Reducing Rangeland Risk

A rangeland insurance pilot program in Montana and Wyoming shows potential as a drought management tool.

by ***Kindra Gordon***

For years grain farmers have had the opportunity to guard against weather-related risks to their crops through federal crop insurance programs. In the future, ranchers may have a similar opportunity to insure rangelands as well.

Mandated by the Agricultural Risk Protection Act of 2000, Congress dictated that more insurance products should be made available to livestock producers. And, as a result, the Group Risk Plan (GRP) Rangeland Pilot Program was developed.

Initiated in Montana in 1999, the insurance was offered as a pilot program to rangeland owners in 12 Montana counties and was designed to protect against widespread rangeland production losses that occur for an entire county. In 2005, the program was revamped and expanded to include a total of 39 Montana counties and 10 Wyoming counties.

U.S. Department of Agriculture (USDA) Risk Management Specialist Gene Sonsalla reports that there has been a lot of participation by landowners in the program. He says after three to four more years as a pilot, the GRP program is expected to expand and include more states and counties.

How the program works

The GRP Rangeland Pilot Program is meant to provide protection against loss of production on rangeland or pasture. Most commonly, drought has been a factor in low production, but excess moisture could also be a problem.

Although this is rangeland insurance, grass production from rangeland is not directly considered. Instead, it is based on historical and current annual production of all nonirrigated hay in a county, because both research and rancher review groups indicated that nonirrigated hay production was highly correlated with range production. The county base production of hay is adjusted for Conservation Reserve Program (CRP) lands and grains harvested for hay.

Producers in counties eligible for the program may choose a coverage level that denotes a "trigger yield" of 70%, 75%, 80%, 85% or 90% of the county base production, and a corresponding dollar protection level at 70%, 75%, 80%, 85% or 90% of the county maximum dollar protection will also be assigned. The dollar protection levels for each of the 39 Montana counties are products of the state's grazing fee rate per animal unit month (AUM) multiplied by the AUMs produced per acre in each county. For example, the Montana grazing fee rate used for 2005 was $15.20 per AUM. Across the 39 counties, the AUMs per acre fall between 0.30 AUMs per acre to 0.47 AUMs per acre.

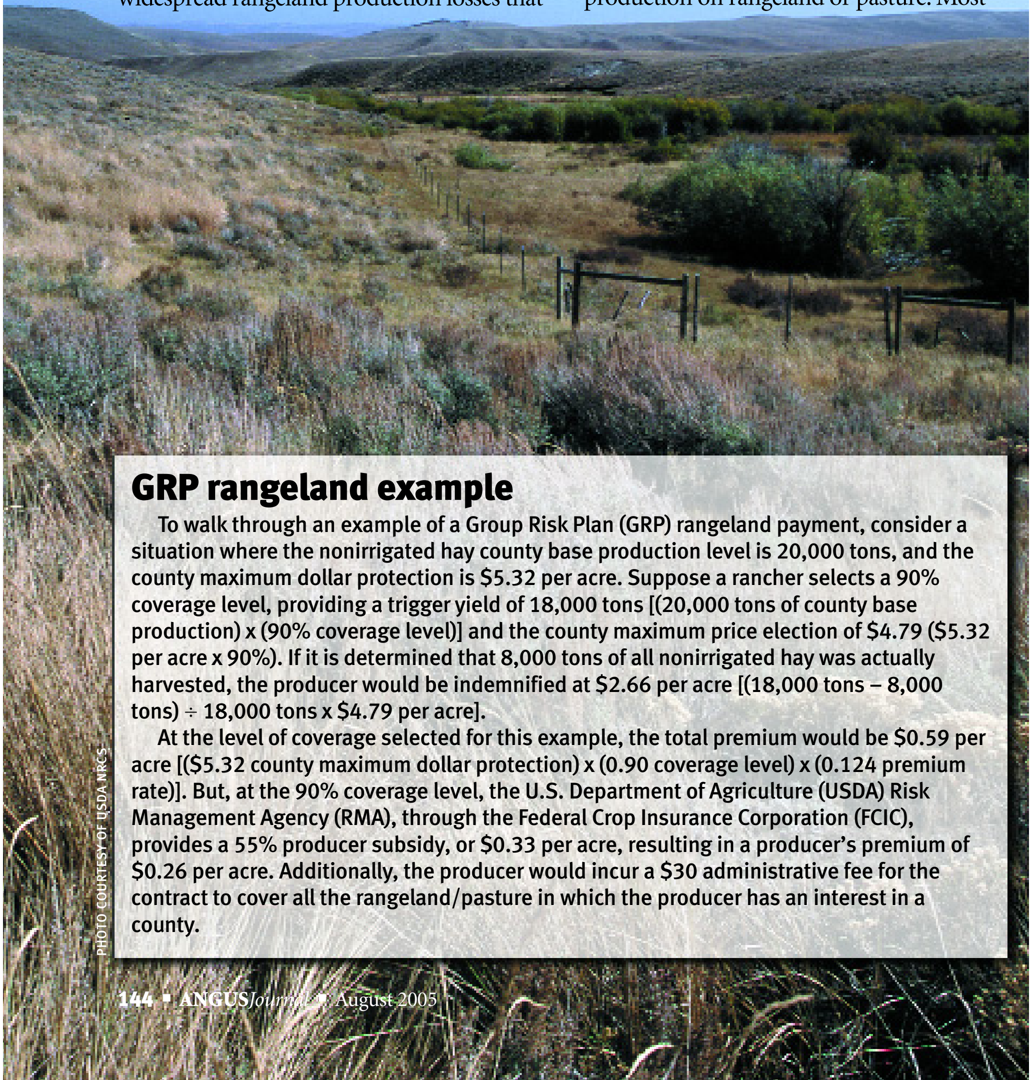
So, if a county's AUMs per acre is 0.35, the county maximum dollar protection for the 2005 grazing year would be $5.32 per acre [($15.20 ÷ AUM) × (0.35 AUMs ÷ acre)]. Ranchers can select 70% to 90% of this as their trigger yield and dollar election.

With 2005 revisions to the program, the trigger is now based on total hay production in a given county rather than on average yield per acre, which it had been with the initial pilots, but did not always fully reflect drought conditions in some areas. For instance, under the new program, a county's total dryland hay production for a year would be compared to a 30- to 40-year average. If production falls below the average, a producer could be paid for losses, depending on his or her coverage level.

However, under the GRP, rangeland production on an individual's own rangeland is not relevant for receiving an insurance payment. For instance, a rancher may have excellent range and yet receive a payment because overall range conditions in the county were poor. But, a rancher might have very poor range conditions but not receive an indemnity because overall conditions in the county were average.

An economical option

With prolonged drought in many areas, proponents of the GRP Rangeland Pilot Program say producers in eligible counties should consider signing up for the program.



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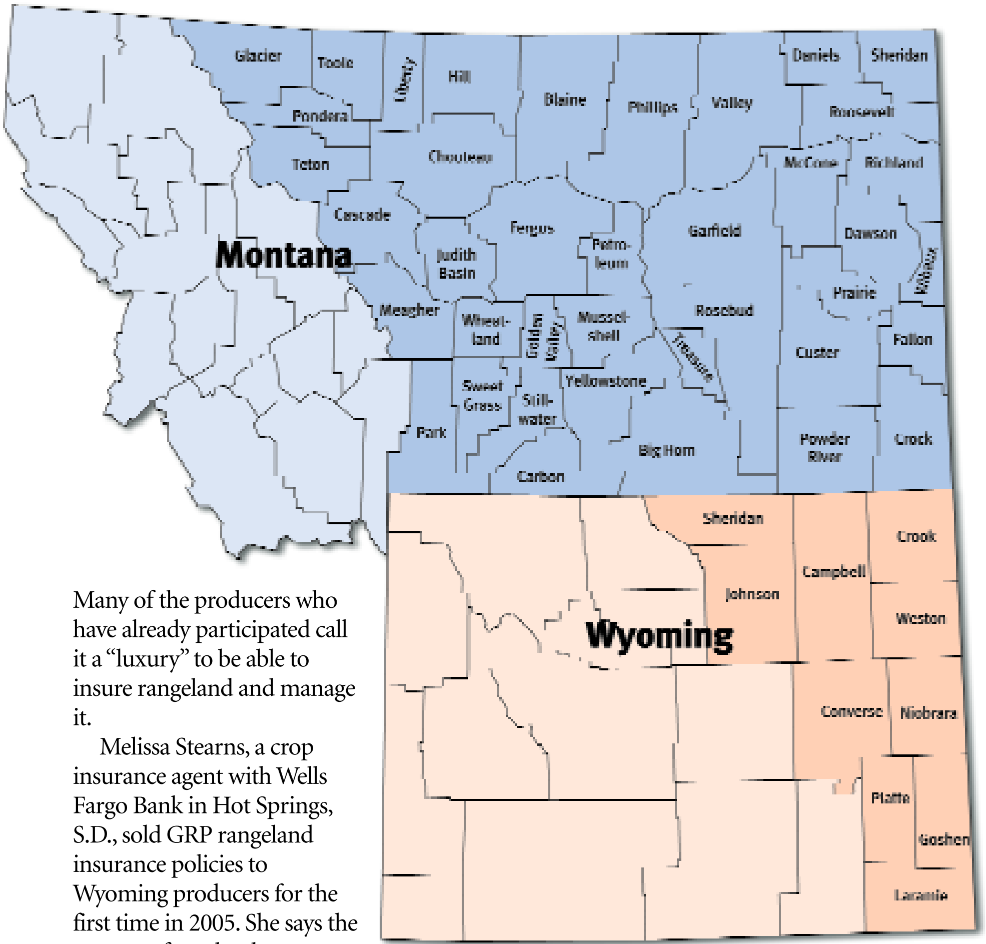
GRP rangeland example

To walk through an example of a Group Risk Plan (GRP) rangeland payment, consider a situation where the nonirrigated hay county base production level is 20,000 tons, and the county maximum dollar protection is $5.32 per acre. Suppose a rancher selects a 90% coverage level, providing a trigger yield of 18,000 tons [(20,000 tons of county base production) x (90% coverage level)] and the county maximum price election of $4.79 ($5.32 per acre x 90%). If it is determined that 8,000 tons of all nonirrigated hay was actually harvested, the producer would be indemnified at $2.66 per acre [(18,000 tons – 8,000 tons) ÷ 18,000 tons x $4.79 per acre].

At the level of coverage selected for this example, the total premium would be $0.59 per acre [($5.32 county maximum dollar protection) x (0.90 coverage level) x (0.124 premium rate)]. But, at the 90% coverage level, the U.S. Department of Agriculture (USDA) Risk Management Agency (RMA), through the Federal Crop Insurance Corporation (FCIC), provides a 55% producer subsidy, or $0.33 per acre, resulting in a producer's premium of $0.26 per acre. Additionally, the producer would incur a $30 administrative fee for the contract to cover all the rangeland/pasture in which the producer has an interest in a county.



Many of the producers who have already participated call it a "luxury" to be able to insure rangeland and manage it.

Melissa Stearns, a crop insurance agent with Wells Fargo Bank in Hot Springs, S.D., sold GRP rangeland insurance policies to Wyoming producers for the first time in 2005. She says the response from landowners was outstanding.

"Depending on the coverage level a producer chooses, the policy can start paying when the county has an 11% production loss. That's pretty good to be able to insure 90% of your rangeland," Stearns says.

She adds that the GRP rangeland program should really help ranchers through difficult drought conditions. "The indemnity payment can provide a cash flow for producers so they can rent winter pasture or buy hay to take care of livestock. It's really offering them an alternative to manage risk," she says.

For 2006 coverage, ranchers in the eligible Wyoming and Montana counties will have until Sept. 30, 2005, to purchase a new rangeland insurance policy. Sonsalla points out that this is a new deadline; previously, coverage had to be purchased by March 15 of the same production year.

Sonsalla says the deadline has changed to a fall sign-up to align the program with other crop insurance deadlines.

If you are in one of the eligible Montana or Wyoming counties, contact your local crop insurance agent for more information about GRP insurance.

Insurance for fed- and feeder-cattle price protection

Also new to the insurance realm is Livestock Risk Protection (LRP), an insurance product designed to insure against declining market prices, protecting producers from a drop in the market for the period selected. It is managed by the U.S. Department of Agriculture (USDA) Risk Management Agency (RMA), and the premiums are subsidized by the Federal government. LRP is available for swine, feeder and fed cattle in a number of states, including Minnesota, Wisconsin, Wyoming, and North and South Dakota.

Coverage amounts are based on Chicago Mercantile Exchange (CME) prices for swine and feeder cattle and the Five-Area Weekly Weighted Average for fed cattle. Producers determine the length of time and the coverage levels desired. If the actual ending value (based on the above markets) at the end of the insurance period is less than the coverage chosen, you collect.

Visit *www.rma.usda.gov/policies/2004LRP.html* for more information.