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**DEADLINE
MARCH 15**

Is the last day to
either obtain a pol-
icy or make changes
to your present
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Crop Insurance 2014

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2014 Budget - Margins are Tight

This issue of our newsletter series has traditionally been what we call the budget issue. This year due to economic changes on the farm we are going to take a little different approach. In the past we have used my farm, as well as other producer's farms in the area, to create our newsletter budgets. This year we are using a different type of budget format with most of the input costs coming from information provided by the University of Missouri Extension Service.

When first calculating this year's budgets, especially for corn, I realized the economic climate has changed from where we were the last several years. In every calculation for my farm's corn budget, I would be losing money based on my historical corn yield. As you can imagine, I didn't want to believe this, so my temptation was to do my budgets with yields higher than my records show. Of course, reality set in and I realized that if I use false figures I will get false results thus making the budget worthless to both myself and my lenders. The challenge for me became what to do to stay realistic and still generate a profit on this corn budget. Economically, farming is very different than most other businesses that we associate with. Ford and Dodge both

produce pickup trucks. They are essentially an engine on a frame with 4 wheels, surrounded by a cab, with a bed located behind the cab. What allows each company to sell their trucks for different prices is the differences between their truck and their competitor's trucks. These differences could be engine size, cab size, cab style, anything that will create a value to the consumer. In the farm economy, using corn for example, we all raise the exact same homogeneous product, meaning if we took a sample of corn from ten different farmers and put it into a bucket we could not distinguish what corn sample came from which farm. Since we are raising the exact same product we should receive the exact same price on any given day.

By growing the same exact type of corn as our neighbors the only control that we have over the results of this budget is to lower costs and raise

more bushels. Realistically this is very hard to do, and, if you were able to do it, these cost savings would be minimal at best. What if we could do something different that would allow us to still raise corn but to demand a higher price for what we produce? This in fact could change the results of our budget on both the expense and the income side to the point that we are making money while still using realistic figures.

When we shop for a pickup, we compare the differences between Ford and Dodge and our decision is based on price and features. This is the same thing that end users of corn do. So the question is; what are the end users of corn looking for and why?

Many of us that produce corn don't talk with grain merchandizers on a regular basis. We get tunnel vision after a few years of making money and rely on our customary plans of doing it like we've always done. However the markets are changing. There is a significant market in Missouri for non-GMO corn. This market has emerged because of consumer willingness to pay for food that has not been genetically modified. If a producer chose to raise non-GMO corn they would have differentiated their product from the



2014 Budget - Margins are Tight (continued)



norm (GMO corn) just as a Dodge is different than a Ford. Both products have the same use but buyers may be willing to pay more for one than the other due to specific reasons.

Who are the major consumers of this market? The dairy and poultry industries have taken the lead in trying to meet the demand for "natural" food products. With their designated "natural" milk, cheeses, eggs, and meats they can demand premium pricing for these products because they have created a product that consumers are starting to demand more of.

This market is bigger than most producers realize. This is not a road side fruit stand type of market. They can't go to the elevator and get a truckload of corn as most grain elevators don't separate

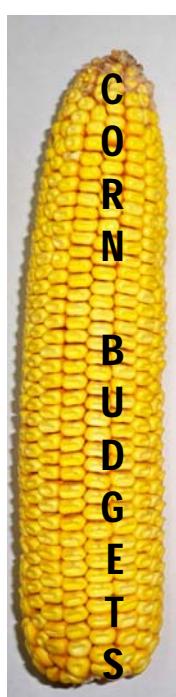
GMO from non-GMO. They typically buy the homogeneous product of corn. Therefore this industry must buy and pay a premium for non-GMO corn and find a source that can supply them with their needs.

When I visited with the merchandizers this week I asked about the size of this market. They referenced a local mill in this area that had a current need of 150,000 bu. per year and was growing. The sources of their outlets were guarded of course, however, with further investigation I found that these markets do exist and could be taken advantage of by normal producers like myself.

If a producer chose to raise non-GMO corn they will have differentiated their product from the norm just as a Dodge pickup is different than a Ford pickup. Both



products have the same use but buyers may be willing to pay more for one than the other due to specific reasons. We are going to use this comparison to attempt to make budgets that will show a profit using current market premiums comparing GMO with non-GMO. Remember this is only one example. There are numerous ways to differentiate or to value-add to your product that will make it stand out from your neighbors. They all take planning and may take additional management, labor, or marketing but it can be done.



	GMO			non-GMO		
	unit	cost/unit	cost/ac	unit	cost /unit	cost/ac
Seed	0.3	\$ 280.00	\$ 84.00	0.3	\$ 160.00	\$ 48.00
Nitrogen	165	\$ 0.44	\$ 72.60	165	\$ 0.44	\$ 72.60
Phosphate	70	\$ 0.40	\$ 28.00	70	\$ 0.40	\$ 28.00
Potash	45	\$ 0.40	\$ 18.00	45	\$ 0.40	\$ 18.00
Lime	2000	\$ 28.00	\$ 14.00	2000	\$ 28.00	\$ 14.00
Total			\$ 216.60			\$ 180.60
Chemicals						
Pre emerge	1	\$ 18.00		1	\$ 24.00	
Post	1	\$ 22.00		1	\$ 16.00	
Insect	1	\$ 5.00		2	\$ 10.00	
Total		\$ 45.00				\$ 50.00
Drying	125	\$ 0.18	\$ 22.50	125	\$ 0.18	\$ 22.50
Machine			\$ 76.00			\$ 76.00
Custom App	3	6	\$ 18.00	3	6	\$ 18.00
Interest @6%			\$ 13.14			\$ 12.24
Insurance			\$ 20.00			\$ 20.00
Total			\$ 149.64			\$ 148.74
Total Variable Cost /AC			\$ 411.24			\$ 379.34

2014 Budget - Margins are Tight (continued)

As you see the cost of producing GMO and non-GMO are very similar with the cost advantage going to the non-GMO varieties. The question that we must ask is how much do these GMO traits add to the yield if any.

This week I have spoken with 3 different seed dealers, two certified crop consultants and 3 different producers all of which are very creditable. All of them agree that there could be a difference in yield depending on the insect pressure and that this could vary greatly from 0-30 bu./acre. One of the crop consultants thought there could likely be a 5 bu. yield drag by the non-GMO varieties in this example. He noted that we had an extra insecticide application listed in the university budget and suggested that this would minimize the difference be-

tween the two. However, he also stated that this is not a variable that we can predict on a scientific basis when it comes to individual farms.

Now let's look at the break-even cost of production. If both GMO and non-GMO crops produced 125 bu./acre, the break-even cost of production per bushel over variable costs would be as follows. GMO variable costs for 125 bu./acre would be \$3.29/bu. while the non-GMO would be at \$3.03/bu. Using the assumption that the non-GMO will have a 5 bu. yield drag this changes the non-GMO variable costs to \$3.13/bu. At this point we would have to give the advantage to the non-GMO corn, however, we must understand that by going this route the results will be dependent on increased management and

timely applications of chemistry. If we slip on management we could very possibly have a train wreck when we look at the costs of rescue treatments thereby losing its cost savings advantage.

Premiums this week in the non-GMO market that could be used locally, including the positive basis, was +\$1.75 per bushel for corn and nearly \$2.00 for soybeans. One must understand that these premiums change daily based on need and availability. To sell into this particular market no contract needed to be signed and no certain number of bushels had to be produced. The only stipulation was that the grain had to pass the tests for being non-GMO. If the grain tested positive for GMO then the grain had to be refused and be sent to the regular market denying its ability



GMO Corn cost of production --			non-GMO cost of production		
	411.24			379.34	
	variable		variable		
	breakeven		breakeven		
Yield	costs/bu	rev/acre	costs/bu	rev/acre	rev/acre +
80	\$ 5.14	\$ 360.00	\$ 4.74	\$ 360.00	\$ 496.00
90	\$ 4.57	\$ 405.00	\$ 4.21	\$ 405.00	\$ 558.00
100	\$ 4.11	\$ 450.00	\$ 3.79	\$ 450.00	\$ 620.00
110	\$ 3.74	\$ 495.00	\$ 3.45	\$ 495.00	\$ 682.00
120	\$ 3.43	\$ 540.00	\$ 3.16	\$ 540.00	\$ 744.00
125	\$ 3.29	\$ 562.50	\$ 3.03	\$ 562.50	\$ 775.00
130	\$ 3.16	\$ 585.00	\$ 2.92	\$ 585.00	\$ 806.00
140	\$ 2.94	\$ 630.00	\$ 2.71	\$ 630.00	\$ 868.00
150	\$ 2.74	\$ 675.00	\$ 2.53	\$ 675.00	\$ 930.00
160	\$ 2.57	\$ 720.00	\$ 2.37	\$ 720.00	\$ 992.00
170	\$ 2.42	\$ 765.00	\$ 2.23	\$ 765.00	\$ 1,054.00

to claim the non-GMO premium. This example shows that even with a yield drag the non-GMO corn can still generate more revenues than GMO in

most cases. The important point to remember is that the premium for non-GMO will vary daily and by the facility that is trying to buy non-

GMO grain. The supply of non-GMO corn will also greatly affect the price for this type of grain.

2014 Budget - Margins are Tight (continued)



My challenge to you is to be proactive and ask yourself; Can I raise a differentiated product? Will I take the time to search out these markets that will pay a premium? Will I apply the extra management that this will take? If you answered yes to these three questions then you have made the first step toward

producing a value added product and hopefully will be rewarded financially for doing so.

We have used non-GMO corn as an example. Understand that this is just one of the many ways to add value to your crop. Selling corn for silage, raising white corn, raising high amylase corn, or

raising high oil corn would all be ways of creating differences for your crop from the rest of the industry.

SOYBEANS

Everything that we have said about corn will apply to soybeans as well. In keeping with our GMO vs non-GMO exam-



	GMO				non-GMO			
	unit/ac	cost/unit	cost/ac	unit/ac	cost /unit	cost/ac		
Seed	1.1	\$ 57.00	\$ 62.70	1.1	\$ 34.00	\$ 48.00		
Nitrogen	0	\$ 0.44		0	\$ 0.44			
Phosphate	40	\$ 0.40	\$ 16.00	40	\$ 0.40	\$ 16.00		
Potash	65	\$ 0.40	\$ 26.00	65	\$ 0.40	\$ 26.00		
Lime	2000	\$ 28.00	\$ 14.00	2000	\$ 28.00	\$ 14.00		
Total			\$ 118.70				\$ 104.00	
Chemical cost per acre		# apps			# apps			
Pre emerge		1	\$ 18.00		1	\$ 18.00		
Post emerge		1	\$ 24.00		1	\$ 36.00		
Insecticide		1	\$ 5.00		2	\$ 5.00		
Total			\$ 47.00				\$ 59.00	
Drying	40	\$ -	\$	40	\$	\$		
Machine			\$ 76.00			\$ 76.00		
Custom App	3	6	\$ 18.00	3	6	\$ 18.00		
Interest @6%			\$ 11.02			\$ 11.04		
Insurance			\$ 20.00			\$ 20.00		
Total			\$ 125.02				\$ 125.04	
Total Variable Cost / ac			\$ 290.72				\$ 288.04	



ple we have included a soybean budget as well.

I must add this note. On my farm the past several years I have planted Roundup Ready corn and soybeans, however, I never totally depended on that trait. I never sprayed glyphos after the corn was planted and got by with my pre-emerge treatments without weed issues. On the other hand, when I planted RR

soybeans I could not depend on glyphous products to control weeds like waterhemp. Therefore I needed to use cobra applications to control the weed pressure in these fields. Because of this, I do not believe there was any advantage to planting these beans on my farm. Liberty soybeans on the other hand are a completely different story. The Liberty beans had

good control all year and held back the waterhemp completely.

The premiums for non-GMO beans exist as well. This market is smaller and may require more transportation to market larger quantities of these beans into positive markets. But the point remains that these markets do exist and it is up to the producer to search out these

2014 Budget - Margins are Tight (continued)

markets and provide the product that the end user is asking for.

One last note.

These budgets just show returns over variable costs. No land, labor, management, or marketing expense have been included, always plan for these costs as well. If a producer was paying \$150 per acre land rent on top of his variable costs this will drastically change the cost of production as compared to the producer paying \$50 per acre.



2014 Farm Bill - FINALLY !

Like most of you I am relieved that this arduous task of creating and passing a new farm bill is over. I was studying what this new legislation will mean to producers and ran across a couple of editorials that ran in The New York Times and The Washington Post that really stirred me up. Are they reading the same farm bill that I am?

Both of these publications are very critical of the agricultural programs that are being implemented in this bill and are less than fair of their description of our farm communities. The Washington Post headline reads "*the rich get richer*" while The New York Times headline infers that there are clear winners and losers.

I find it literally amazing how people can become so polarized, no matter what happens with any piece of legislation, that they feel the need to show their intelligence or lack thereof and stoop to vilifying the industry that feeds them

with the safest and least expensive food in the world. The Post even went so far as to blame the obesity problem in America on the farmers. Now that is quite a stretch, even to the point of blatant dishonesty.

If you look at this bill you will notice that 80% of the funds in this legislation go to the nutrition and the food stamp programs. Maybe we should split the bill into 2 pieces and have the food stamp bill and then the Ag bill? This would surely speed up the time it takes this piece of legislation to go through congress.

For years producers all across the country have been working hard to become less and less dependent on government programs. With each new farm bill there has been less direct supports to agriculture producers and more freedom to producers to grow and produce the commodities that they deem more profitable for their op-

erations.

This year the direct payments were eliminated from the bill and were replaced with various programs that producers can choose to participate in but will have to absorb a portion of the costs. Could it be better? Sure it could, but anytime Congress works on legislation there has to be a compromise from what we, as ag producers, would view as a perfect bill.

A couple of things that we've noticed in the bill that could affect our producers are:

- The bill is mandating the creation of new pilot programs that will be developed for fruit, vegetable, and livestock producers. It also adds pilot programs to promote rural health and medical research.
- The farm bill does away with direct subsidies to producers. This reduced the cost of the program by about 5 billion dollars

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2014 Farm Bill - FINALLY ! (continued)

Meet our new office staff



Whitney Campbell

Whitney is a December 2013 graduate of the University of Central Missouri with an Economics Degree.

Her family owns and runs a livestock operation in the Hartsburg area in Central Missouri



Matt Rowell

Matt is a December 2013 graduate of the University of Central Missouri with an Economics Degree.

He is also a 15 year veteran of our armed forces. His family owns and operates a farming operation in the Bootheel section of Missouri.

Both Matt and Whitney are fully licensed and ready to help you with your crop insurance needs.

per year. These programs are being replaced mainly by 3 FSA programs that will assist producers only when certain loss triggers have been met.

At this early point we can tell you that farmers in our area will have 2 options to consider up front. Producers will have to choose between PLC (Price Loss Coverage) or ACR (Average Risk Coverage). When producers make this selection, this selection becomes irrevocable for the life of the bill. This decision will need to be based on your operation and will not be something that should be entered into without considerable study.

The ARC program offers either county level or individual loss benchmarks. This will be done on the crop basis so your decisions may be crop specific. Farmers who choose ARC and select individual

coverage rather than the county average will be covered at 65% rather than the 85% with the county benchmark. The benchmark is developed by using county data using Olympic averages of both yield and price over the last 5 years minus both the high and the low. The three remaining years will be averaged and multiplied by the average price to establish the benchmark that will be used. At this point there is a lot of work that needs to be done to get ready to implement this bill. The USDA is in the process of writing the rules and at this time we are uncertain when this product will be available for farmers to study. It is my guess that it could be late summer or sometime in the fall before we will need to make any decisions. As news and rules become available we will be producing newsletters to assist you in deciding what the best choice for

your operation may be. I do believe that the POST got one thing right when they said the "rich got richer" and I believe that they hit the nail on the head. I don't know a lot of farmers that have huge sums of money laying around but I do think we are all rich. We have been blessed with opportunities that these people will never know. They will never know the good feeling you get when you stop and help a neighbor who has gotten his tractor stuck miles away from the house or what it's like to wade across a muddy lot in your Sunday school slippers to pull a calf and see it live. We as an industry embrace the lines in the FFA creed that says "*We believe in less dependency on begging and more power in bargaining.*" followed by the line "*We believe in the less need of charity and more of it when needed.*" This is the attitude that makes us rich.

Winter-kill on Wheat

For the last several years most of us have enjoyed fall weather for growing wheat that had little or no challenges. This year with the delayed crops and the drier than normal fall, wheat on most farms didn't have the chance to get the normal fall growth. This combined with the wicked weather this winter may present us with some challenges and some tough decisions in the next 60 days. Let's review what the main causes are of winter kill and the conditions that may make these problems more

prevalent.

The first item to look at is how well the roots of the wheat plant were developed. When a wheat plant has a good crown root system and two or more tillers developed, the plant is in relatively good shape to make it through the winter. This year, we have seen a lot of wheat that due to various conditions has not developed to this point. Many of the plants that we have pulled up and examined have had very poor root development. In some

areas we believe this was due to the extremely dry conditions that the wheat was exposed to during planting and the weeks that followed. Wheat in this condition is always more susceptible to damage over wintering. As soon as the wheat emerged and was ready to really take off, winter set in and temperatures dropped rather quickly and never rebounded to a point where the wheat had an opportunity to properly harden. Only time will tell what damage may have occurred over the winter but

Winter kill on Wheat (continued)

the point is that we have had less than ideal growing conditions for the start of this crop. Last week Brian was in the Montrose area walking fields with one of our clients and noted how dry the soil was. At that time there was no snow cover and we were experiencing some cold conditions. We have written about how this could affect the wheat plant.

The wheat plant's crown level is usually in about 1" deep in the soil. In cold and dry conditions the critical temperature is around 10 degrees. At this temperature damage can start to occur. The saving grace would have been any form of precipitation at that point. An inch of snow or a good rain, either one, would

have done a lot to protect these roots from the elements. In the last few weeks we have experienced very cold temperatures. If we would not had the snow cover that we have now we certainly would have had serious issues with the wheat crop.

In some areas further south producers became more concerned with ice that covered the field. Ice has the tendency to literally suffocate the plant by not allowing oxygen to flow to the plant. This will result in the same kind of damage as if the wheat field was flooded for an extended period of time.

Heaving is the final over wintering issue that we see. This occurs when repeated freezing and thawing literally

pushes the plant out of the soil. This is seldom an issue in our area but can become a major problem if the right conditions exist.

After planting there is nothing that we can do to control the weather. Our goals as producers are to plant the crop timely and properly and to provide the proper fertilization and care at this point. Nature will have a large say on what we have to work with after wheat breaks dormancy. Over the next few weeks many of us will be walking our fields to evaluate what effects this winter has had on the crop. If you find conditions of concern please notify us so we can work with you to evaluate what options might be best for your operation.



New Breaking Ground Rules

The last few years have seen a significant amount of land taken out of pasture production and converted into crop production. There has also been a lot of ground that was in the Conservation Reserve Program (CRP) that have had their contracts run out. Both

of these types of acres are insurable for crop production but there is a considerable difference in how insurance can be attained.

Ground coming out of CRP and being converted back to crop production can be insured at 100% of the county T

-yield for the first year. This is only for acres that are in the first crop year of coming out of CRP. A separate APH database is created for this first year for those acres. After that first year is complete then the CRP database will be combined with the produc-



**DEADLINE
MARCH 15**

Is the last day to either obtain a policy or make changes to your present insurance policy.

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New Breaking Ground Rules (continued)

er's existing corresponding unit and its' APH. The producer is required to notify his agent/agency that he will be farming ground that will be coming out of CRP before the Acreage Reporting Deadline. It would also be very helpful if the producer would give the agent/agency the field(s) land location and acreage so that it could be properly uploaded into his APH database. The rules for pasture/grass acres being converted for crop production are a little more stringent. RMA has determined that if these types of acres are being converted they **MUST BE APPROVED** by a written agreement done by your agent.

These written agreements must be submitted BEFORE March 15 and must include:

- The method used and the date the land was cleared, chemically cleared, or broken out.
- Documentation the acreage has been previously broken and planted to a crop (FSA documents) otherwise 65% of the T-Yield will be assigned by RMA
- Producer must have or will obtain a NRCS Conservation Plan if NRCS requires a Conservation Plan on the acreage.

If the producer meets all the requirements listed above

then RMA will establish an APH of 80% of the county T-Yield for that crop for this first year. Like ground coming out of CRP, this database will be combined after this first year into a producer's existing APH database.

Remember, FSA and NRCS rules will and do vary from RMA rules when it comes to New Breaking ground.

It is vitally important that you contact your agent well ahead of the March 15 deadline in order to determine what you will need to qualify your acres for insurance protection. Failure to do so will result in at the very minimum, inadequate protection of those acres.



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