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Revenue insurance options for Wyoming producers

By James Sedman and John Hewlett

Crop insurance can be an effective tool in managing production risk.

Most agricultural producers will agree managing price risk and associated fluctuation in revenue is also crucial to maintaining profitability. While current prices for most agricultural commodities are high, input prices and other production costs have gone up as well. For example, many farm economists expect the average per-acre cost of corn to increase from $75 to $125 due to increased input costs, such as fuel, fertilizers, and other petroleum-based inputs.

Now, more than ever, it is critical producers maintain a constant revenue stream by managing both price and production risk.

Revenue insurance options available through the Federal Crop Insurance Program can be a viable part of a producer's overall risk management plan. While yield-based or Actual Production History (APH) policies insure a certain yield level based on past production, revenue insurance policies insure a total revenue level based on both yield and price.

Types of Revenue Insurance

The need to insure a certain level of revenue regardless of price or yield changes brought about revenue insurance policies. Typical multi-peril crop insurance (MPCI) policies protect producers against specific yield losses, whereas revenue insurance policies additionally insure against changes in price. Revenue insurance policies are available in individual and group policies.

Crop Revenue Coverage (CRC) and Revenue Assurance (RA) policies tend to start much the same as MPCI policies. They utilize a producer's individual APH and may be available (depending upon area) for whole-farm or more specific acreage units. Yield choices tend to range from 65-85 percent of APH yields. Producers then set a minimum revenue guarantee by establishing a price election. Indemnities are paid if either yield or price causes total revenue to drop below the minimum revenue guarantee. RA policies are similar to CRC policies, as they allow the producer to take advantage of increases in price at harvest time over the price established for the policy.

Group Income Protection (GRIP) is a group policy designed for more general revenue coverage. Producers choose a coverage and price level that determine the total income guarantee. Indemnities are paid when the county average revenue drops below the guarantee level.

More Extensive Revenue Coverage

A recently released product available to Wyoming crop and livestock producers is called Adjusted Gross Revenue-Lite (AGR-Lite). This product offers more extensive revenue insurance coverage. The policy is a whole-farm revenue insurance that takes into account total gross income from all farm enterprises included in a farm plan. AGR-Lite can provide coverage to producers who may not qualify for other types of insurance or may not have operations large enough to make crop insurance worthwhile.

This policy insures against losses in revenue from a decline in both yield and price. It is based on a five-year average revenue history and relies on realistic market prices to establish the current year revenue guarantee for commodities included in the farm plan.

Consult a local crop insurance agent to determine what revenue insurance policies are available in a particular area. An agent will be able to assist in determining which type of insurance products work best for a total risk management plan.

For more information on this and other risk management topics on the Web, visit the Western Risk Management Library at agecon.uwyo.edu/riskmgt.

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How to plan stocking rates for the grazing season

By Michael A Smith and Kellie Chichester

Appropriate stocking rates (a product of the numbers of a class of animals and the time they are present on the grazing area, expressed in animal unit months) on grazed range or pastures are largely a function of the amount of forage being produced.

On areas in Wyoming where precipitation is the only source of water for plant growth, forage yields are primarily influenced by the amount of precipitation in March-May, with April frequently being the most important month.

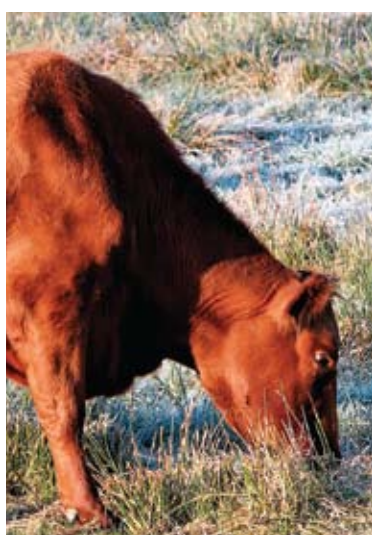
Other factors that must be considered are season of use, topography, amount and distribution of livestock water, and the vegetation composition. These factors are frequently related in that more-varied terrain may receive less use, have less usable vegetation, and less or more poorly distributed water. Distribution of animals will be greater in spring and fall because of widespread green forage in spring and cooler temperatures with less water demand in fall.

Determining Starting Stocking Rates

If the same operator has utilized a grazing area for a number of years, the experience gained in stocking levels provides an adequate guide for a starting stocking rate. The Natural Resources Conservation Service (NRCS) also provides suggested starting stocking rates for different types of land. The NRCS Wyoming Web page, which includes contact information around the state, is http://www.wy.nrcs.usda.gov/. Neighboring landowner/operators may also be able to provide suggestions.

Measuring forage yields by harvesting plots is inefficient and an inaccurate basis for calculating a stocking rate because of the time needed and the many other factors that influence livestock use on rangelands.

To optimize grazing animal production and ensure that annual use levels leave adequate residual forage to provide for plant health and soil surface protection from erosion,



stocking rates should be adjusted annually. Precipitation varies annually and results in variable forage production.

Within a year, monitoring of animal production and forage utilization levels provides the basis for estimating the number/kinds of animals that can be adequately raised on a ranch or land unit with the moisture received. In subsequent years, with these monitoring data, livestock adjustments can be fine tuned for better results.

For many Wyoming ranchers, the end of April is a good time to make adjustments or plans for the animal numbers and kinds for the upcoming year. At this time, livestock markets are still relatively strong and most of the effective precipitation should have fallen. The availability of livestock water for the summer in surface resources should also be evident. Plans can be made for providing water so poorly watered areas can be grazed.

Adjusting to Periods of Drought

A flexible livestock production system appears to be best suited to optimize animal production in the face of variable forage resources. A conservative-sized breeding herd would be smaller, adjusted to forage yields on most drought years and rarely have to be reduced. Late season calving, such as May through June, reduces the winter nutrient requirement of cows and permits grazing, rather than feeding, during winter. Winter grazing also offers opportunity to graze forages that may have been limited by drought and low irrigation supplies. In drought years, early weaning of calves may be a feasible way of reducing forage needs for cows. In years of better precipitation, weanling calves can be retained with the intent of keeping them through winter and the following summer. This will increase the amount of ranch forage that can be marketed through animals.

If shortages of precipitation are evident by late April, yearlings can be sold in a historically good market. Retained yearlings born in March or May at the end of summer are typically of similar size.

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