

## **Interdisciplinary Hatch**

### **Assessment of Gross Margin Insurance versus Traditional Price Risk Management Strategies under Alternative Biofuels and Predicted Climatic Conditions: Implications for Wisconsin Dairy Farms**

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The recent history of the U.S. dairy industry can be characterized as one with significant fluctuations in the price of milk at the farm level. Dramatic increases in energy and feed costs have added the new dimension of input price variability contributing to an increasingly risky production and marketing environment. Starting in August 2008 the Livestock Gross Margin for Dairy (LGM-Dairy) insurance program has been added to the list of risk management tools available to Wisconsin dairy farm operators. This insurance program protects against unanticipated declines in gross margins which are defined as milk revenue minus feed costs. LGM-Dairy program could be considered a combination of the use of a put to limit milk price declines and a call to limit feed cost increases. This project will provide a better understanding of this new risk management tool and will develop educational materials to illustrate how LGM-Dairy could be effectively used by a variety of Wisconsin dairy farm operations. We will examine the role of LGM-Dairy for a variety of farm sizes and technologies versus traditional price risk management strategies. We will focus on the implications of alternative biofuels scenarios and climatic conditions.