For Immediate Release:

Beef Producers Hope Cattle Insurance Offers Stability Amid Unstable Prices

Unstable cattle prices have beef producers across the province eager to see the details of Alberta's new Cattle Price Insurance Program (CPIP) set to be unveiled this summer, says Provincial Livestock Risk Management Specialist Bruce Viney.

"There's a lot of uncertainty around cattle prices right now," says Viney, explaining the weak economy is one key factor, with consumers favouring less expensive meat products like hamburger over steak.

He adds Alberta beef producers have just experienced a series of severe price swings that sent finished cattle prices plummeting more than 10 per cent into the winter and then rebounding strongly this spring. "Many producers have just finished filling their pens with high-priced feeder cattle. Now a major concern is whether those prices will hold strong or drop over the summer before the finished cattle are ready to sell."

CPIP Fills Void in Risk Management Tools

Viney says cattle producers have very few options when it comes to managing price risk. "They've never had an effective tool to protect themselves against major drops in cattle prices on this side of the border. Grain farmers have crop insurance, but there's never been insurance for livestock. CPIP will help fill a serious void in the risk management tools available," explains Viney, who works with Alberta Agriculture and Rural Development (ARD). The first products under CPIP - an Alberta-only program - will cover finished cattle ready for slaughter. Work is underway to develop a product for feeder cattle.

With limited risk management options available, Viney says some Alberta cattle producers manage their price risk by signing forward delivery contracts with packers for their finished cattle. "It gives them a locked in price, but attractive contracts aren't always available." Other producers put themselves at the mercy of the markets, and simply take the price of the day, he adds.

Sudden Price Drops Leave Producers Exposed

Some larger feedlot operators use financial instruments like futures, options and forward contracts to hedge part of their price risk, says Viney, adding most small and mid-size producers don't have the time or resources to devise futures market strategies. "The big problem with these tools is they're based on U.S. prices, and don't always reflect what's happening with Canadian cattle prices."

So when Canadian prices drop unexpectedly and dramatically in relation to U.S. cattle prices, these U.S.-based tools leave producers unprotected and open to severe losses. That's what happened when BSE closed the border in 2003. Canadian cattle prices dropped to disaster levels while U.S. prices increased substantially, says Viney.

"That sudden drop in Canadian cattle prices relative to U.S. prices is called basis risk. And until CPIP is launched, Alberta cattle producers have no way to protect themselves from it," says Viney. "It can be triggered by events like a drought, a major livestock disease outbreak in Canada, or other border issues. We've seen this recently with U.S. mandatory Country of Origin Labelling (COOL) which put considerable downward pressure on Canadian cattle prices this winter," he adds.

Made-In-Alberta Price Protection

CPIP will give producers an Alberta price for their cattle that they can bank on - based on futures market trends. It will help protect them from unexpected drops in Canadian cattle prices that can put them out of business, explains Susan Crump, with Agriculture Financial Services Corporation (AFSC). AFSC will administer CPIP in addition to the crop and hail insurance programs it already delivers.

With CPIP, producers will know in advance the minimum price they'll get for their cattle at slaughter - based on the coverage level they choose, says Crump. "At the end of their insurance contract, if Alberta market prices are lower than their insured price, they'll receive payment." Settlement prices will be based on an Alberta average price index calculated weekly. Producers can choose CPIP policies of 12 to 36 weeks.

Time is Right for CPIP

"There's definitely a void in the market place for this kind of protection, and the timing is opportune," says Rich Smith, General Manager of Alberta Beef Producers (ABP). ABP sponsored the initial research that led to CPIP, with funding from the federal government's Private Sector Risk Management Partnership. "Alberta cattle producers have just come through seven hard years - with drought, BSE, the rise of the Canadian dollar, high feed costs, and global financial collapse. Producers are accustomed to price volatility, but they are weary of major losses. Many say they'd consider paying a price to insure themselves against another severe loss."

CPIP premiums will be based on price volatility and market conditions, says Viney. "So sometimes premiums will be cheap relative to market conditions, and sometimes they'll look expensive. Like any insurance, it will cost less if you buy it before the risk becomes known and markets become volatile."

If CPIP had been in place last fall, there would have been producers in significant claim positions already because of COOL, notes Viney. "And if they'd purchased coverage in September, before prices tumbled, their premiums would have been fairly low." CPIP will be actuarially-sound, with premiums paid entirely by producers, similar to hail insurance, adds Crump.

The program is in its final stages of development. As the summer launch date approaches, full details about how CPIP works will be released, and cattle producers will be able to access coverage online or through their local AFSC office. As more information becomes available about the program, it will be posted at www.afsc.ca.