



Comparing risk management options for hay and forage for Platte County operation – Part III

By James Sedman and John Hewlett

A previous article discussed the risk management decisions of Platte County producers John and Marcia Smith about their forage production (primarily alfalfa hay and corn silage).

The Smiths used an assortment of crop insurance policies to cover production risk, including multi-peril (MPCI) and yield protection (YP), with results in Table 1 at right. We'll look at the implications of various marketing scenarios for their risk management choices for their alfalfa.

Marketing Plan and Potential Impact

We assumed the Smiths fed all their forage to their own cow herd. Their average yield for the established alfalfa is 4 tons per acre on 150 acres. Assume now that they plan to sell 300 tons of alfalfa and keep 300 tons for their own feed needs.

The Smiths decided to purchase crop insurance because hay prices were increasing, and they did not want to be short should a yield disaster occur. Rising hay prices could prompt the Smiths to instead take one of several potential actions to sell their expected production.

Potential Strategies

Doing nothing (in this case, not marketing excess production until fall) is always an option. There

Table 1. Actual Crop Yields and Indemnities

Crop	APH Yield (tons/acre)	Actual Yield (tons/ac.)	Actual Yield \$/acre	Coverage (\$ per acre)	Indemnity (\$ per acre)	Total Indemnity (\$)
Forage Seeding		5 acres	-	\$169.50	-	\$7,627.50
Corn Silage	21	7	\$301.00	\$677.25	\$376.25	\$18,812.50
Alfalfa	4	2.5	\$270.00	\$324.00	\$54.00	\$8,100.00

Table 2. Marketing Strategies Summary

	— Hay Price (\$/ton) —					
	\$90	\$100	\$110	\$120	\$150	\$200
Indemnity Payment: \$8,100						
Replacement Tons Purchase Capacity at Listed Hay Prices, in Tons:	90.0	81.0	73.6	67.5	54.0	40.5
Shortfall After Indemnity At Listed Hay Prices, in Tons:						
Contract 150 ton	0.0	0.0	1.4	7.5	21.0	34.5
Contract 200 ton	35.0	44.0	51.4	57.5	71.0	84.5
Contract 300 ton	135.0	144.0	151.4	157.5	171.0	184.5

300 tons. As a result, their production of 375 tons (2.5 tons per acre times 150 acres) combined with the indemnity payment would cover their contracted tonnage. Problems arise, however, if they contract more than the 100 tons or if hay prices continue to rise.

The Smiths' current coverage provides less protection when the number of contracted tons increases or the price per ton increases, as shown in Table 2. If the Smiths contracted more than 100 tons, it would be prudent to either increase insurance protection or structure any contracts in a manner that makes them based on actual production, using an "Act of God" clause for instance, to better account for natural disasters.

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is no forward price risk – the Smiths could take advantage of rising prices should they continue into the fall. They are not locked into a set price for their hay nor do they need to come up with more tons should their production fall short. This leads to the main disadvantage; if prices decrease into the fall, the Smiths will receive a lower price.

In this scenario, the \$8,100 indemnity payment buys approxi-

mately 70 to 80 tons of hay if prices stay at the insurance level (\$108/ton). Purchasing capacity drops off significantly when hay prices increase above the insurance price.

Now assume the Smiths received a May offer to contract 100 tons for \$150 per ton. The price was too good to refuse. Following their yield losses, they were forced to purchase hay to cover their contract. The indemnity payment of

\$8,100 was enough to purchase 54 tons of hay at the contracted price. The Smiths' feed needs remained at

For More Information

For more information on crop insurance policies for hay and forage production, visit the USDA's Risk Management Agency website at www.rma.usda.gov or visit your local crop insurance agent to tailor a plan that can work for your operation. For more on this and other risk management topics on the Web, visit the Western Risk Management Library online at agecon.uwyo.edu/riskmgt. For past articles in this series, see <http://insuringsuccess.org/>

UW Extension offers private pesticide applicator's training

Private pesticide applicator's training courses are available via the University of Wyoming Extension this winter. More pesticide information, including training materials and plant health, is available at <http://bit.ly/zPeEvt>. The following private pesticide applicator's training sessions are listed by date and town.

Thursday, Jan. 26

Kaycee – 1-4 p.m., Harold Jarrard Park Building
Buffalo – 6-9 p.m., Johnson County Fairgrounds Community Building

Tuesday Jan. 31

Gillette – 1-3:30 p.m., fire training center

Wednesday Feb. 1

Sundance – 1-3:30 p.m., Community Room in Crook County Courthouse

Thursday Feb. 2

Newcastle – 1-3:30 p.m., USDA Building meeting room
Riverton – During Fremont County Farm and Ranch Days, Armory Building.

Tuesday Feb. 7

Torrington – 6:30-9:30 p.m., Goshen County extension office. Call (307) 532-2436 to RSVP

Wednesday, Feb. 8

Torrington – 1-4 p.m., Goshen County extension office. Call (307) 532-2436 to RSVP
Worland – During WESTI Ag Days. See <http://bit.ly/xVTR6>.

Thursday, Feb. 16

Powell – 8:30 a.m.-noon, Multi-purpose Room, Park County Fairgrounds

Friday, Feb. 17

Archer – 1-4 p.m., former Archer Field Station. Please contact Laramie County Weed and Pest Control District at (307) 245-3213 for details.

Thursday, Feb. 23

Cody – 8:30 a.m.-noon, EOC Room, basement, Park County Courthouse
Lusk – 1:30-4 p.m., fairgrounds

Wednesday, March 14

Laramie – 1-4 p.m., Albany County Fairgrounds

