Good afternoon and thanks for joining us I'm Judy Simpson. Our program today is geared specifically towards dairy farmers. Now if you're not a dairy farmer who don't reach for the remote just yet. If you appreciate be open working landscape that farmers help provide then this is a chance to learn a little bit more about the business of dairy farming. We're going to discuss our program for the United States department of agriculture's risk management policy. It's called dairy livestock gross margin insurance. With widely fluctuating milk and feed prices farm business specialists and dairy livestock gross margin insurance can provide farmers with an important safety net. To learn more my first guess is bob Parsons. Bob is an agricultural economist with UVM extension. Thanks for being with us. Thank you Judy. So what is dairy livestock gross margin insurance?

Bob.: Judy this is an insurance program that's been developed by the USDA crop insurance corporation which runs crop insurance program and is designed to provide a safety net for these fluctuations whenever we have these large dips and milk prices. It's not to provide a profit for the farmer but will help meet its costs if he takes out these programs and it's a subsidized program to help the farmers involved in it because it's that margin the margin over the feed costs that pays all the other bills on the dairy farm.

Judy.: So ever the farmer makes over what it costs to feed his cattle is what is going to be living on?

Bob.: Yes that's what provides that and provides the opportunity to pay all the other bills.
Judy.: You brought a chart that shows exactly how works can you walk as through that?

Bob.: Yes I can. What we have is it works off that Chicago Board of trade prices for the ending and the beginning. We take your expected margin for your feet cost at a certain month maybe six months in the future. The producer decides what his feed imports are calculates that as part of his feed cost and then the farmer makes the decision do I want to cover all my milk or go on to cover part of my milk and what will that cost me? He works out an expected gross margin. Let's say his milk prices is expected to be $16.00 and feed costs is expected to be $9.00 I'd like to guarantee that $7.00 feed price. The clock speeds ahead into the future six months later we go back to the chick of the board of trade prices milk could either move up or down feed could be moving down and let's say that margin shrank to $5.00 now he gets an indemnity payment from the insurance company for that margin between seven and $5.00 because what he was trying to do was guarantee that $7.00 feed margin.

Judy.: Is this something that's always been available to dairy farmers?

Bob.: No it's recently just a new program. It's so actually just a trial program because it still has subsidize rates and it's coming out but it is getting to be more popular and we've had several months of it this past winter where Vermont was the number two state in their use of this dairy livestock gross margin insurance.

Judy.: How is it different from other options?

Bob.: One of the things that's different before we've had options were you can take some guarantee under no price you can take a guarantee on your feet price butter acquired two different actions and maybe overlapping actions now you can just take one action that protects your margin between the feed and the milk price.

Judy.: Why is this so important to the dairy farm business?

Bob.: In the last 10 years we've seen this no price bass around all over the place. We've seen in 1979 that feed prices hit a record low with farmers actually receiving the same price that they did in 1979 and that's not adjusted for inflation. We've also had high feed prices coming in with regard to ethanol with corn so this provides a farmer an opportunity to protect these margins.
Judy.: I think we have a graphic that shows what milk prices have done over the past 10 or 11 years and it's amazing.

Bob.: We've seen these milk prices go from one high and just turn around and dip around. Just think of trying to run a business where costs are fairly constant but you have this fluctuation in income. What's remarkable right now is we have almost record high milk prices right now but we have record high prices for corn so that margin over feed costs is significantly lower.

Judy.: Corn prices have just taken off.

Bob.: In this graphic you can see starting at about 2006 whenever ethanol kicked off in this country it's driven the price of corn up whereas a farmer was used to paying $2.50 to $3.00 per bushel of corn today that corn is running over $7.00 per bushel.

Judy.: How does Dairy livestock gross margin insurance work?

Bob.: What is the farmer buys insurance from a commercial insurance company. The rates are set by the USDA and the rates that the premiums are paid by the farmer are subsidized by the USDA. Now the premiums worked like car insurance. You get to determine how much milk you want cover but also there's a deductible do you want to have a zero deductible or do you want to maybe take a dollar 50 deductible and as with your car insurance the higher the deductible the lower your insurance because you're standing more of the risk.

Judy.: Can you give me example of what a normal deductible might be more common deductible might be and what it would cost a farmer maybe?

Bob.: A lot of farmers will take a dollar deductible and maybe a buck and a half deductible. One of the differences is that this insurance policy might cost up to 80¢ to a dollar per hundredweight without as adoptable but if you take a dollar 50 deductible you can take the insurance for nearly 20¢ 100 weight. So the farmer can ensure a lot more and maybe a good approach a farmer might take is how much can I afford to pay out of my cash flow for insurance. Then they can decide what deductible they would like to cover with that approach.

Judy.: Once they figure out what they think the milk prices going to be and the feed prices going to be that's easy to do.
Bob.: Yes they can take that and decide what that deductibles going to be. One of the aspects of this' lenders especially like this the other creditors because they know they're going to be able to get their payments and most farmers felt bad during 2009. Not only did they not have enough money to pay their feed bill they couldn't pay their labor they couldn't pay the utility bills but they could and even pay for their own family cost of living. There were stories of farmers having food dropped off by their church to help feed the family. You're in the food business and you have to rely on donations to feed your family.

Judy.: That's incredible. Talk about the business aspect of this when it comes to banks and so forth if the farmer has this kind of coverage and why that would be attractive.

Bob.: The banks are always worried about these fluctuation milk prices because it puts the entire business at risk. Of what they like having is a little bit of insurance. If you borrowed money on your car insurance company likes to know that you have insurance on that car in case if you wreck it even out of no fault of your own that there some insurance coverage that will pay you back on your car loan. Same thing with the banks. The banks like to work with farmers they want to farmers to be successful and they see this as a real major measure that will help reduce that risk the farmer faces whenever there's these price downturns. As we saw from the graph these price downturn seem to be deeper and they're more often so we hear the farm subsidy up but the dairy system since 1990 doesn't rely much on some cities its very market driven. Whenever you get those market downturns you can't make your payments you can pay and creditors that those cows have to be fed every day.

Judy.: Let's talk a little bit about why this is so important to dairy farmers because of those fluctuating prices. I know a lot of dairy farmers have gone out of business.

Bob.: That's right. We're now under 1000 dairy farms in the state after as much as 6000 back in 1965. We will probably see more dairy farmers going out of business but it is a very tough business. Maintaining that cash flow which is essential to meet your payments as they come to pay a creditor's payer health and also supporting the family living. It's a very major task for any major operator. You can produce a lot of milk but if you can't do it and produce enough cash flow to come in when you need to pay the bills the business can't be successful.
Judy.: The farmers that you've talked to and worked with on this particular program what has been the reaction?

Bob.: The general reaction has been very positive. Because some see this as one, this is a program I can understand and two, this is something I can make some decisions on. I can afford $300 a month in insurance I can afford $500 a month because they look back to 2009 and go I didn't even have enough to pay the fee bill let alone the electric bill or the help. It's those disasters were protecting ourselves against. With fire insurance how often do we have a fire? Not very often but whenever it does it's a real disaster so this is essentially priced disaster insurance.

Judy.: Are there any special rules or fine print that farmers need to know about?

Bob.: Yes there are some things that we need to know about one the insurance can only be taken out one time during the month. Two the farmer gets to determine himself how much milk he wants to ensure and his deductible. One other key aspect of this is the program is still in a trial mode so some cities for the premiums may not last very long. We had subsidized premiums last year but they were all gone within three months. Now we're in the new Federal fiscal year Congress is trying to find some other money to subsidize the premiums but there's a very real possibility as this is open for sale now and October that all the sun cities maybe all gone by November sale date.

Judy.: Joining us now is Al curler. Al is a farm management business consultant with dairy farmers all across the state. Thanks for being with us.

Al.: Thank you.

Judy.: Al what are you hearing from farmers?

Al.: We can't survive another 2009 so how do we protect what we have. With this livestock gross margin first you need to decide what you're feed cost is. What I do when I talk to a farmer is I say take your cost per hundredweight of their feed add what it costs you to put feed up so you come up with a margin cost. If that cost is 850 a hundredweight and I ask them OK what Judy Donner farm to pay the rest of your bills. That under this program that's a margin you're trying to take. If it's $19.00 your margin is 10 1/2 so then you look at this program and then use what they call a default which is half a bushel of corn and 4 pounds of soybean equals 100 pounds of milk. If your future price is $16.00 and that feed costs on the default is $5.00 your
margin is 11. We just said the margin is 1050 on your farm so that is what you are trying to look at.

Judy.: So it really gives you a concrete number to shoot for?

Al.: It gives you an idea. You can calculate your own feed cost on your farm and not use the default but it's a long process and when you look at the numbers there fairly close when you come out at the end. Most farmers that I know of that participate in this program use the default. Then the farmer has to decide if his margin on this farm is $12.00 and under this program the best margin is less a $12.00 to get that $12.00 and my costume 85¢ 100 weight to do that. It's probably more than someone can afford so maybe if you took a $2.00 deductible or a dollar and 1/2 deductible we're looking at 14 to 19¢ that's not going to cover all of your cost but at least you set a floor. You've protected yourself in case the milk market crashes. Typically when it goes down it usually stays down there for a while.

Judy.: Bob bring us back full circle we can show you tried again if you'd like to summarize things for us how the GM Works.

Bob.: If the Chicago board of trade prices and we use those at the beginning or the end so therefore if there's known local feed thing that can mess up your prices. Two we're working on the margin from those that has nothing to do with the actual amount of milk you actually selling and what you're getting your milk check is just an insurance policy on this margin. You use the board of trade prices. You take a look richer feed inputs calculate what your return over feed cost are and take a look at what this margin would be using the future prices at this' future month and then you make the decision how much do I want to insure and how much deductible do I want to have. You purchase this insurance from a commercial insurance company at the sale date that comes once a month and then the clock speeds ahead to the month you have ensured and if the actual feed price is there provide you a Margin and that you met your thing your policy expires but if you have a disaster or feed prices went up or prices went down that left you with an insurable margin you would get an indemnity payment from the insurance company then.

Judy.: If people want more information what should they do?

Bob.: They can contact myself or Al Curler at these phone numbers. There's a great on-line premium calculator at the University of Wisconsin and you can also look at the USDA risk management agency website. A good source is also your crop insurance representative.
Judy.: Terrific gentleman thanks for joining me today. That's our program for today I'm Judy Simpson we will see you again next time on across the fence.

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