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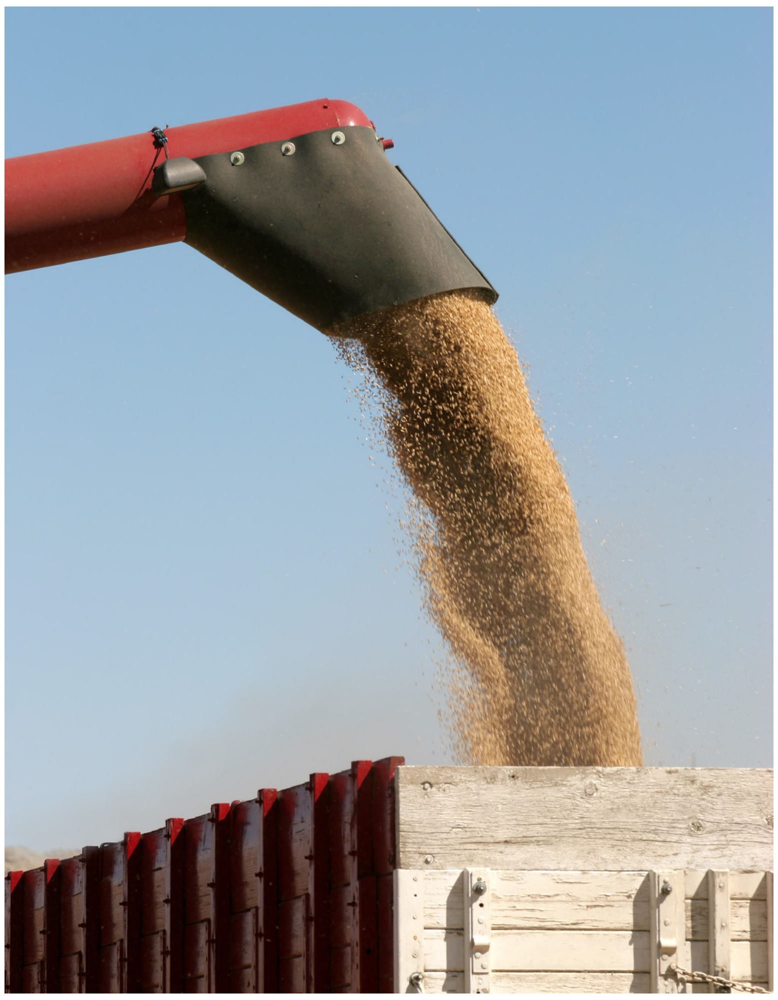
Protecting against changes in price: Options for producers

By James Sedman and John Hewlett

Now is an exciting and interesting time to be involved in production agriculture.

Whether producing crops or livestock, prices are high and demand is up. The problem is that risk associated with producing and marketing commodities has also greatly increased. Input costs have also greatly increased in addition to nearly all other production costs associated with agriculture. These increased costs contribute to increased risks, including coping with a much greater need for capital. Programs backed by the Federal Crop Insurance Corporation can help provide protection for Western crop and livestock producers from drastic swings in market prices and yield losses.



LRP and other Livestock Producer Options

Livestock Risk Protection (LRP) contracts are available for feeder or fat cattle, market swine, and lambs. Livestock producers may purchase policies with a set number of head for delivery or sale at some point in the future. The insured price for the contract is determined by the Risk Management Agency (RMA) and is related to the Chicago Mercantile Exchange (CME) contract price. If the actual sale price drops below the target price level, an indemnity payment is made. These contracts have advantages over using the futures and options markets: they can insure lower numbers than a typical CME contract; they can cost the producer less if the indemnity is not paid (RMA subsidizes premium costs); and they can help the producer achieve a certain level of price protection.

Livestock Gross Margin (LGM) insurance contracts differ from LRP in that they are for feedlot cattle, both back-grounding and finishing. These contracts protect against decreases in price and/or the increase in feed costs while cattle are on feed. An expected margin is calculated and indemnity payments are made if the actual margin (following RMA calculations) is lower than the level insured. These contracts are a bit more complicated than the standard LRP contract, so individuals should consult with a crop insurance specialist to determine if LGM contracts are appropriate for a particular situation.

Crop Producer Options

Crop insurance programs such as Crop Revenue Coverage (CRC) can help a producer account for fluctuations in price as well as yield. Whereas the typical multi-peril crop insurance (MPCI) policies protect producers against specific yield losses, revenue insurance policies insure against changes in price as well as yield fluctuations. These policies tend to carry higher premiums than MPCI contracts due to their more extensive coverage. Insuring a certain level of revenue, not just a yield level, can go further in reducing overall operation risk. CRC policies tend to start much the same way as MPCI policies. They utilize a producer's individual actual production history (APH) and may be available for whole farm coverage or more specific acreage units. Indemnities are paid if either yield or price declines cause total revenue to drop below the minimum revenue guarantee. In this way, revenue insurance policies provide more extensive risk management options for crop producers.

Adjusted Gross Revenue-Lite (AGR-Lite) is a relatively new product that insures a basic revenue level based on a producer's average adjusted gross income over a five-year period. While it insures a revenue stream based on yield and prices, it may also provide a producer protection against fluctuating prices.

Producers interested in learning more about using crop insurance programs to protect against fluctuations in price should consult a local crop insurance agent. For a listing of agents or more general information, visit the RMA Web site at www.rma.usda.gov. For more information about this and other risk management topics, consult the Western Risk Management Library at agecon.uwyo.edu/riskmgt.

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COOL finally arrives; how will it affect Wyoming producers?

By Bridger Feuz

Mandatory Country of Origin Labeling (COOL) is finally here. The law takes effect September 30, and, for many Wyoming producers, the sentiment is that "it's about time."

It is important to ask several questions: What is it? What is covered? What is the responsibility of Wyoming producers? How will it affect the market price?

What is it?

COOL requires that products must be labeled as to country of origin in an obvious manner that does not interfere with any other label requirements. All products born, raised, and slaughtered in the U.S. will be labeled "Product of USA." If an animal is imported prior to slaughter (i.e. a feeder steer), it will be labeled "Product of the U.S. and country X." If an animal is imported immediately before slaughter, it will be labeled "Product of country X and the U.S." If a product is imported directly into retail, it will be labeled "Product of country X." Finally, ground meat products can use a label stating "may contain product of countries X, Y, and Z."

What is Covered?

All muscle cuts of beef, lamb, chicken, goat, and pork; and ground beef, ground lamb, ground chicken, ground goat, and ground pork are covered. Processed products are excluded from COOL. Process products are products changed in character due to cooking, drying, curing, smoking, etc. Additionally, products are considered to be processed if they are combined with another product to make a new product. Food service is also excluded from COOL.

What is the Responsibility of Wyoming Producers?

Cow-calf producers must document production and origin of the animals they sale. They can do this by utilizing records such as calving records, feed purchases, vaccine purchases, etc. Most importantly, they need to provide affidavits to purchasers to properly document the origin of the animals. The U.S. Department of Agriculture is also permitting packers to rely on an official ear tag and/or marking on animals that are part of the National Animal Identification System compliant system. More than 30 livestock industry groups recently met an agreed upon wording and formats for three different affidavit statements that can be used by producers. The affidavit statements and an "Industry Stakeholder Letter" are available at www.lmaweb.com. Click on the "COOL materials 9/08" link in the upper right corner of the home page.

How Will it Affect the Market Price?

Many arguments have been made as to whether or not COOL would help prices for U.S. beef or have a significant effect. Time will be the final judge; however, I tend to agree with those who think COOL will not have a major impact on price. This is based on my assumption the current supply of "Product of USA" beef is sufficient to meet the demand of customers with a strong preference for U.S. beef.

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