BARNYARDS & BACKYARDS

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University of Wyoming Extension | Profitable & Sustainable Agricultural Systems | RMA Risk Management Agency

Carbon County ranch seeks to cover risk in retained ownership – Part III

By James Sedman and John Hewlett

Carbon County ranchers Norm and Belinda Bell are evaluating their risk management options for retaining ownership on 155 head of steers.

In a previous article, we investigated using Livestock Risk Protection (LRP) to cover price risk. LRP protects against decreases in calf prices within the designated production period. The Bells realize that more than just fed cattle prices can affect their profitability – feed costs and feeder cattle prices likely have a big effect. Here we consider Livestock Gross Margin (LGM) insurance and how it may be an option for the Bells.

LGM Insurance

LGM insurance addresses the two main areas of risk in feeding cattle – cattle prices (both for feeder and finished cattle) and feed costs. LGM insures against losses in margin associated with feed costs in addition to fed cattle prices; these contracts are essentially a bundle of feeder cattle, fed cattle, and corn options that are non-exercisable; the Risk Management Agency (RMA) essentially assumes the margin risk.

Contracts are available for either calf finishing or yearling finishing. Calf contracts assume calves enter the feedlot at 550 pounds and exit at 1,150 pounds, that 52 bushels of corn are consumed, and can be for up to 11 months.

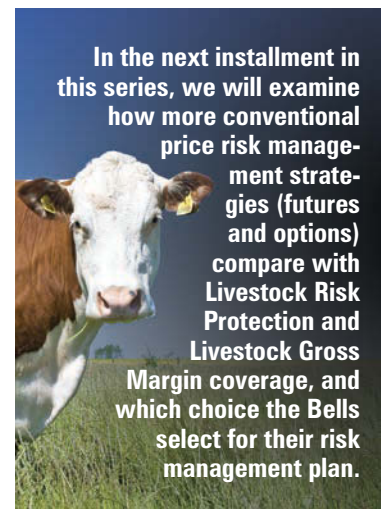
Prices used to calculate the LGM gross margin guarantee are determined by end-of-the-month live cattle, feeder cattle, and corn contract prices from the Chicago Mercantile Exchange (CME). Indemnities are paid when the actual gross margin is less than the gross margin guarantee. Remember that, as with LRP policies, the actual price the Bells receive for their finished steers is not considered when figuring indemnity payments. Prices for fed cattle, feeder cattle, and corn are calculated for each month using rolling CME-average prices.

In our example, the contract length will be 34 weeks starting in October (234 days on feed as with the previous LRP contract example). The Bells would use a calf-finishing contract with June as their marketing month. The expected gross margin per head for June is $266.08. The Bells then select a deductible of $20 per head – deductibles can range from $10 to $100 in $10 increments. Their total deductible in this case would be $20 times 155 head or $3,100. This amount is then subtracted from the total expected gross margin resulting in a gross margin guarantee of $38,142.40.

If in June the actual gross margin is less than the gross margin guarantee, an indemnity payment would be made on the difference. The Bells would also have total liability coverage of $175,023.68, with this policy's premium cost totaling $7,761 or $50.07 per head. This information is summarized in Table 1.

Table 1. Bell Livestock LGM Example

June marketings (#Head)	Expected gross margin	Expected total gross margin	Deductible ($20/head, 155 Head)	Gross margin guarantee	Liability level ($98.19/cwt)	Total premium cost	Premium cost/head
155	$266.08	$41,242.40	$3,100.00	$38,142.40	$175,023.68	$7,761.00	$50.07



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FOR MORE INFORMATION

Visit a local crop insurance agent to learn about Livestock Gross Margin insurance and how it may fit your risk management plan. For more information on livestock risk management and other risk management topics on the Web, visit the Western Risk Management library at riskmgt.agecon.uwyo.edu.

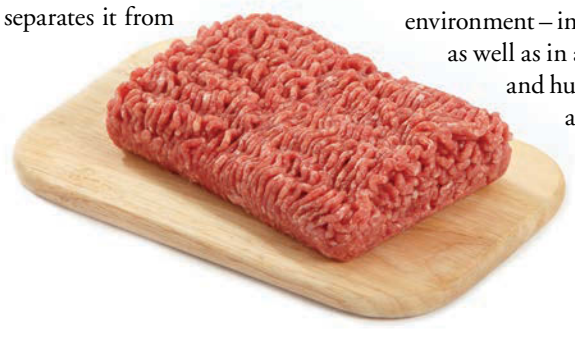
Lean Finely Textured Beef: Separating facts from fiction

By Lindsay Chichester and Kellie Chichester

Lean Finely Textured Beef (LFTB) came to the forefront when media outlets caused mass hysteria by reporting "pink slime" was being used in hamburger or any ground meat product.

Pink slime was a moniker used by former USDA employee Gerald Zirnstein in an internal memo and was not meant to cause a global sensation. Consumers were quick to judge and condemn this product before they knew anything about it. Many media outlets and personalities added fuel to the fire, often sharing half-truths.

Beef Products Inc. (BPI) created the technique of mechanically removing all meat protein from beef animal trimmings. To do this by hand would be very time-consuming and expensive. This technique takes relatively high-fat beef trimmings, combines them with low-temperature rendering and centrifugation, which softens/melts the fat and separates it from the lean. Lean Finely Textured Beef is approximately 94-percent lean (6 percent fat).



Pink Comes from Protein

The pink color comes from the presence of myoglobin, which is the protein responsible for the color of meat. The product may appear "slimy," which is to be expected, as it is primarily water and protein with some fat. This is very similar to yogurt, sour cream, and even oatmeal. This technology was first used in the poultry industry and then in red meats.

LFTB is treated with a small amount of ammonium hydroxide (a gas that quickly dissipates), which is added to maintain proper pH and eliminate bacterial growth – making the product safer!

Ammonium hydroxide is ammonia (NH_3) and water, which is food grade (safe for human consumption) and was declared safe by the Food and Drug Administration in 1974. Ammonium hydroxide is common and naturally found in the environment – in soil, air, and water, as well as in all plants, animals, and humans. Ammonia is a source of nitrogen – an essential element for plants and animals. In the human body, beneficial bacteria live in our intestines and produce ammonia. In addition, ammonia helps maintain the body's pH balance.

Consume Ammonia Daily

Did you know many of the foods we consume daily have more parts per million (ppm) ammonia than what is put into LFTB? Ground beef: 101 ppm; grapefruit: 166 ppm; gelatin: 342 ppm; ketchup: 352 ppm; peanut butter: 489 ppm; beer cheese: 917 ppm; and domestic blue cheese: 1,389 ppm. In addition, ammonium hydroxide is also found in baked goods, chocolate, and pudding. Since ammonium hydroxide is used in the production of each of these foods as a processing aid and not as an ingredient, it is not labeled on any of these food items.

There has been much discussion over the labeling of ammonium hydroxide in LFTB. Lean Finely Textured Beef has never been labeled in the past because it is just beef – plain and simple. In early April, there were reports of several companies that plan to voluntarily label beef products containing LFTB. Aaron Lavallee, communications coordinator for USDA's Food and Nutrition Service, reported that processors may soon incorporate labels into their packaging. Further, a USDA news release says packages could be approved to contain wording such as:

- Contains Lean Finely Textured Beef
- Contains Finely Textured Beef
- Contains Lean Beef Derived from Beef Trimmings

Stopping LFTB Production Worrisome

The elimination of LFTB from the food supply would have far-reaching impacts, economical concerns, and does nothing to sooth unemployment concerns. More than 1.5 million additional beef animals would need to be raised to replace the amount of meat that would be lost by not using LFTB. This could be problematic with concerns over the nation's shrinking cowherd.

Approximately 8 to 9 percent of all ground beef products come from LFTB. To replace that amount of LFTB, the U.S. would have to import an additional 50 percent more cattle. In addition, without the use of LFTB in the food system, consumers will see a rise in the price of ground beef; either more beef will have to be imported or more lean beef will have to be ground from the chuck and round, thus impacting the new value-added cuts developed by industry.

Finally as news of pink slime hit the airwaves, operations were temporarily shut down at three plants: Garden City, Kansas, Amarillo, Texas, and Waterloo, Iowa – which impacts approximately 650 persons. Time and product demand will determine if these persons will be able to return to their jobs or if they will have to seek employment elsewhere.

Separate Fact from Fiction

All consumers have the right to know what is in their food and how their food is processed. Often, being able to separate facts from fiction is challenging, especially in this day with so much information available online.

As a consumer, remember to get facts from reliable sources that have science and research to back them up; or call your local extension office, which can help answer questions or point you in the right direction. Misrepresentation of facts leads to hysteria and a damaged industry that could take decades to recover from the ill-effects of a misnomer of a safe and edible food product.

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