

# The Value of Climate Information when Farm Programs Matter

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# Introduction

- There is a need to estimate value of forecasts
- Agriculture can benefit from forecasts
- Farm decisions include government policies and regulations
- Few studies addressed impacts of Farm Programs to forecasts value (Mjelde et al., 1996; Bosch, 1984)
- Knowledge gap between synergies and conflicts between Farm Programs and forecasts value

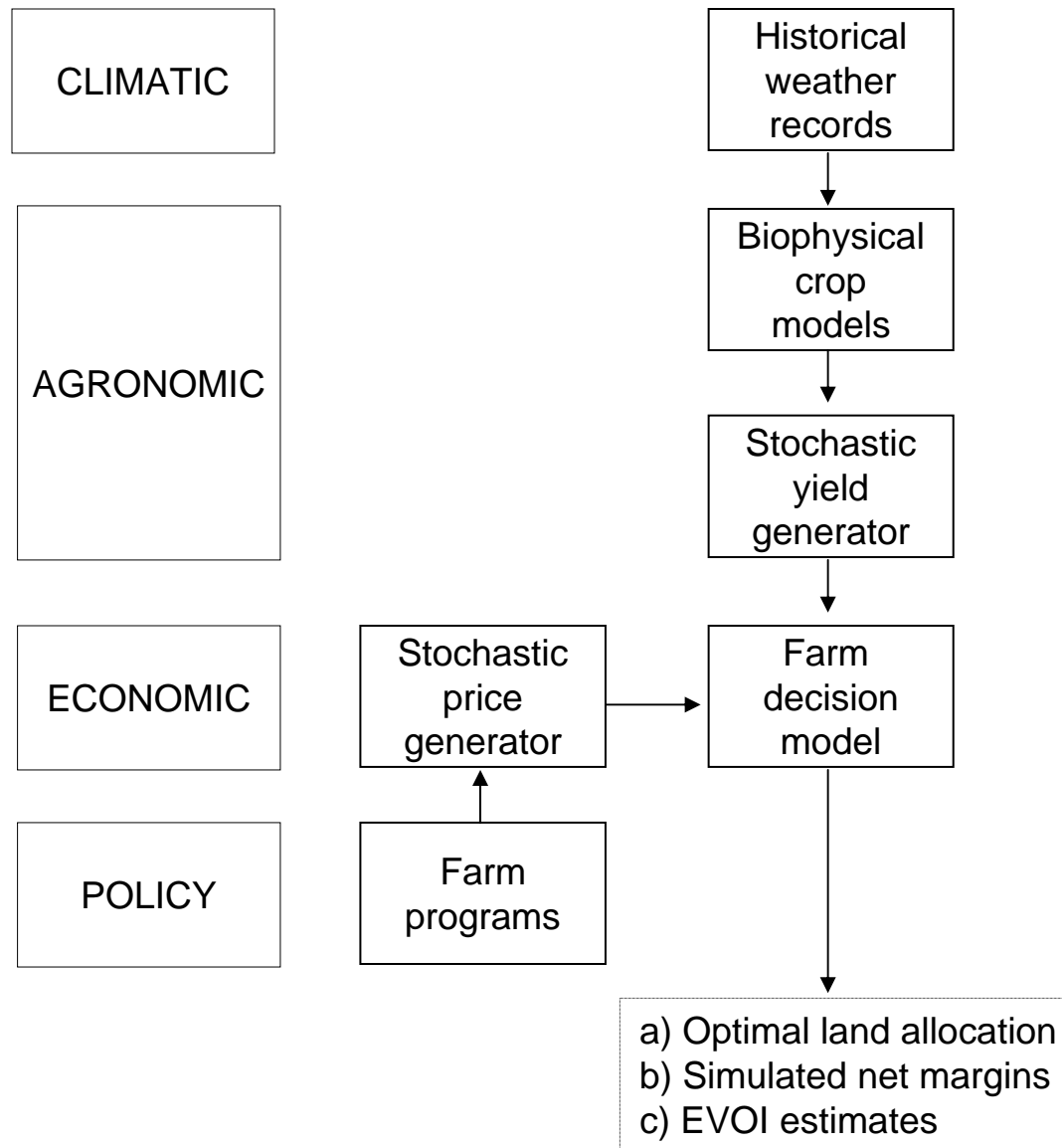
# Objective/Hypothesis

- Estimate impacts of Farm Programs on the value of ENSO forecasts in a maize-cotton-peanut rainfed farm located in Jackson Co., FL
- Government interventions might enhance or limit the usefulness of the climate information

# M&M Representative Farm

- 128.7 ha farm with soils type *Tifton Loamy Sand*
- Rainfall = 1466 (1143) mm
- T = 19.3 (21.7) °C
- ENSO intra-phase variability impacts crop yields with considerable overlap
- E.g., higher peanut yields early La Niña or late El Niño plantings

# M&M The Jackson Model

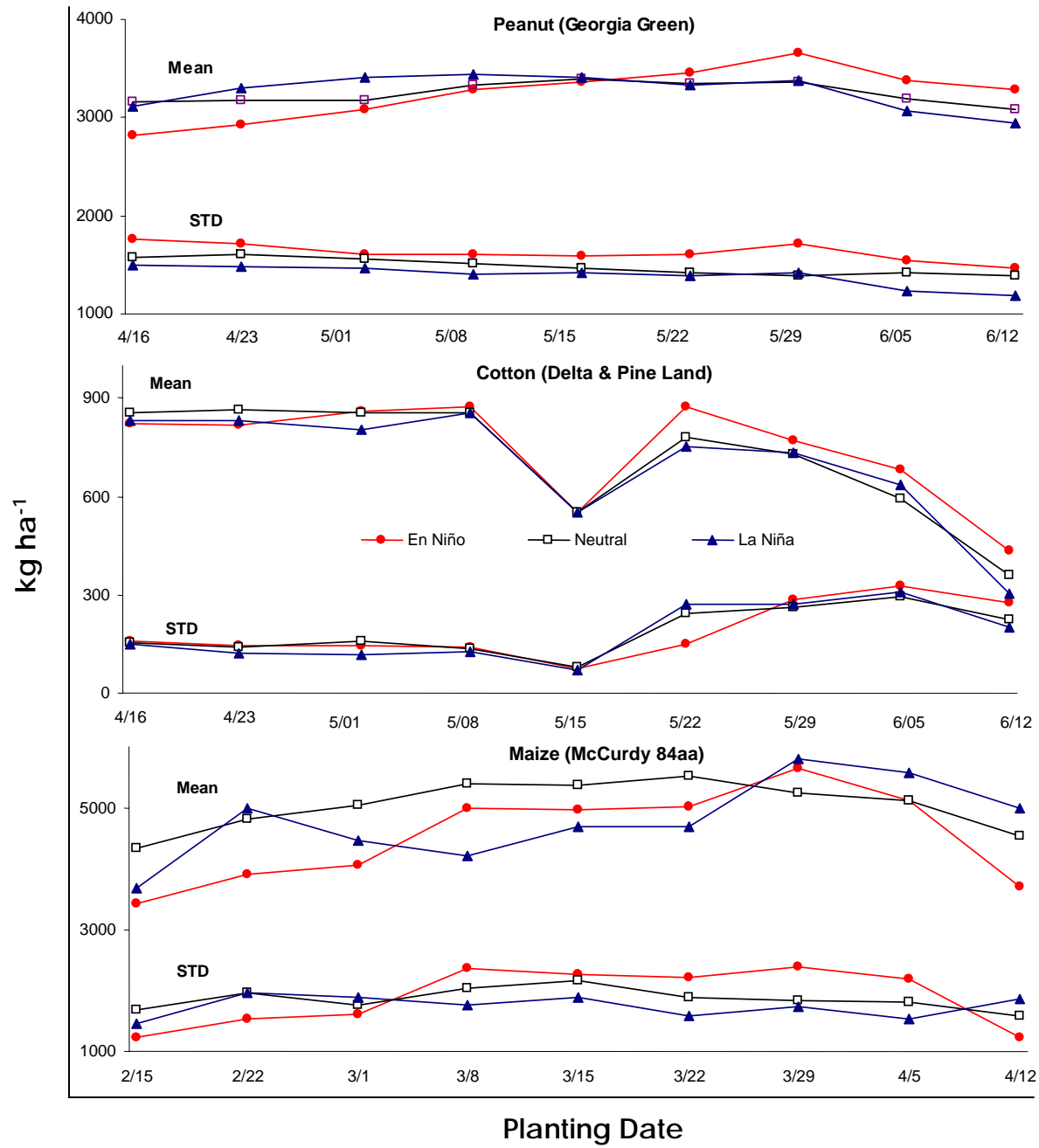


# M&M Agronomic Component Crop Yield Simulation

- Chipley weather station (30.783N, 85.483W)- 65 yr records (1939-2003)
- 14 El Niño, 16 La Niña phases
- DSSAT crop simulations (Jones et al., 2003)
- Contemporary and local practices of varieties, fertilization, and planting dates (H.E. Jowers, pers. comm.)

# M&M Agronomic Component Synthetic Yield Generation

- Needed more ENSO realizations
- Stochastic yield generator (990 yr x ENSO phase)
- Re-sampling technique:
  - Sort simulated yields
  - Function to fit a curve
  - Re-sampling function
  - Repeated for each planting date, each crop, in each ENSO phase



# M&M Economic Component Synthetic Price Generation

- 2970 price series to match our yields
- Re-sampling procedure
- Cotton and maize 10-year (1994-2003) historical extremes (US\$ kg<sup>-1</sup>): 0.77-2.09 and 0.09-0.15
- Peanut ERS range estimate farmers receive after 2002 Farm Act (US\$ kg<sup>-1</sup>): 0.35-0.51

# M&M Economic Component Whole Farm Model

- Stochastic non-linear optimization and simulation model
- 325 yr sample for optimizations, all 2970 yr for simulations
- MINOS5 algorithm GAMS (Gill et al. 2000)
- Constant Relative Risk of Aversion ( $R_r$ ) of 0, 0.5, 1, 2, 3, 4 (Hardaker et al., 2004)

# M&M Economic Component Optimization Model

$$\max_x E\{U(W_f)\} = \sum_{n=1}^N \sum_{i=1}^3 q_i U(W_0 + \Pi_{i,n}) / N \quad (1)$$

$$\sum_{m=1}^{27} X_m = 1; X_m \geq 0 \quad (2)$$

$$\sum_{j=1}^{10} X_m * L_{m,j} \leq \bar{L}_j \quad (3)$$

$$U(W_f) = W_f^{1-R_r} / (1-R_r) \quad (4)$$

# M&M Economic Component

## Estimated Value of Information

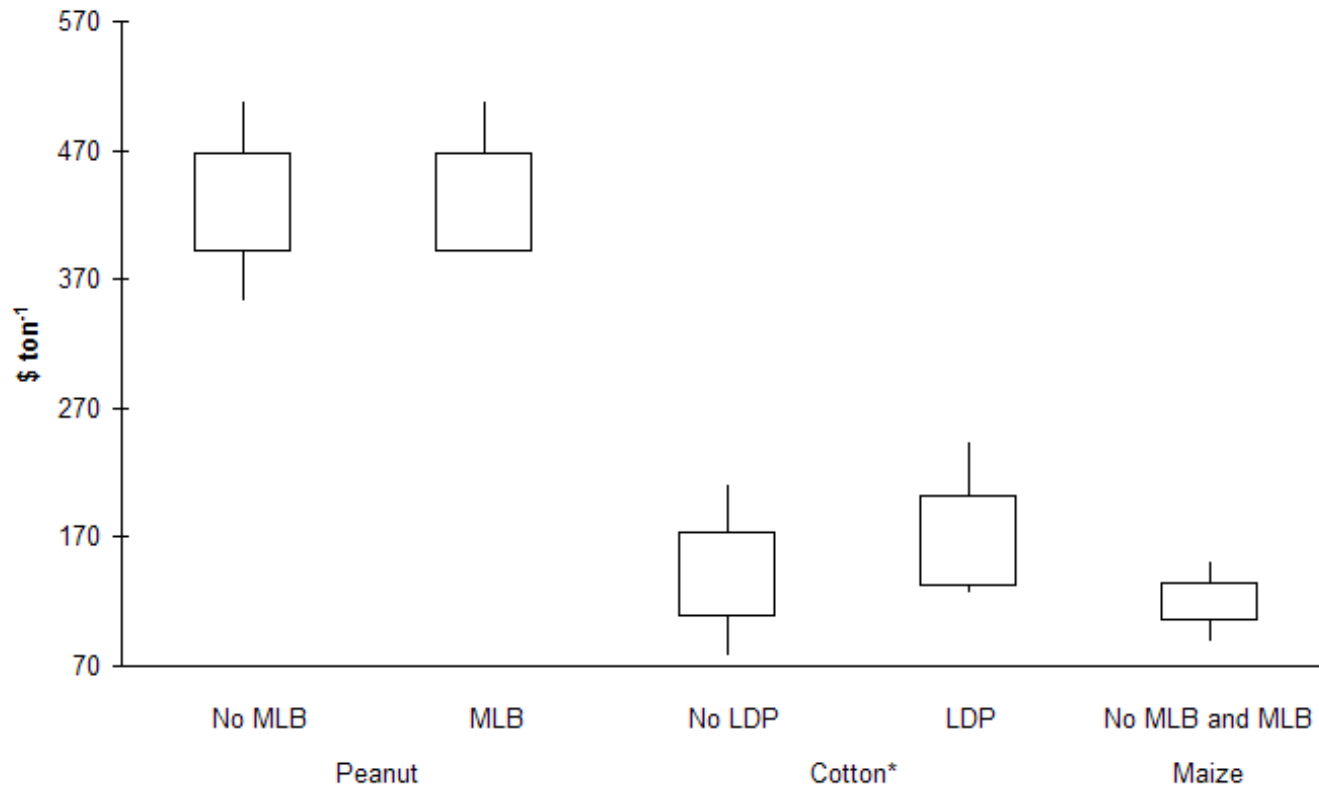
- Net margins 2970 yr (990 x ENSO phase)
- $EVOI = \text{Net Margin With Forecast} - \text{Net Margin Without Forecast}$
- $EVOI = \text{certainty equivalent units (US\$)}$   
over different planning horizons
- Repeated for each  $R_r$

# M&M Policy Component

## Introduction of Farm Programs

- Commodity Loan Programs that are based on actual production and do not require decision before planting
- The 1996 FAIR Farm Act set LDP of \$1.14 kg<sup>-1</sup> for cotton
- The 2002 FSRIA Farm Act set MLB of \$0.39 kg<sup>-1</sup> for peanut and \$0.08 kg<sup>-1</sup> for maize

# M&M Policy Component Synthetic Price Distribution

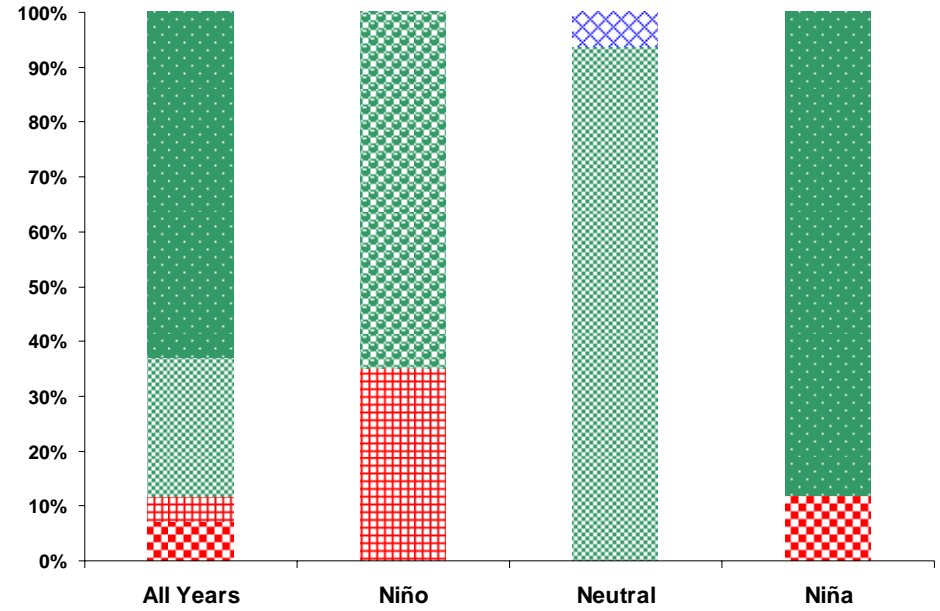
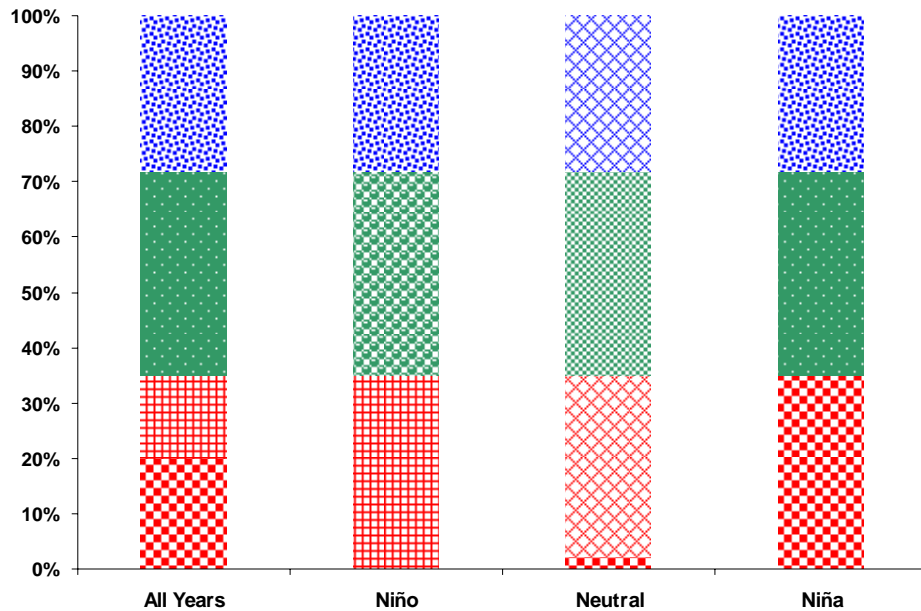


MLB is marketing loan benefit. LDP is loan deficiency payment. \*Price of cotton is \$100 kg<sup>-1</sup>

# FINDINGS Optimal Land Allocation $R_r = 1$

- Without Farm Programs

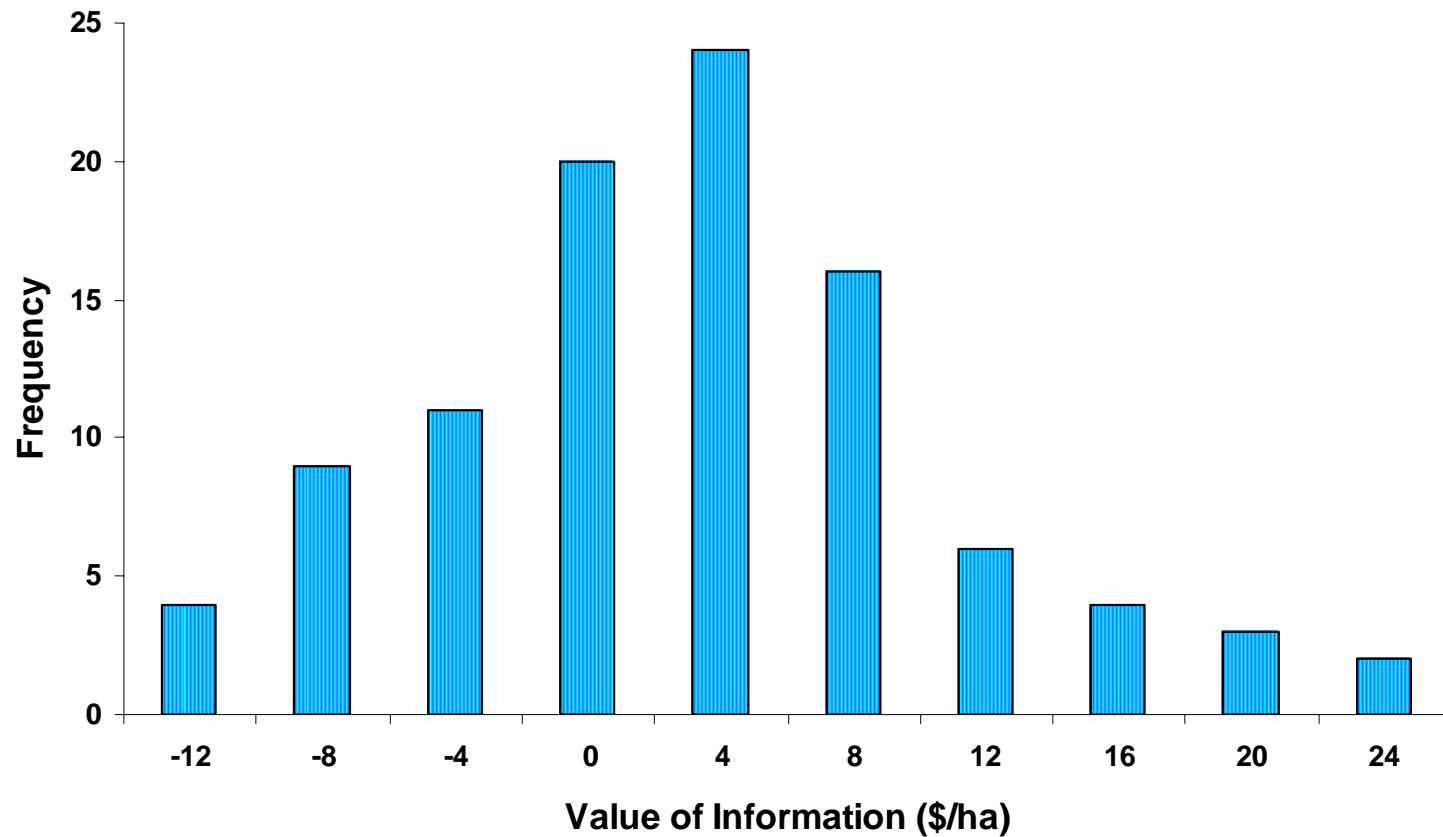
- With Farm Programs



■ Peanut-May15    ■ Peanut-May22    ■ Peanut-May29    ■ Cotton-Apr23  
■ Cotton-May01    ■ Cotton-May08    ■ Maize-Mar08    ■ Maize-Mar29

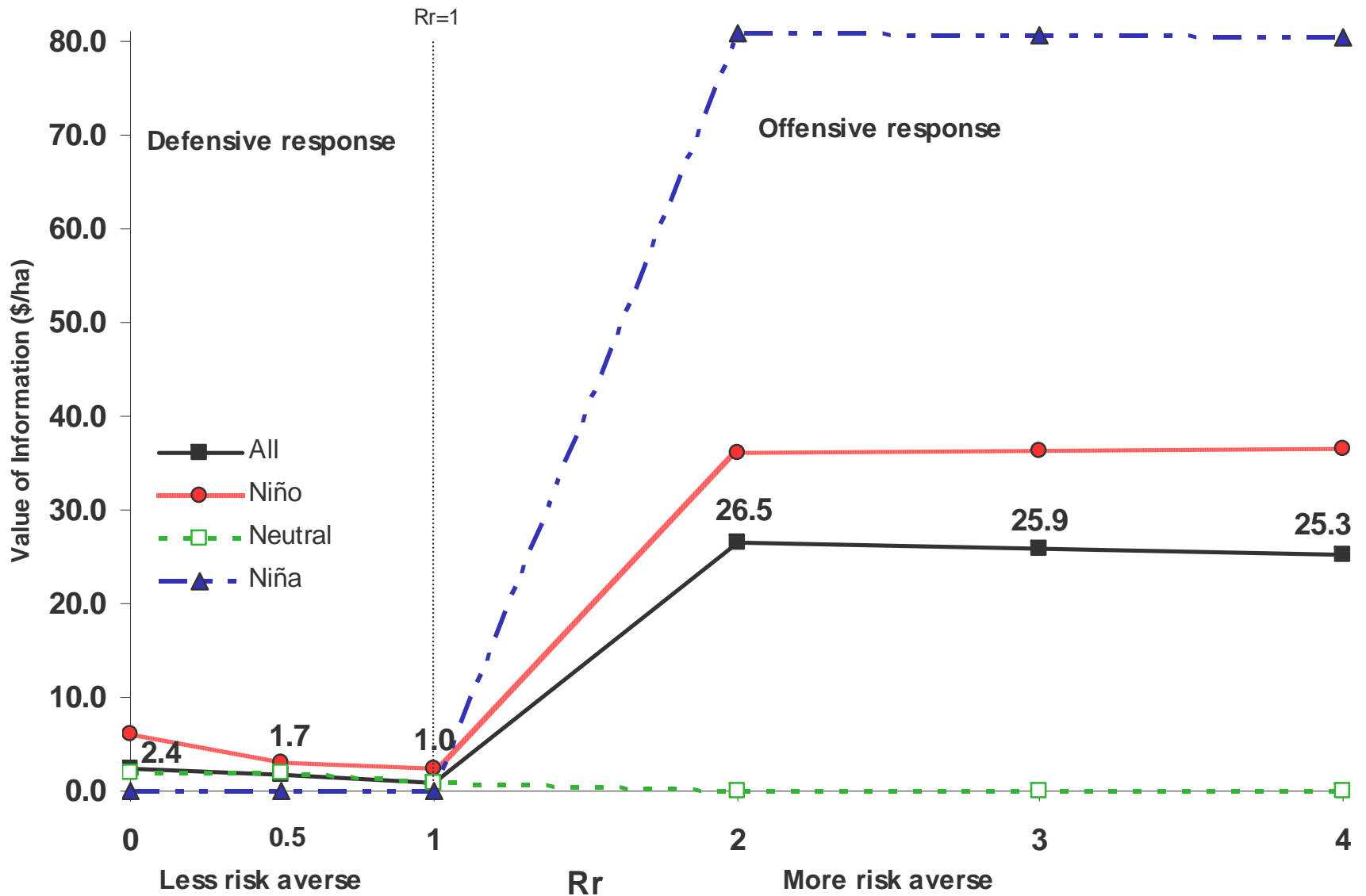
■ Peanut-May15    ■ Peanut-May29    ■ Cotton-Apr23  
■ Cotton-May01    ■ Cotton-May08    ■ Maize-Mar08

# FINDINGS Distribution of EVOI

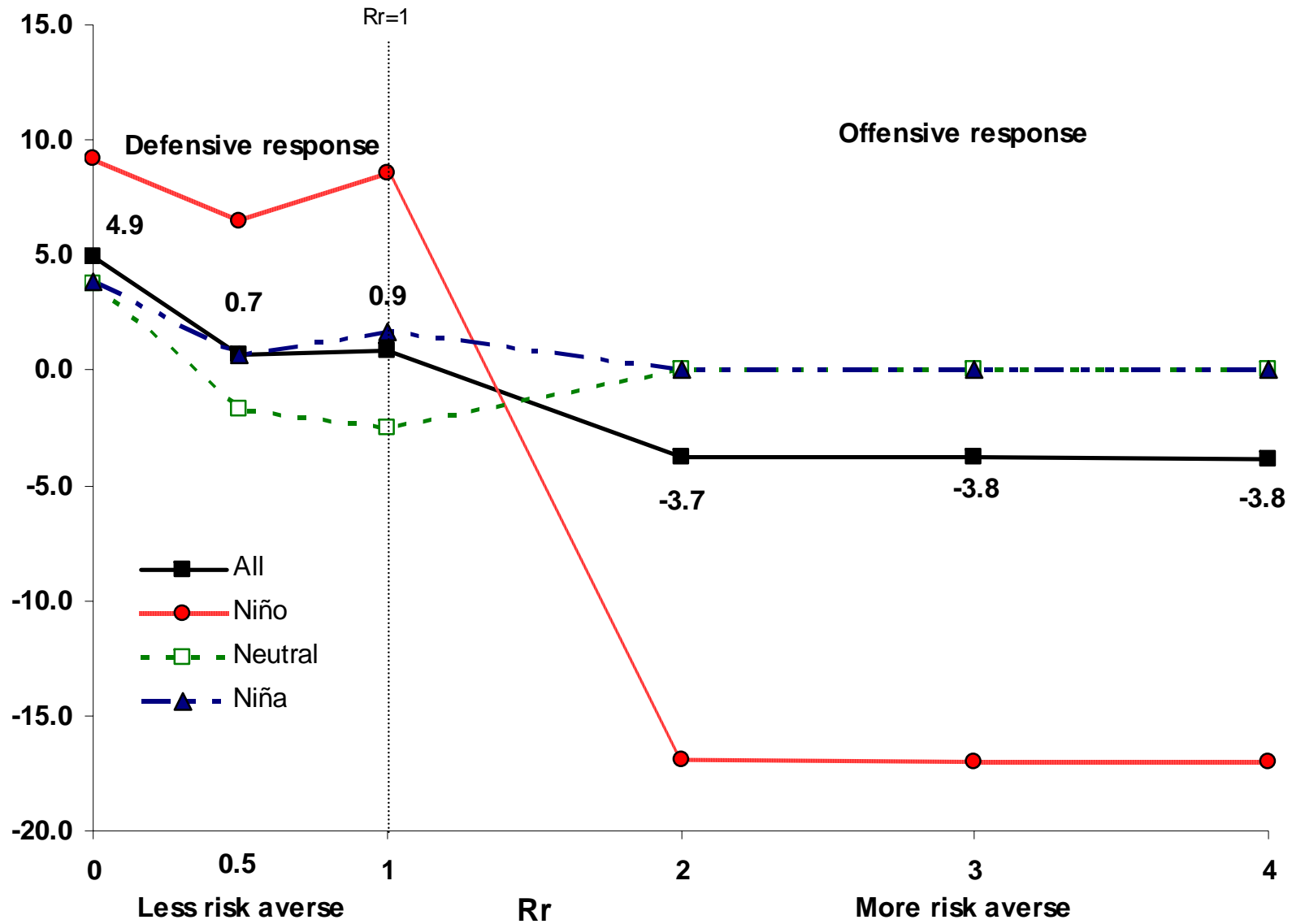


30-year horizons,  $R_r = 1$ , Mean=1.00, 95%CI=[-0.59, 2.51]

# FINDINGS EVOI without FP



# FINDINGS EVOI with FP



# Conclusions

- Forecast value is inherently probabilistic
- Negative value of information exists and is not negligible
- As hypothesized, Farm Programs impact substantially EVOI
- Further research: synthetic weather generator, multivariate synthetic price generator, other Farm Programs, other locations: AL, GA