

Douglass Comments on Another Term as Agriculture Commissioner

West Virginia Commissioner of Agriculture Gus Douglass was elected to his 11th term in office November 4 and vowed to continue to improve food safety, direct marketing of West Virginia Grown products, and the West Virginia Department of Agriculture's (WVDA) emergency response capabilities in what he said will be his final term.

"The confidence West Virginia residents have placed in me has not been misplaced, and I will continue to move this Department into the future," said Commissioner Douglass.

His platform included the creation of a new food safety laboratory to replace aging facilities at WVDA headquarters, grants to aid in the development of four additional year-round farmers' markets in the state, and further restructuring of the Department as an emergency response agency.

"One advantage of having served so long in this capacity is an extended sense of perspective. I have seen so many issues come and go, and I see many threats on the horizon to plant and animal health and to our food supply in this country. Departments across the nation are going to need to become mobile and prepared to respond to emergencies in the field that we

have not yet seen," he said, noting specifically the possibility of an influenza pandemic or terrorist attack against the nation's food supply.

WVDA already has nearly a third of its workforce trained in standardized incident management principles and emergency response. It also has assembled a fleet of emergency response vehicles and equipment, including a fully equipped, bio-secure, mobile laboratory that can be moved to the scene of a disease outbreak, rather than transporting potentially dangerous samples to a fixed laboratory facility.

Commissioner Douglass was first elected in 1964 and served continuously until he was defeated in a run for governor in 1988. He was again elected agriculture commissioner in 1992 and has held the post since. He is the nation's longest serving state agriculture commissioner.

He has served as president of the National Association of State Departments of Agriculture (NASDA) and the Southern Association of State Departments of Agriculture (SASDA), and was chairman of the Southern Regional Committee for Food and Agriculture under President Jimmy Carter.

Additionally, Commissioner Douglass has served twice as president of the Southern United States Trade Association (SUSTA). He participated as a member of several national agriculture committees and task forces, and has been frequently called upon to give testimony before Congressional committees regarding national agriculture policy.

Commissioner Douglass chaired the U.S. Secretary of Agriculture's Advisory Committee on Foreign Animal and Poultry Diseases an unprecedented four times, representing all state departments of agriculture during animal health emergencies. He has served extensively on three NASDA committees, including International Marketing and Trade, Food Regulation and Nutrition, and Animal and Plant Industries.

He was state and national FFA president, and served as the first president of the National FFA Alumni Association. In addition, he and his son Tom operate their 540-acre family farm in Mason County, West Virginia, specializing in beef cattle and hay production. He and his wife Anna Lee have four children, six grandchildren, two great-grandsons and three great-granddaughters.

Hindsight is always 20-20

Tom McConnell, Director, West Virginia Small Farm Center of the West Virginia University Extension Service

The decline in feeder cattle prices this fall left everyone scratching their heads wondering what they could have done differently. Most say, "Well, that's the cattle business! Better luck next year." But, the truth is, there was something beef farmers could have done to offset that decline in the cash market. It's a program called Livestock Risk Protection (LRP), available from your crop insurance companies across the state. It pays an indemnity to its policy holders when the reference cash market falls below the USDA expected price. For example, Billy and Marge Burke from Sandfork chose to protect their calf price by purchasing insurance.

Let's look back at last spring's market and analyze the specific decision point where each of us could have done things differently by buying price protection like the Burkes. Price insurance can't be purchased until calves the farmer wants to protect are born, or after a farmer has bought his yearlings to turn out or background.

Five principles govern the use of price insurance decision-making. First, to truly manage risk every cattle crop should be insured. Livestock Risk Protection is designed to provide coverage for abrupt and unexpected declines in prices like those we saw this year. Second, it is only logical to buy coverage to coincide with the specific marketing date of the cattle one is insuring. Owning cattle without protection, after the policy has expired, is a poor investment. Third, it is illogical to look at crop insurance as a profit tool. It is an insurance product developed to protect farmers against a decline in the cattle market. It is common for farmers to wrongly evaluate crop insurance on the basis of "return on investment." Again, that is not its intended use. The fourth principle is that coverage levels are based on a Risk Management Agency (RMA) mechanism using a formula that pools price information from the Chicago Mercantile Exchange, Futures and Options Markets. And the actual contract end prices used to determine a farmer's indemnity payment are weighted averages of all cattle marketed in the major cattle production states, called the Feeder Cattle Price Index. We know that this market drives the market in the East, but our research has not yet determined a trend or a repeatable market occurrence to predict how our market will respond to changes in that market. So, your local market and the performance of this insurance is determined by a remote market, and your "at home" marketing experience plays no role in

your eligibility for an indemnity payment. The fifth principle to understand is that the quotes change on a daily basis and a serious manager should follow the market for several days before taking a position.

How did this tool perform for beef cattle farmers, Marge and Billy Burke? They followed the market and saw an opportunity to "lock in" an expected ending value at \$127.62/hundredweight for the calves they were going to sell this fall. They had the opportunity to insure at different options of that price, the higher the expected end values the higher the premium. Billy and Marge purchased the highest available option, guaranteeing them a price of \$125.26/hundredweight. Their expected ending weight per head was 4.85 hundredweight (485 lbs). The premium was \$5.468/hundredweight, so the gross premium per head would have been \$26.52/head. Since USDA pays 13% of the premium, their net premium cost per head was \$23.07. On the day the Burkes decided to end their contract on October 16 the ending price was \$1.07. To determine their indemnity they subtracted the actual end price from their expected end price which amounted to \$20.63 hundredweight. Then they multiplied the difference times their contracted weight per calf of 485 lbs. and were paid \$100 per head minus the USDA assisted premium of \$23.07 and their net indemnity was \$76.93 per head. They could apply this against the local cash price they received for their calves.

Burke's LRP by the Numbers

Burke's contracted end price for May 22, 2008 was \$125.26 cwt.
Contracted market date was October 16, 2008
Contracted end weight 485 lbs. or 4.85 CWT.
The premium was \$5.47 per CWT or after the USDA 13% discount was \$23.07/ per head
The end price for their marketing date was \$1.07 CWT
Indemnity \$125.26 - \$1.07 = \$20.63CWT
\$20.63 X 4.85(485 lbs) = \$100 per head
\$100 - \$23.07 = \$76.93 per head

Critical to this discussion is that there was price protection for the Burkes if the price fell even farther.

It is important to note that dips in the reference price can cause a greater dip in our area. But the price swings aren't predictable in timing or amount. Livestock insurance can be purchased anytime of the year but it is necessary to first contact a crop insurance sales professional. Ask your county agent about one local to you. Maybe hindsight for the rest of us is 20-20 but for the Burkes, their price was protected up front.