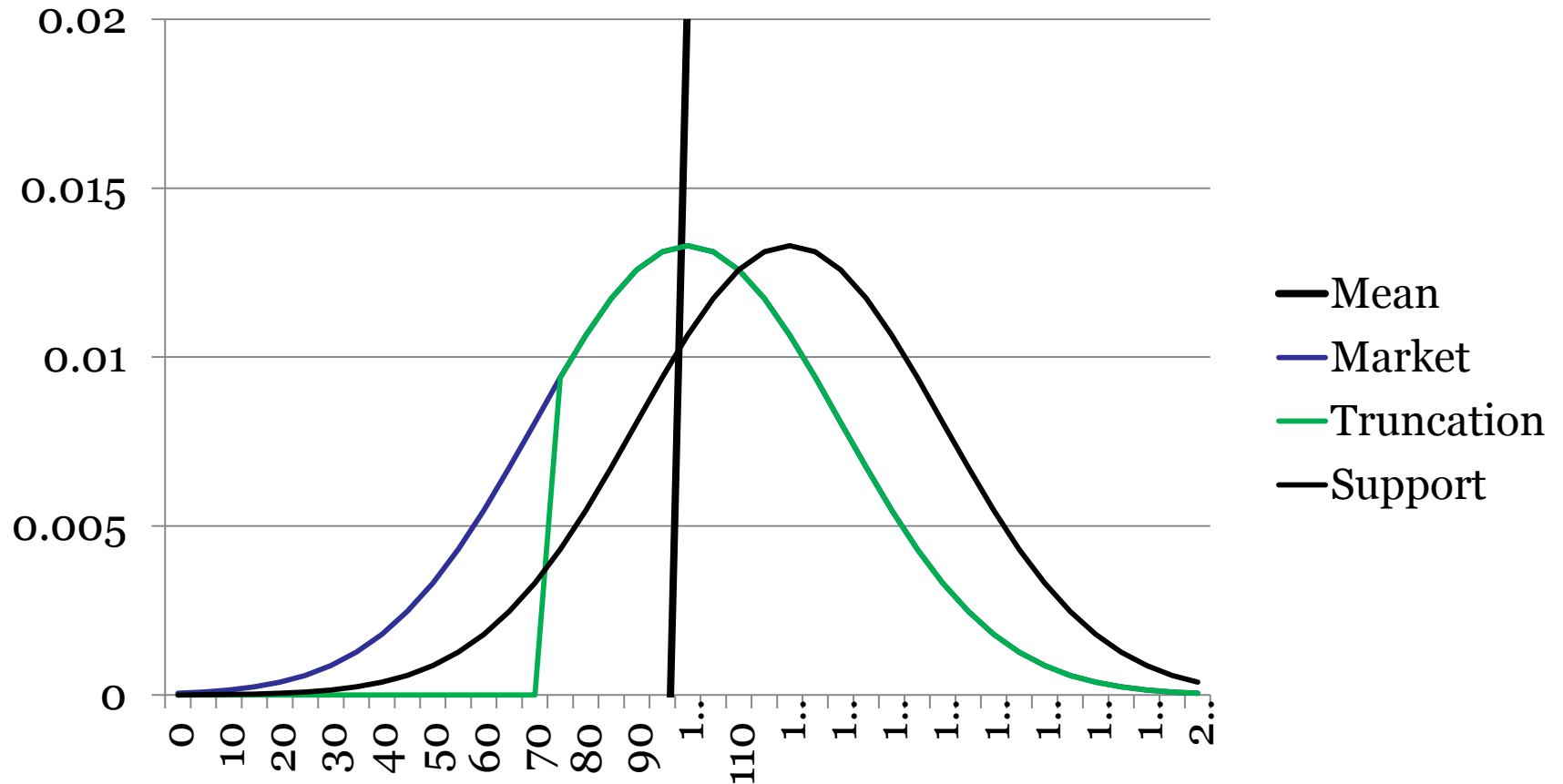
What does stabilization mean?



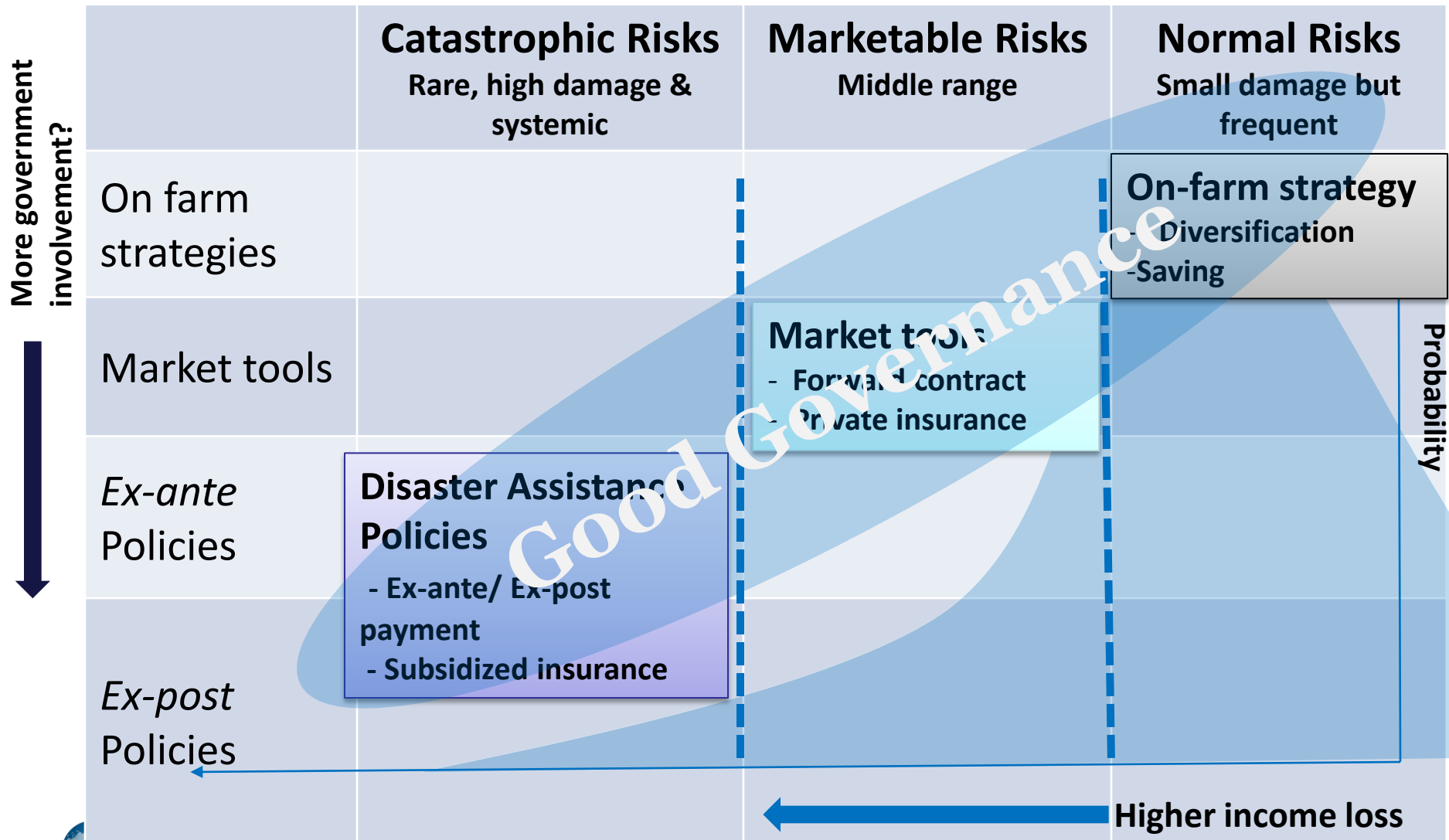
What does stabilization mean?



What does stabilization mean?



Good policy response: Risk layering



Crowding-out effects

- Government compensation for non-catastrophic risks off-sets pro-active risk management strategies:
 - Diversification: the main strategy
 - Market instruments
 - Contracts / integration
 - Futures: farmers benefit
 - Private insurance: asymmetric information
- Strongest crowding out from policies that address normal business risk:
 - Price support, income stabilization, CCP
- Weakest crowding out: Fixed highly decoupled

Policy approaches in different OECD countries

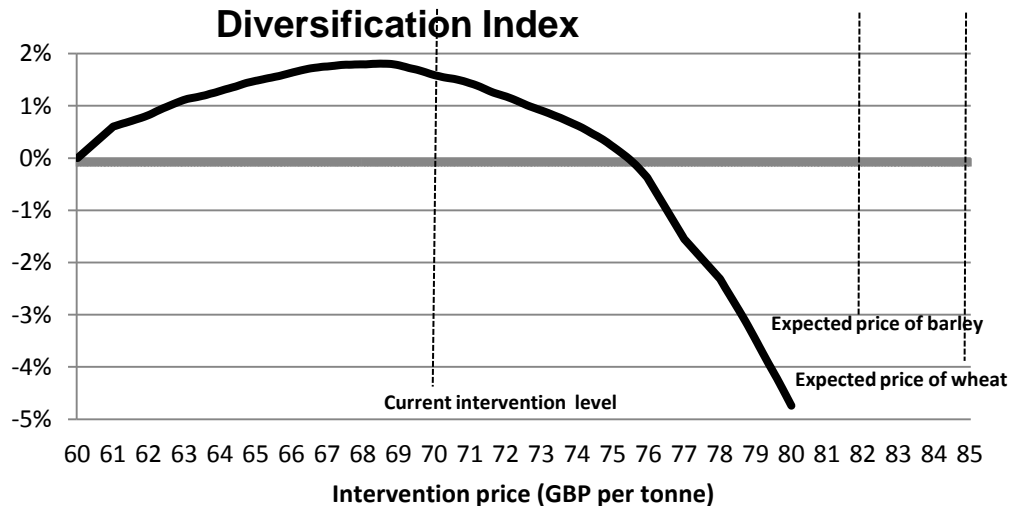
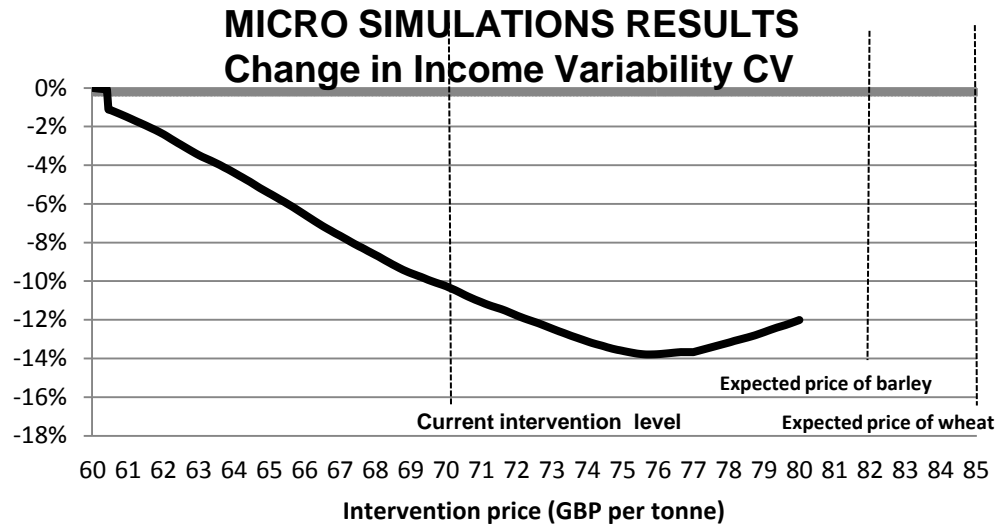
- Canada: margin stabilization
 - Agri-Invest, AgriStability, Agri-Insurance, Agri-Recovery
- US: Price / revenue stabilization
 - DP, CCP, ACRE, Insurance
- Australia y NZ: Disaster assistance
 - Bio-security; Drought and adverse events
- Japan: Price support and stabilization
- UE: Before MPS, today DP, Recently: risk management



1. Direct Payments

- Useful for risk management
- Other countries make them countercyclical
 - US' MLA, CCP, ACRE...
 - Canada income stabilization (AgriStability)
- Advantages and disadvantages of countercyclical payments:
 - Socially acceptable
 - No payments when prices / revenue / income are high
 - Complexity of targeting

2. Price Interventions

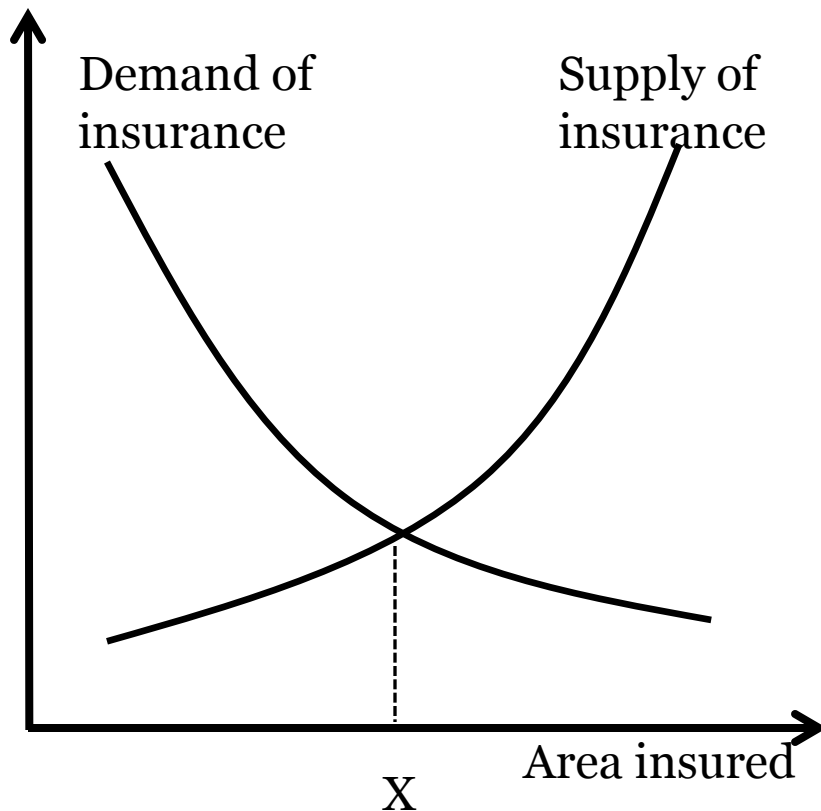


Price Interventions: EU “Safety nets”?

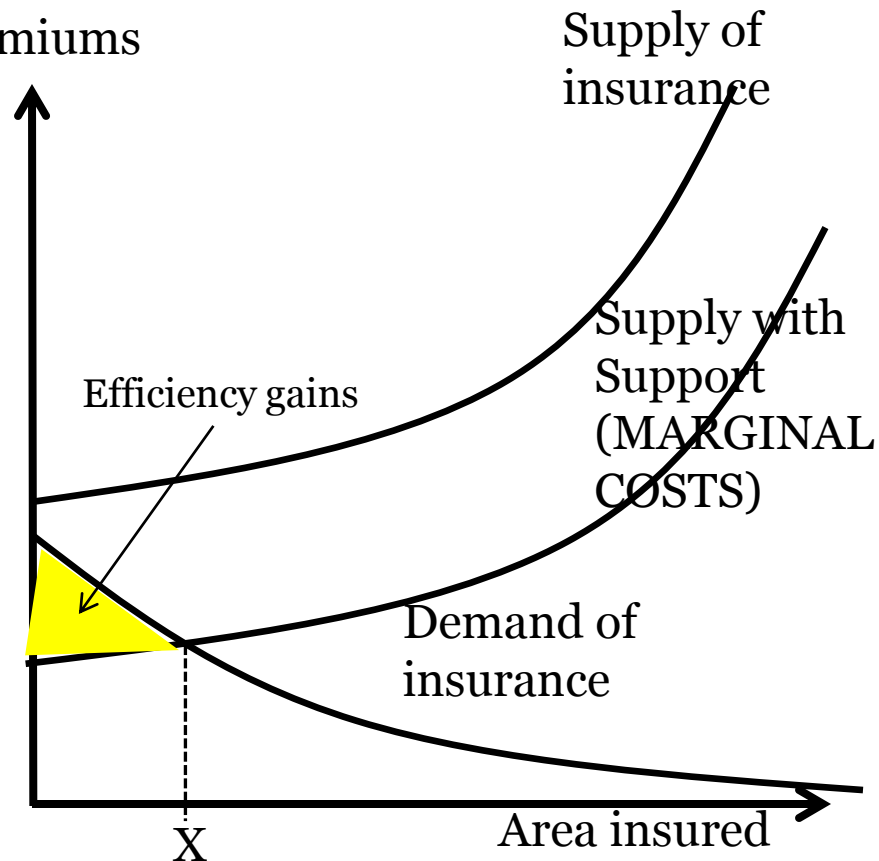
- It has nothing to do with a “safety net”
- They **Reduce** risk rather than **Manage** risk
- Only effective for very low Intervention prices
- Beyond certain level, it increases variability:
- Today “irrelevant” due to high world prices
- Other countries:
 - MPS in most countries
 - US’ MLA

3. Insurance market: will risk be transferred?

Premiums



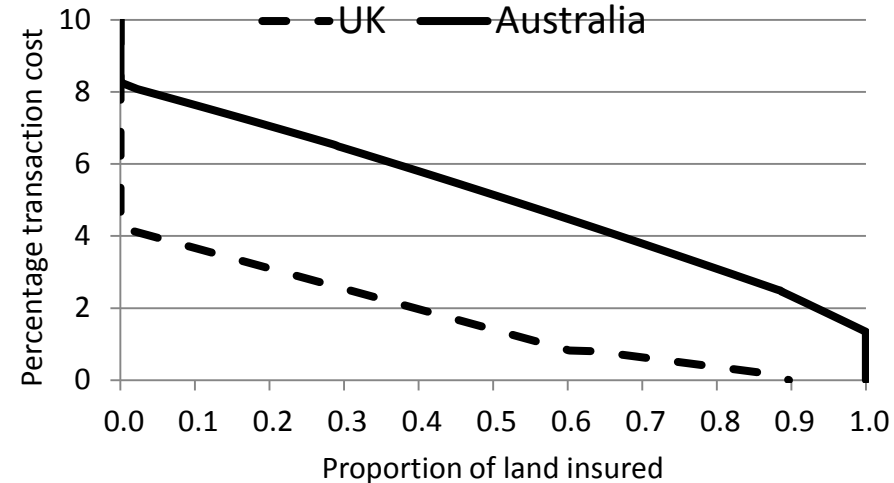
Premiums



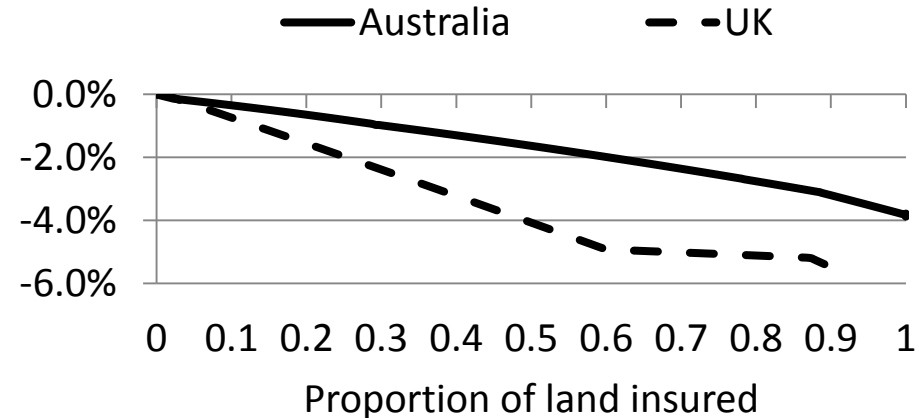
Support to Insurance

- Demand for insurance is hard to increase
- Start-up support
- Many countries have subsidized insurance (us, Canada, Spain...)
 - Differentiate catastrophic and marketable policies
 - Phase-out subsidies for non-catastrophic
 - Avoid rent seeking

Demand for crop yield insurance



Crowding out: Diversification index



4. Mutual funds for Animal diseases

- There are examples in different countries that these can work
- Main difficulty is a clear-cut definition of government actions:
 - the rules that trigger control measures
 - the rates of co-financing with producers, and
 - the boundaries of public compensation
- Need of an overall agreement on how to govern animal diseases

5. Mutual funds for income stabilization

Not many examples in the world.

- Agri-Stability in Canada is not a Mutual Fund but a CCP

- Trade-offs exist between targeting income and timely delivery

- Delays to collect information and Black box adjustments

- With delays payments are not counter-cyclical, become mere income support, and create demand for additional measures

- Tax files are best sources of income information

- In theory, smaller mutuals can better monitor income.

6. Food aid

- Many other countries have domestic food aid programs:
 - In the US, 33 \$ billion annually in 2008-10 > PSE
- The main issue is good targeting of the population in need.

7. Funds for crisis

Governance of Catastrophic risk

- OECD Governments will always be called on to provide disaster assistance
 - Political pressure
 - Be prepared with some *ex ante* framework
 - Procedures, Delineation of responsibilities, Triggering criteria, Types or levels of assistance
 - Examples: N. Zealand, Australia, Canada, The Netherlands, Spain

... Catastrophic assistance

- Crop insurance as a disaster assistance device
 - + Farmers pay, transparent trigger, stable budget
 - Refrain from non-catastrophes, deter *ex post* assistance and efficient administration
 - *Only for production risk*
- How to enhance the role of the EU Commission in the Governance of catastrophic risk?

Conclusions

- Government policies should take a holistic approach
- Agricultural risk management policies should focus on catastrophic risks
- Subsidized insurance as disaster assistance has flaws...
- Support to market based instruments should focus on “start-up” conditions
- Government policies should not provide support to deal with normal risk

Conclusions EC Proposals on RM

- Risk management focus is welcome
- Progressive approach to develop risk management instruments, and farmers' engagement
- Developing governance frameworks for catastrophic risk across the EU
- The governance of the funds for crisis is crucial

For more information



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