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Research Article

Feasibility of a cash forward contract: An application to the French and Spanish potato sectors

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Abstract

This study examines a cash forward contract (CFC) that a growers' cooperative or association may offer producers to lock in a fixed price for their output. To cover the forward contract's risks, the cooperative would set up a stabilization fund, and as an option, may hedge with futures contracts. The authors evaluate both strategies' costs, which would be charged to the growers signing in the CFC in the form of a fee. By comparing this fee with farmers' willingness to pay, it is determined whether growers' would be interested in the forward contract. The scheme is tested on a selection of Spanish and French potato varieties, with reference to the "April" futures contracts traded on the Amsterdam exchange. The authors conclude that hedging with futures may help to reduce the cooperative's exposure to financial risk, but, on average, the stabilization fund alone is more effective without hedging. Risk-averse growers may be interested in CFCs to reduce their revenue instability. [JEL Classifications: Q13, Q14, G13] © 2007 Wiley Periodicals, Inc. Agribusiness 23: 245–261, 2007.

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