

RISK MANAGEMENT PROGRAM

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Prepared by the Ontario Grain & Oilseed Group
as a replacement program for Market Revenue Insurance

Program in Brief

1. The Risk Management Program (RMP) is a commodity specific support program that potentially triggers payments twice a year whenever “opportunity” prices for a six-month period drop below the selected support price per commodity.
 - The average of provincial new crop forward contract offers for delivery to local primary elevators at harvest is the opportunity price for the first six-month period prior to harvest;
 - The average of provincial spot (old crop) price offers for delivery to local primary elevators is the opportunity price for the last six-month period following harvest;
 - Equivalent opportunity pricing methodologies for coloured beans, white beans, and “Plan B” crops will be developed.
2. A producer must enroll annually and pay the premium associated with the support price of his choosing per commodity.
 - A producer must complete an RMP enrollment application annually;
 - Agricorp administers all aspects of the program including all funding;
 - Deadline for applying is November 30 for fall-planted crops;
 - Deadline for applying is March 31 for spring-planted crops;
 - To be eligible to participate in the RMP for any crop, a producer must be also enrolled in Crop Insurance for the same crop and be enrolled in CAIS;
 - On the RMP enrollment application, the producer chooses 1 of 4 support price options per commodity;
 - Payment of premium per commodity based on individual long-term average yields is due with the final planted acreage report;
 - There is a minimum annual RMP application fee of \$500 per applicant due with RMP application;
 - Non-enrollment in any one year and/or non-payment of premium in any year is penalized by the producer not being eligible for that specific program year plus the subsequent 2 years (ie. out for 3 years);
 - All payment eligible crops must be enrolled in Crop Insurance and in the RMP.
3. RMP payments per commodity are made based on 100% of the difference between the selected support price and the “opportunity” price for the defined six-month period.

- Payments are made based on the individual producer's long-term average yield as reported to Agricorp;
 - Payments are made based on the individual's actual acreage planted to the specific commodity in the program year as reported to Agricorp.
 - Payments when triggered for the first six-month period are made based on 50% of total projected production (using AFY) per commodity;
 - Payments when triggered for the second six-month period are made based on the other 50% of total projected production (using AFY) per commodity.
4. Producers report actual yields and planted acreage annually per commodity as per Crop Insurance requirements.
- The individual's average yield of the previous 10 years (after trending and/or buffering if applicable) is the individual's long-term average yield per commodity to be used in calculation of program payments.
5. RMP payments received by an individual producer count as a CAIS payment in the equivalent CAIS program year. The participant will receive and retain RMP payments when triggered regardless of whether a CAIS payment is eventually triggered in the equivalent program year or not. If a CAIS payment is eventually triggered in the program year that is higher than the RMP payment already received, the producer will receive the incremental amount triggered under CAIS as well (ie. RMP payment + incremental CAIS = total CAIS payment). For clarity, there are five triggered payment scenarios:
- No RMP payment + no CAIS payment = no payment at all
 - No RMP payment + CAIS payment = CAIS payment
 - RMP payment + no CAIS payment = RMP payment
 - RMP payment > CAIS payment = RMP payment
 - RMP payment < CAIS payment = RMP + incremental CAIS
- The participant will receive and retain the higher of the two payments. Savings to CAIS program expenditures generated by RMP payments (ie. RMP/CAIS "offsets") must be deposited by government into the Agricorp fund supporting this RMP program.
6. Premium surcharges apply for producers who do not complete a defined series of marketing and financial management courses within a proscribed period of time.
7. Payments triggered under this program are capped at \$325,000 per enrolled entity per program year with a maximum of 3 entities (ie. total payment cap is \$975,000 relating to one enterprise).
- Premium rebates will apply if a program participant "caps" out (ie. the ratio of capped payment versus triggered payment will be used to calculate the premium rebate).

8. Support prices are indexed annually using the previous year's Farm Input Price Index.

A) Selection and Comparisons for Support Prices

The following Table compares the new program's support prices with support prices for the old MRI (2004), ASRA (2004), and with cost of production.

Support Price Comparison			
	Corn	Soybeans	W. Wheat
MRI @ 90% IMAP (2004 MRI)	\$3.78	\$8.94	\$4.17
MRI @ 100% IMAP (2004 MRI)	\$4.20	\$9.93	\$4.63
ASRA (2004 using Quebec yields)	\$4.70	\$7.68	\$7.81
ASRA (2004 using Ontario LTAYs)	\$4.28	\$8.24	\$5.21
Cost of Production (2001 work)	\$4.06	\$8.77	\$5.11
Replacement MRI Support Options	\$4.25	\$9.00	\$4.75
	\$4.00	\$8.75	\$4.50
	\$3.75	\$8.50	\$4.25
	\$3.50	\$8.25	\$4.00

- MRI support prices are listed as they were for the 2004 crop at both the 90% level (ie. 90% of the Indexed Moving Average Price or IMAP) and 100% level.
- ASRA support prices are based on cost of production. However, when using ASRA for comparisons, we need to convert Quebec support per acre per crop (ie. support price times yield) into Ontario equivalents by dividing total Quebec support per acre by the average of individual yields in Ontario. The result is that the "ASRA in Ontario" support price for corn and winter wheat drops as shown, while the support price for soybeans increases relative to the value in Quebec.
- Cost of production estimates are from a study completed in 2001 using OMAF tax-filer data, MRI data, Crop Insurance data, and NISA data.

B) Selection and Comparisons for Trigger Prices

Use two pricing opportunity periods to determine the trigger price for generating program payments:

- the six months prior to harvest would use the average of forward contract price offers for delivery at harvest;
- the six months after harvest would use the average of spot price offers for delivery at the elevator.

The attached analysis sheets for corn, soybeans, and wheat demonstrate how such a program would have worked using actual prices for the years indicated. Wheat data is spotty because forward contracting and spot pricing only recently were introduced. Results for 3 wheat pools indicate that a higher support price for spring wheat is required.

Each analysis sheet for corn, soybeans, and wheat assumes a participant selects the highest support price option and pays the associated premium.

The sheets show the payment per bushel triggered by the first opportunity pricing period (forward contract period) made on half the projected production, and the second payment triggered by the spot price opportunity pricing period made on the other half of projected production. The sheets show the net program total payment per bushel (after premium paid is subtracted) and the total net payment per acre (using the individual long-term average yield).

Marketing Note:

As a note, forward contracting and spot pricing opportunities for corn are equivalent over time. But, the average forward contracting opportunity was better than the eventual spot pricing opportunity only 4 years of the 10; while spot pricing was better than forward contracting opportunities the other 6 years. For soybeans, spot pricing opportunities were better than forward contracting opportunities also 6 years out of the 10, but the gap in favour of spot pricing was much wider on average whereas corn results were dead even.

It is also interesting to note that the average weighted market price for corn (indicated on the sheet as "MRI (S-A)") turned out to be higher than the opportunity price system in 5 of the years. This means the RMP would pay out more to producers because the old MRI triggering price was higher. The opportunity price triggering system was also lower than the MRI average weighted price 8 of the 10 years for soybeans meaning the RMP system would again pay out more to producers.

C) Program Payment Schedule

Proposed that the RMP program make a payment within 30 days of the end of the forward contract coverage period and a second payment within 30 days of the end of the spot price coverage period. The first payment (triggered by the forward contract coverage period) would be made using half of expected production as projected using a participant's reported planted acreage and his individual long-term average yield. The second payment (triggered by the spot price coverage period) would be made using the last half of projected production.

The attached analysis sheets for corn, soybeans, and wheat demonstrate the size of each of these two annual payments.

D) Comparison of Premium Costs

Producers will assess the RMP program by comparing premium costs here with those in Quebec. The following Table gives that comparison using support per acre (since yields are different).

Comparison of Premiums Based on Dollars per Acre versus Support Level									
	Corn			Soybeans			W. Wheat		
	\$/acre	Prem	Support	\$/acre	Prem	Support	\$/acre	Prem	Support
Quebec	\$539.56	.40	\$4.28	\$342.53	.13	\$8.24	\$383.47	.80	\$5.21
Ontario	\$567.99	.32	\$4.50	\$384.62	.31	\$9.00	\$386.40	.49	\$5.25
Ontario	\$536.44	.25	\$4.25	\$373.94	.23	\$8.75	\$368.00	.42	\$5.00
Ontario				\$343.04	.09	\$8.25	\$349.60	.34	\$4.75

Note: Quebec ASRA support levels have been converted using Ontario yields in order to simplify comparisons.

The RMP method of calculating premiums (i.e. 30% of the difference between the support price and the long-term average price) appears to result in premium costs that are less than the premium cost in Quebec for equivalent support per acre. For example, Quebec's ASRA program, which is based on cost of production, provides \$539.56/acre in support for corn at a premium cost of \$0.40/bushel using Ontario's long-term average yield of 126.22 bu/acre. With our higher yields, the RMP provides equivalent support (in other words using Quebec's cost of production but our yields) for \$0.25/bu at a support price of \$4.25, which is roughly equivalent to Quebec's support of \$4.28 using our yields. For soybeans, equivalent per acre support is provided at a premium cost of \$0.09/bu under the RMP versus \$0.13/bu under ASRA in Quebec. For wheat, a premium of \$0.49/bu provides equivalent per acre support that Quebec provides for a premium of \$0.80/bu. The RMP generates equivalent support per acre for less cost to the producer.

E) Cost to Government

The attached sheet details the projected cost to government for the RMP using:

- the two opportunity price triggering periods,
- the four support price options.

As the sheet details, the average total net cost to government for the years 2000/01 through 2004/05 had RMP been operational would have been \$342.5 million assuming all participants select the highest price support option (range \$454.6 m to \$194.1 m).

The total premium paid (assuming all participants select the highest price support option for all commodities) is \$99.188 million annually.

Attachments:

Corn: Average Monthly Forward Contract and Spot Prices

Soybeans: Average Monthly Forward Contract and Spot Prices

Wheat: Average Monthly Forward Contract and Spot Prices

Risk Management Program: Net Cost to Government (All Crops)

(this sheet includes an additional cost of 8% for all other program crops)