

IV.5 Risk Management

Farmers have always had to deal with uncertainty about market prices, weather, exotic pest infestations and other factors. Many approaches are used to deal with risk. These include production diversification, vertical integration, contracts, financial liquidity, maintaining credit lines, crop insurance, forward contracting, and trading of futures and options in commodity markets.

TABLE 46

Risk Management Tools Available to Field Crop and Horticultural Producers

Risk Management Tools	Availability to Field Crop Producers	Availability to Horticultural Producers
Enterprise Diversification	yes	yes
Vertical Integration	yes	yes
Production Contracts	yes	yes
Marketing Contracts	yes	yes
Hedging in Futures	yes	very few
Futures Options Contracts	yes	very few
Maintaining Financial Reserves and Leveraging	yes	yes
Liquidity	yes	yes
Leasing Inputs and Hiring Custom Work	yes	yes
Insuring Crop Yields and Revenues	yes	some
Off-farm Income	yes	yes
Price Pooling Arrangement	very few	yes

Source: USDA, Economic Research Service, *Agricultural Economic Report No 774*.

- A number of federal crop insurance programs are available to California farmers. The Catastrophic Coverage Program (CAT) and the Non-insured Assistance Program (NAP) provide minimal coverage with little or no cost to growers. Farmers can also choose among additional insurance policies with higher levels of coverage for a premium. Some policies are more general while others are designed for producers of a specific crop, such as the California Citrus Dollar Plan Program which begins as a pilot program in 2001.
- The 1994 Crop Insurance Reform Act required farmers to purchase CAT to be eligible for payments from other government programs. This provision was eliminated in the 1996 Federal Agricultural Improvement and Reform Act, and since then enrollment in the CAT program has dropped.
- The loss ratio (total indemnity/total premium) was highly variable between 1995 and 1999.

TABLE 47

Use of Federal Crop Insurance by California Farmers, 1995-1999

Year	Total Policies Sold	Catas-trophic Policies	Buy-up Policies	Net Acres Insured	Total Liability	Total Premium Indemnity			Loss Ratio
						Total Premium	Total Indemnity	Loss Ratio	
						\$1,000			
1995	39,858	31,923	7,935	4,476,324	1,734,888	84,149	93,111	1.11	
1996	38,193	29,591	8,602	3,686,363	1,630,634	86,031	30,108	0.35	
1997	34,671	25,896	8,775	3,173,440	1,795,066	98,032	21,633	0.22	
1998	33,559	23,617	9,942	3,526,321	2,136,193	109,987	117,521	1.07	
1999	37,895	24,893	13,002	4,050,454	2,505,004	132,515	102,436	0.77	

Source: USDA, Risk Management Agency, online data, 2000.

■ Some crops have high enrollment rates in buy-up insurance programs in response to a particular policy, such as rain insurance for raisins, while others have virtually no participation.

FIGURE 61

Percent of California Harvested Fruit, Tree-Nut and Vegetable Acreage with Buy-up Insurance, 1999

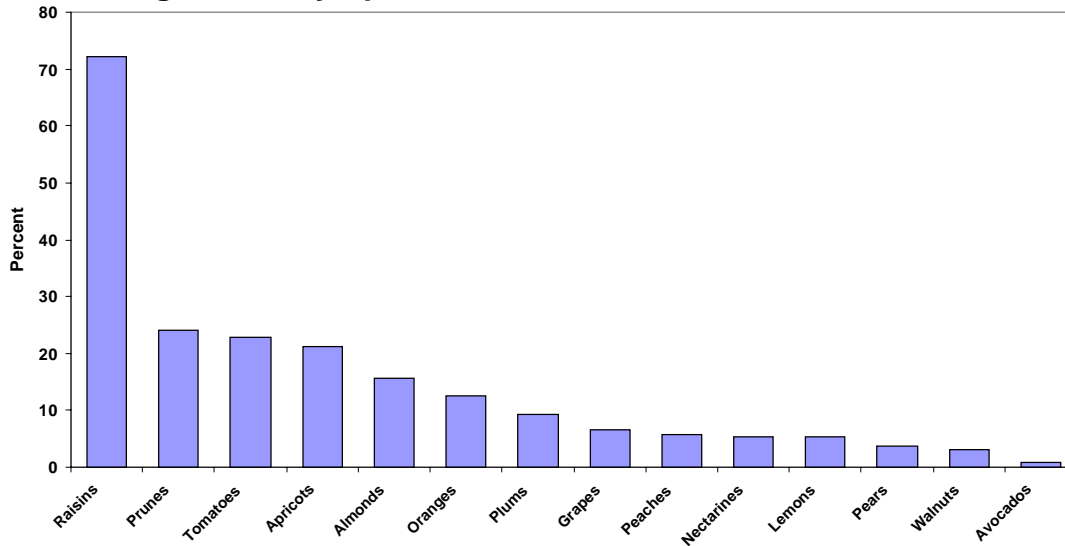
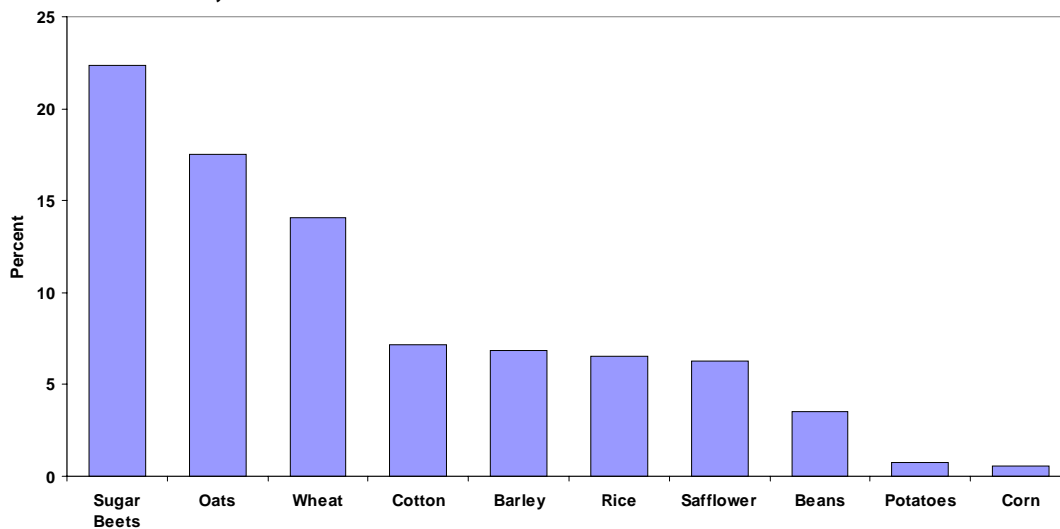


FIGURE 62

Percent of California Harvested Field Crop Acreage with Buy-up Insurance, 1999



Sources:

1. USDA, Risk Management Agency, California Branch, 2000.
2. California Agricultural Statistics Service, *Summary of County Agricultural Commissioners' Reports*, electronic data, 2000.