



Canadian “Risk Management”
Approaches: ASRA, ASRA-lite, and
HPIP

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Presentation Outline

- **Evaluate:**
 - AgriStability program
 - Assurance stabilisation des revenus agricoles (ASRA) in Quebec
 - Risk Management Program (RMP) in Ontario
 - The Alberta Hog Price Insurance Program

Question

- Are these programs really risk management or are they just tax dollars poured into hog production?



Risk Management Defined

- Investopedia explains 'Risk Management'

The process of **identification, analysis** and either **acceptance or mitigation of uncertainty** in investment decision-making. Essentially, risk management occurs anytime an investor or fund manager **analyzes** and attempts to quantify the **potential for losses** in an investment and **then takes the appropriate action** (or inaction) given their investment objectives and risk tolerance.

- Read more:

<http://www.investopedia.com/terms/r/riskmanagement.asp#ixzz1jp9Dd1KS>

Read more:

<http://www.investopedia.com/terms/r/riskmanagement.asp#ixzz1jp8YsqD5>

Risk Management Examples

- Hedging futures contracts and options
 - Offsetting whole or part of price risk
- Forward Contract
 - Fixed price or basis
- Formulas
- Integration



Risk Management

- Common ground: financial commitment is by the business(s) who take full gains or losses
- There is no third party just putting money in without possible loss or GAIN

Government Subsidy

1. Transfer payment from government using taxed or borrowed funds.
 - Moves taxes or borrowed funds from one group of people to another
2. Various conditions attached:
 - Must be unemployed
 - Must be a bad artist (Arts Council)
 - Must be a feminist organization
 - Must be the CBC
 - Must be some kind of victim
 - Must be a meat packer (SIP)

Words and Meanings Change

- Bums are “homeless”
- Easter Eggs are “spring spheres”
- Jungle became “Rain Forest”
- Terrorism became “man-caused” disasters.

Investment Has a New Meanings Too

- Thanks to Bill Clinton, government Spending is now “Investment.”



To Monica - Happy Birthday! Bill Clinton
7-23-97

Canadians are creative too!!

- Ag subsidies are now “business risk management.”
- Saint Andrews Statement:
- “The provisions of the next (ag policy) framework would govern the operation of cost-shared business risk management (BRM) programs and recognize supply management as a BRM program.”



Overview of the Four

AgriStability Federal

- Margin based: if the production margin falls below 85% of the reference margin, producer gets a payment.
- RM is five year average margin of the whole farm
- Purpose is to smooth out producers' margins
- Fluctuating margins will trigger to help through low margin years
- Producer contribution is a share of the reference margin
- Whole farm nature

ASRA Quebec

- Quebec program based on a model cost of production
- Designed to guarantee a positive net annual income.
- One third of the premium comes from the participants and two thirds of the premium comes from the Quebec government (for large farms, premiums are $\frac{1}{2}$ - $\frac{1}{2}$ instead of $\frac{1}{3}$ - $\frac{2}{3}$)

ASRA

- Compensation = Stabilized income - Average selling price
 - Stabilized income: production cost including 70% of most salaries. (Previously 90%)
 - Production cost: that of a farm type specializing in the production of hogs, whose parameters and expenses are indexed annually.
 - Selling price: average of the prices having prevailed in Québec

RMP Ontario

- Price protection plan.
- Payment: average market price $<$ support level.
 - The support level directly relates to the cost of production. (greater cost of production translates into the greater support level)
- RMP programs were designed to be cost shared on a 30-28-42 basis between producer, province and federal government, respectively.
 - The federal government, however, has stated that it will not participate because of trade related concerns. As such, the producer premium in 2012 is reduced to reflect a program providing 40% support.
- RMP payment calculation is tightly linked to the AgriStability payment
 - AgriStability payment is deducted from the RMP payment.

HPIP Alberta

- Opportunity to lock in a future price in exchange for a premium paid by the producer.
- If the monthly average hog price is less than the coverage purchased for that month, a payout is generated.
- HPIP premiums are non-subsidized.

Evaluation

AgriStability

- Works as intended – smooth out margins
- Worked well for hog producers
- Over a long period of down margins, it does not pay out...forcing adjustment
- Not need based...just based on average
- Diversified farms may not receive payments and could encourage changing structure
- ...trade friendly

ASRA

- The Gold Standard
- Generous COP
- Two thirds of premiums are paid by Government
- In theory it is balanced by payments...in reality seriously overdrawn.
- From 2006 to 2010, the program paid out well over a billion dollars to Quebec hog producers

RMP Ontario

- ASRA-lite...
- 2011 no premiums, yet disappointment on participation #'s (large share of production covered).
- RMP pilot for the grains and oilseeds sector is in its fourth year and participation has declined by over 50% during that time
- If there is a significant cancelling out between RMP and AgriStability payments, then the effect of RMP will have been greatly oversold
 - At unknown exposure to trade risks to the Ontario and Canadian industry.

RMP Ontario

- At best, a mediocre program from a producer perspective, and at worst, a program where farmers could be worse off just by being in the program.
- This is especially the case with hogs because anytime they're ever likely to collect RMP, they're also likely to be entitled to AgriStability.
- Wishy-Washy: not a lucrative entitlement and not attractive fulfilling RM

HPIP

- Producers asked for it, the government delivered and now it is not being used.
- Producers are reluctant pay for an options premium. Producers seem to prefer forward contracts, with no cash outlay required.
- Premiums are considered too high and that will be the criticism until the market tanks.
- For now there are no payouts and the premiums look like a waste of money to hog producers in Alberta.

Comment & Conclusions

- HPIP is close to traditional risk management
- The other three are just government subsidy programs with varying degrees of taxpayer generosity.
- The Federal program did keep some good producers above water during the financial collapse of the last four years.
- There is also no question that ASRA has kept the Quebec hog industry much larger than would otherwise have been the case.
- Whether these are good or bad depend on your perspective.

Comment

- They do nothing, however, to help the industry adjust to global markets.
- Instead they have the tendency to encourage dependency and stagnation.
- Farm the government
- Finally, by definition, these programs are typically self-defeating in that farmers will immediately capitalize benefits back into asset values. That is an age old truism that is consistently ignored.

Comment

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- Ethanol offset would be a good idea

Final Point

- Whether right or wrong, they are subsidies
- No more “Risk Management” than any other government wealth transfer



Advertisement for government grants. The background features a stylized red and white maple leaf. At the top, a blue button with white text says "GET MY MONEY!". Below this, white text on a dark blue background reads "millions in government grants you never have to repay". At the bottom, a red background contains a three-step list:

- 1 Get your **Grant Software Kit**
- 2 Choose from **1000's** of grants
- 3 Apply for **GOVERNMENT GRANTS**

- The bottom line is that any time the government talks about “investment” or “risk management,” grab your wallet.

