Consider Livestock Risk Protection (LRP) in Today's Market

By: Brandon Willis

Recent market volatility due to COVID-19, commonly called Coronavirus, is causing cow-calf producers concern. Many market experts are optimistic market fundamentals coupled with recent trade deals will result in stronger prices this fall. However, with current export markets such as South Korea now impacted by COVID-19 and potential export markets such as China, futures prices have fallen.

What does this mean? South Korea is the second-largest export market for U.S. beef exports. In 2019 the U.S. exported $1.84 billion in beef and beef products to South Korea. China, while only a minor market for U.S. beef historically, has the potential to be a major importer. USDA has recently said that they believe Phase I of the agreement could produce $1 billion in beef and beef products sales to China. Further, the CDC recently stated that it is inevitable that COVID-19 will spread within the U.S., potentially impacting domestic beef demand.

What options can protect downside risk, but allow you to capture any potential increase in prices later in 2020? One solution is USDA's Livestock Risk Protection. LRP is designed to insure against declining market prices, but it allows producers to take advantage of all the upside.

USDA's Livestock Risk Protection (LRP)

USDA's LRP is a price-insurance policy for cattle, swine, and lamb. LRP provides a method to establish a floor price for livestock, and it protects against unexpected price declines. LRP pays producers if a regional/national cash price index falls below a selected coverage price providing producers protection from unexpected market downturns.

LRP's advantages are its flexibility and simplicity. The benefits of LRP, compared to futures and options, include: (1) no margin calls, (2) up-front premium cost is definite, and (3) no quantity minimums. Bankers often prefer LRP due to its straightforwardness and certainty. LRP flexibility includes:

- **Timing of purchase** – coverage may be purchased any time you own the calves
- **Length of coverage** – insurance options exist between 13-52 weeks
- **Number of head** – up to 2,000 head per contract and 6,000 annually
- **Ending-coverage price level** – insure between 70-100% of the CME projected prices

Final Thoughts

LRP is not a highly subsidized program, but it is likely less expensive than other similar risk management options.

Other tools, such as futures and options, can be used to manage price risk. The primary advantages of LRP are simplicity, flexibility, and peace of mind. You can pay a premium now and know that even if market prices drop, your revenue shouldn't. If an unexpected market downturn is something that you cannot afford, LRP is an excellent option to consider.

About the Author: The author oversaw USDA's insurance programs as the administrator of the Risk Management Agency from 2013 to 2017. Before that, he served as a senior adviser to U.S. Secretary of Agriculture Tom Vilsack. He owns Ranchers Insurance LLC, Laketown, Utah, and can be reached at (435) 213-0463.