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Farm Income Stabilisation Insurance and Lamb Production in the Province of Quebec

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Abstract

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This study investigated the implications of the Farm Income Stabilisation Insurance (ASRA) for lamb production in the province of Quebec. For this purpose, we analysed producers' responses to risk factors following the implementation of ASRA. Further, we examined the risk aversion of producers using the Relative Marginal Risk Premium index. Risk factors are modelled by Asymmetric GARCH models.

Farm Income Stabilisation Insurance is a state assistance programme implemented in the province of Quebec. This programme covers production costs when market prices are below production costs. ASRA is specific to some commodities and livestock namely fattened calves, steers, grain-fed calves, piglets, pigs, lambs, oats, wheat, corn, potatoes, milk calves, canola, barley, soybeans and apples.

The results indicated that the effectiveness of ASRA is reduced by decreasing the incentive of producers to hedge against price risks as well as by affecting their production decisions. On the other hand, reduced sensitivity of farmers to price risks leads to increased production and as a result, increased indebtedness of farmers. In other words, farmers substitute ASRA for their risk management strategies and benefit from ASRA payments by increasing their production. Increasing production requires an increase in investment and leads to an increase in the indebtedness of farmers. On the other hand, increased production imposes an increased financial burden on governments' shoulders as they have to cover the higher amount of production. Finally, the estimation of the Marginal Risk Premium Index indicates risk aversion of lamb producers to output prices whereas their risk-neutral behaviour versus input prices. It is not surprising as ASRA compensates the cost of production including input costs. In addition, the estimation of this index reveals that the implication of ASRA leads to an increasing risk-aversion of producers over the periods of decreased prices and a decreasing risk aversion over the periods of increased prices. The later could be justified by the implementation of ASRA which decreases the risk of price volatilities.

Keywords: ASRA, Asymmetric GARCH, decoupled payments, lamb production, Marginal Risk Premium index, risk aversion, state assistance

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