Agricultural Risk Management in Mexico

2nd CONSULTATIVE FORUM ON COFFEE SECTOR FINANCE

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Content

• Risks along the coffee supply chain

• Risk policy evolution

• What is Agricultural Contract Through Financial Intermediaries?

• How does it work?

• Final remarks
Risks along the coffee supply chain

Coffee prices
(USC per pound)

Source: Reuters / ICE
Risk policy evolution in Mexico

Simple Contracts  Simple puts  Hedging  Risk management through financial institutions

Agricultural risk management

Risk Management
(Coffee, Corn, Sorghum, Wheat, Soybeans, Oats)

Hedging
Put Options &/or Call Options

Basis Compensation

Productive Induction
Exports (Value Added)

Target income (Supplemental Support)

Access to Grain
LIVESTOCK SECTOR
How does it work?

**MODALITY 85-50**

Optional purchase of call coverage

* If you do not acquire the call coverage, you get up to 50% of the cost of coverage purchased by the producer.

If you buy the option and it expires worthless, the buyer recovers up to 50% of the cost of the premium plus up to 8 USD per commission. In the event that a utility exists the buyer recovers from SAGARPA up to 25% of the premium cost, leaving the rest of the utility in the buyer’s hands.

* If the option expires worthless the producer recovers up to 85% of the cost of the premium plus up to 8 USD per commission, if profit exists the producer recovers from SAGARPA up to 50% of the cost of the premium, leaving the rest of the gains to the producer.

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Final remarks

- There are several risks along the coffee supply chain.
- Price is a risk that can be managed
- Hedging has more economic advantages than issuing simple forward contracts between producers and consumers
- The program “Risk Management Through Financial Intermediaries” aids in the managing of risks and provides transparency in price, quantity production and supply.
  - Public disclosure, Contracts are in tons and Mexican pesos.
  - Impartial arbitration in terms of quality, Contract enforcement.
Thank you!