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# Meeting Producer Needs for Risk Management Education

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| Market Report | Yr Ago | 4 Wks Ago | 10/12/12 |
|---|---|---|---|
| ***Livestock and Products, Weekly Average*** | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight | $119.49 | $126.97 | $124.99 |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. | 153.01 | 162.91 | 163.67 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. | 146.62 | 153.29 | 151.17 |
| Choice Boxed Beef, 600-750 lb. Carcass | 185.32 | 191.50 | 191.15 |
| Western Corn Belt Base Hog Price Carcass, Negotiated | 90.59 | 63.46 | 81.52 |
| Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean | 97.33 | 78.05 | 86.27 |
| Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct | 170.00 | 84.00 | 89.00 |
| National Carcass Lamb Cutout, FOB | 406.82 | 317.08 | 309.56 |
| ***Crops, Daily Spot Prices*** | | | |
| Wheat, No. 1, H.W. Imperial, bu. | 6.02 | 8.58 | 8.08 |
| Corn, No. 2, Yellow Nebraska City, bu. | 6.32 | 7.67 | 7.48 |
| Soybeans, No. 1, Yellow Nebraska City, bu. | 12.18 | 17.09 | 14.38 |
| Grain Sorghum, No. 2, Yellow Dorchester, cwt. | 10.68 | 13.07 | 12.63 |
| Oats, No. 2, Heavy Minneapolis, MN , bu. | 3.57 | 3.99 | 4.07 |
| ***Feed*** | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton | 190.00 | 247.50 | 237.50 |
| Alfalfa, Large Rounds, Good Platte Valley, ton | 127.50 | 212.50 | 215.00 |
| Grass Hay, Large Rounds, Good Nebraska, ton | 92.50 | 185.00 | 190.00 |
| Dried Distillers Grains, 10% Moisture, Nebraska Average | 222.00 | 292.00 | 272.50 |
| Wet Distillers Grains, 65-70% Moisture, Nebraska Average | 73.50 | 103.63 | 104.00 |

*No Market

Volatile markets and challenging weather patterns are obvious risks agricultural producers have had to face in 2012. But they are just two of the many risks that producers must manage to successfully operate and grow their farms or ranches. Producers face numerous risks in several different areas, including production, price, financial, legal and human resource risk. Identifying issues and needs in each of these areas can help inform educators and tailor risk management education to producer needs.

The North Central Risk Management Education Center at the University of Nebraska is one of five centers across the country competitively funded by the United States Department of Agriculture to carry out a comprehensive program of risk management education targeted to agricultural producers. In turn, the four regional centers (supported by a fifth center for communications and online administration), implement a competitive grants program to fund educational institutions, farm and commodity organizations, lenders, consultants and other risk management education providers that deliver programs directly to farmers and ranchers.

As part of the risk management education process the Center conducts a substantial risk management education needs assessment effort. Talking to producers, stakeholder groups and special emphasis audiences provides grass roots input on risk management education needs to the Center and its Advisory Council, which represents a similar cross-section of risk management educators and producers. Over the past year, a wide range of issues and needs were raised in discussions. Those needs are categorized and described below.

### Production Risk

Producers face a range of production risks year in and year out. The drought of 2012 adds to the floods of 2011 as paramount production risks in producer's minds. But there

are many more production-related issues, including the following:

- environmental issues - fertilizer use, herbicide application, water quality, etc.,
- cost of production,
- crop insurance decision making and private insurance products,
- consumer education and production regulations,
- consumer driven issues in the livestock industry,
- new markets and new products.

To cope with the production risks, many producers rely on crop insurance. But crop insurance decisions can be very complex, particularly following production losses of the past two years, as production histories go down and protection levels relative to yield expectations change. Potential changes in new farm legislation could also change the relationship of farm programs to crop insurance, as well as add new crop insurance choices at the area level. All the while, managing costs of production as well as regulatory issues and compliance continues to be an annual need.

Other production risks relate not to risks within the production cycle, but the risks and impacts of consumer choices and knowledge on the acceptance and regulation of agricultural production systems in general. Consumer preferences for, or interest group pressure to adopt alternative production methods such as organic, non-genetically modified or animal welfare friendly, for example, can drive new production methods, costs, markets and management needs, as well as efforts to address consumer education needs.

**Price Risk**

Price risk is an obvious concern and traditional focus of risk management education programming. Identified needs include the following:

- counter-party risk,
- markets will correct - what happens when prices go down?
- input pricing and financial risks of input price hedging,
- foreign market fundamentals and price impacts.

With the increased volatility and substantial change in price levels of agricultural markets in recent years, price risk management becomes even more critical, but also much less certain and predictable. Beyond the drought-induced price run-up in 2012, have fundamental supply and demand factors changed in recent years to drive agricultural commodity prices to new levels? Or, will markets eventually return to previous equilibrium price levels? Regardless of what the long-run equilibrium will be, we know there will be corrections in market prices from major movements. How do producers manage for those price corrections, given the risk not just of output prices going down, but input prices not following in lock-step? Managing output and input price risk, or margin risk is a growing need for producers.

Beyond managing price risk, producers must also manage the risk of implementing their price risk management strategy. Counter-party risk is the risk of one party to a contract not fulfilling its responsibilities. Unfortunately, there have been numerous events in recent years that illustrate this counter-party risk, including the collapse of VeraSun Ethanol, Eastern Livestock and MF Global. Producers that managed their risk with hedging and marketing plans that included transactions with these companies found themselves the victim of this counter-party risk. Understanding this risk and managing the risk of the risk management plan is a new, emerging need for producers.

**Financial Risk**

The financial position of the average farm or ranch in the United States is currently at very strong levels by historical standards. But, financial risk is also significant at this time, with volatile markets and an uncertain macroeconomic outlook. Issues identified through the needs assessment process include:

- financial condition and management,
- interest rate risk and balance sheet shocks,
- access to capital and lending regulations,
- business structure, management and record keeping,
- tax management and potential tax changes.

Much of the current financial strength comes from the substantial rise in land values, but that land value increase hinges on the higher commodity prices driving profitability as well as the extremely low interest rates, which capitalize annual income expectations into land values. Shocks to either could impact land values and underlying financial conditions. Managing for those potential risks highlights the need to continue a focus on sound business decisions, including financial management steps such as business organization and record keeping.

Beyond changes in the interest rate, or the price of capital, there have also been changes in financial institutions and regulations that can affect producer access

to capital. And, the current uncertainty surrounding tax policy creates substantial risk for all producers (and consumers), including for example, uncertainty over the future rates of estate taxes.

**Legal Risk**

There are numerous legal risks facing agricultural producers, including some which have previously been identified in the production, price and financial risk areas. Legal risks identified in the needs assessment process include:

- contract law,
- regulatory uncertainty,
- environmental regulations,
- liability risk,
- energy leases.

Beyond contract law and regulatory compliance issues, producers are concerned with liability risk. Increased focus on regulation of agricultural activities heightens concerns of producers about their liability for any and all activities on the farm or ranch. Ironically, the substantial increase in land values also heightens this concern, as some liability risk is related to the amount of assets at risk. Finally, a growing area of focus is the legal issues related to new energy exploration, development and lease activities, whether oil, natural gas or wind.

**Human Resource Risk**

The foundation of any successful farm or ranch is the human resources available and engaged in the operation. Human resource risk management issues include:

- worker safety, regulations and compliance,
- immigration,
- child labor laws,
- business management training,
- management skills, not just production skills.

The identified issues include a substantial focus on labor availability, safety and regulation. Immigration policy and agricultural labor availability is a substantial issue for operations with a great deal of hired labor, including many specialty crop operations as well as numerous animal feeding operations. Beyond labor regulations, a substantial question is the focus on basic labor or production skills versus management skills and training. Utilizing human resources effectively in the operation requires an appropriate balance and focus on management and production skills, training and support.

**Overarching Issues**

Beyond the five common categories of risks, there are numerous other issues which can cross multiple risk areas. These include:

- resource utilization,
- land resource evaluation,
- tenant relations with large or institutional land owners,
- management,
- size vs. resource utilization,
- size vs. diversification,
- on-farm vs. off-farm diversification,
- farm bill education and focus on integration of risk management tools,
- disaster recovery,
- small farms risk management needs vs. large commercial farm risk management needs,
- ag infrastructure for special emphasis audiences,
- access to capital,
- risk aversion vs. entrepreneurial risk taking,
- transition planning,
- role for mentor/protégé program,
- uncertainty over estate planning,
- older generation struggling to hand over management to next generation.

Managing resources effectively is a critical part of success for the farm or ranch, regardless of enterprise, size or land resources. The pending farm bill deliberations will affect producer risk management decisions, particularly the linkage between price, production and financial risk, as farm programs integrate with crop insurance and marketing decisions.

Another general issue is the question of how risk management decisions vary across farm sizes and types, including the question of access to capital for special emphasis audiences, which can include small, beginning, immigrant, transitioning and historically socially-disadvantaged producers. Finally, two issues raised in the

needs assessment process identified individual decision-making, attitudes and education. While the focus is on risk management, that is not synonymous with risk avoidance. Knowing which risks can be managed, which can be avoided, which can mitigated and which can be transferred (for example, by purchasing insurance), is an important lesson for producers. Preparing producers for that question, along with an understanding of entrepreneurial risk taking, highlights the need for training and education, including an interesting potential role for a mentor/protégé program for agricultural producers.

**Managing Risk and Educating Producers**

As discussed above, there are numerous risk management education needs for agricultural producers across the wide range of risk areas. Producers need to be able to identify and understand risks they face on their operations, as well as understand the various risk management tools they can implement. Producers also need to be trained to develop and implement appropriate strategies to manage risk and improve the overall viability of their farm or ranch operation.

As mentioned in the introduction, the Center addresses these identified needs through a competitive grants program. The grants fund various entities to develop and deliver risk management education programs targeted to producers to learn and implement risk management strategies. The grants program is available to all entities that can deliver on these needs and reach producers through their programming. This year's request for applications for competitive funding will be released on or about November 1. Information on the grants program, the timeline and the broader risk management education program is available on the website of the North Central Risk Management Education Center at ncrme.org.

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