Crop Insurance for "Specialty" Crops

Hyunok Lee

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Introduction

- Risk management is the central feature of the 2013 Farm bill.
- The standard old farm subsidy programs apply to grains, oilseeds and cotton, but not to specialty crops.
- Many specialty crops are eligible for crop insurance, but crop insurance is still unavailable for many vegetable crops.
- Moreover, as you will see, specialty crops get far smaller benefits from crop insurance than do standard subsidized commodities.

“Specialty” crops defined

- ❑The term “specialty crops” is a broad term that is defined differently throughout government.
- ❑The Agricultural Economic Assistance Act of 2001 defined specialty crops as “any agricultural crop, except wheat, feed grains, oilseeds, cotton, rice, peanuts and tobacco.”
- ❑This broad definition of specialty crops was refined in the Specialty Crops Competitiveness Act of 2004 (SCCA) as “fruits and vegetables, tree nuts, dried fruits and nursery crops (including floriculture)”.
- ❑This definition was further refined in the Food, conservation and Energy Act of 2008 by the inclusion of “horticulture and” in front of the word “nursery” in the SCCA definition.

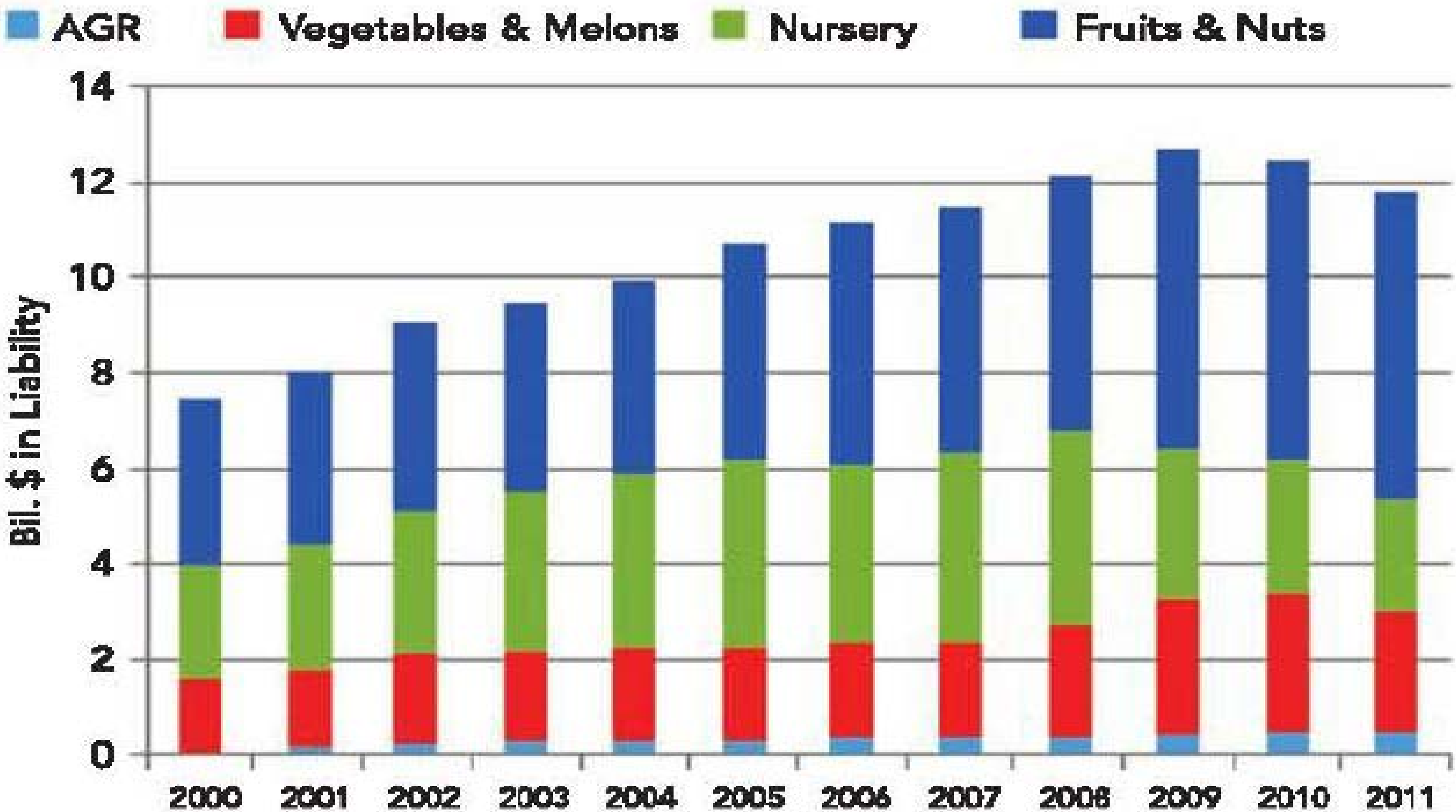
Basic structure of federal crop insurance

- ❑ Diverse insurance products are offered in the market: based on yield, revenue, whole farm revenue (vs individual crop), or some other index (rainfall).
- ❑ For specialty crops, yield-based actual production history (APH) is most widely used, with the exception of nursery crops (dollar plan). e.g. APH accounted for over 70 percent of total liability in California, and about 15 percent in Oregon (in 2011).
- ❑ Basic levels of coverage: catastrophic (CAT) and buy-up
  - ▪CAT: insures 50 percent of yield at 55 percent of USDA-announced price at a nominal processing fee.
  - ▪BUY-UP: additional coverage up to 85 percent of production per acre, with the value up to 100 percent of a USDA price that is set referenced to a specified market price established for each crop and region, and 62% of premiums are subsidized.

Crop insurance for specialty crops

- The availability of federal crop insurance remained limited until passage of the Federal Crop Insurance Act of 1980
- Expansion continued over the subsequent decade. By 2011, insurance was available for more than 80 specialty crops, including
  - most perennial fruit and nut crops (including blueberries, cranberries,..)
  - dry beans and peas, fresh beans and peas, fresh market tomatoes and processing tomatoes, mint, mustard, peppers, potatoes, pumpkins, sweet potatoes,
  - Nursery crops
- In 2011, total liabilities for specialty crops (close to $12 billion) account for 10% of total crop insurance liabilities.

Insured liability for specialty crops



Source: Keith Collins, "Crop Insurance & Specialty Crops," *Crop Insurance Today, August 2012*

Distribution of crop insurance liabilities ($654 Million) in Oregon, 2012

	Liabilities ($mil)	Liability share (%)
AGR&AGRLT	37.6	6
FIELD CROPS	267.4	41
WHEAT	246.8	38
NURSERY	204.2	31
FRUITS	70.7	11
PEARS	24.3	4
CHERRIES	21.3	3
GRAPES	8.3	1
APPLES	7.9	1
BLUEBERRIES	5.8	1
POTATOES	40.1	6
VEGETABLES	25.6	4
ONIONS	16.4	3
GREEN PEAS	4.5	1

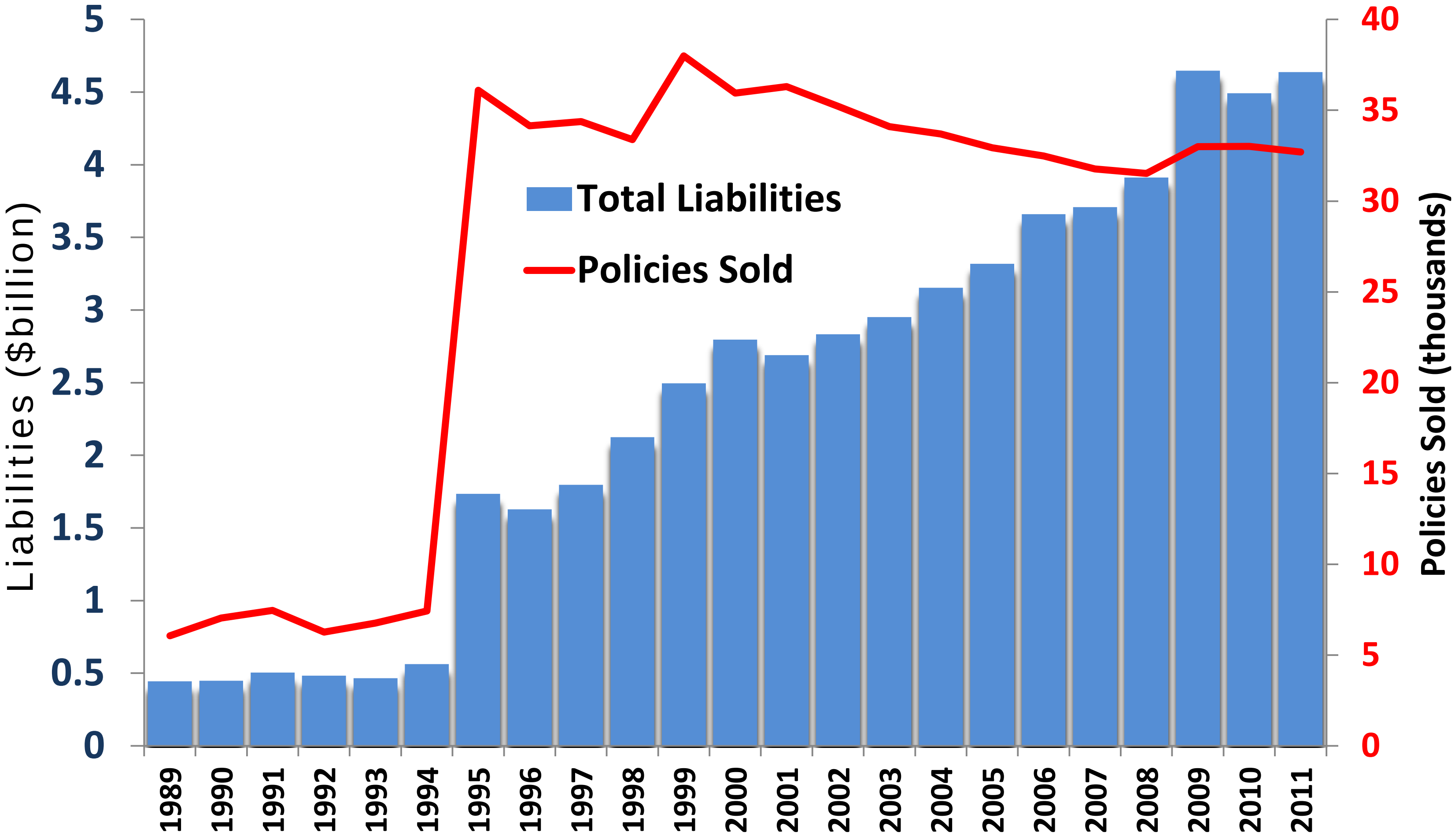
Distribution of Buy-up and CAT liabilities in Oregon, 2012

	Liabilities ($mil)	
All crops		
BUY UP	**379**	**58%**
CAT	**275**	**42%**
Specialty crops		
BUY UP	**88**	**25%**
CAT	**261**	**75%**

California crop insurance: policies, acres liabilities ($4.8 billion) and buy-up shares

Year	CAT and Buy-up			Buy-up		
	Total policies sold	Net acres insured	Total liability	share of policies	share of acres	share of liabilities
	(thousands)	(thousands)	($Mil)	(%)	(%)	(%)
1989	6.1	708	445	100.0	100.0	100.0
1995	36.1	4,475	1,735	22.6	15.1	37.3
2000	35.9	4,279	2,796	39.3	34.3	46.1
2005	32.9	3,819	3,318	47.3	37.6	50.0
2011	32.7	4,060	4,788	61.5	50.4	67.8

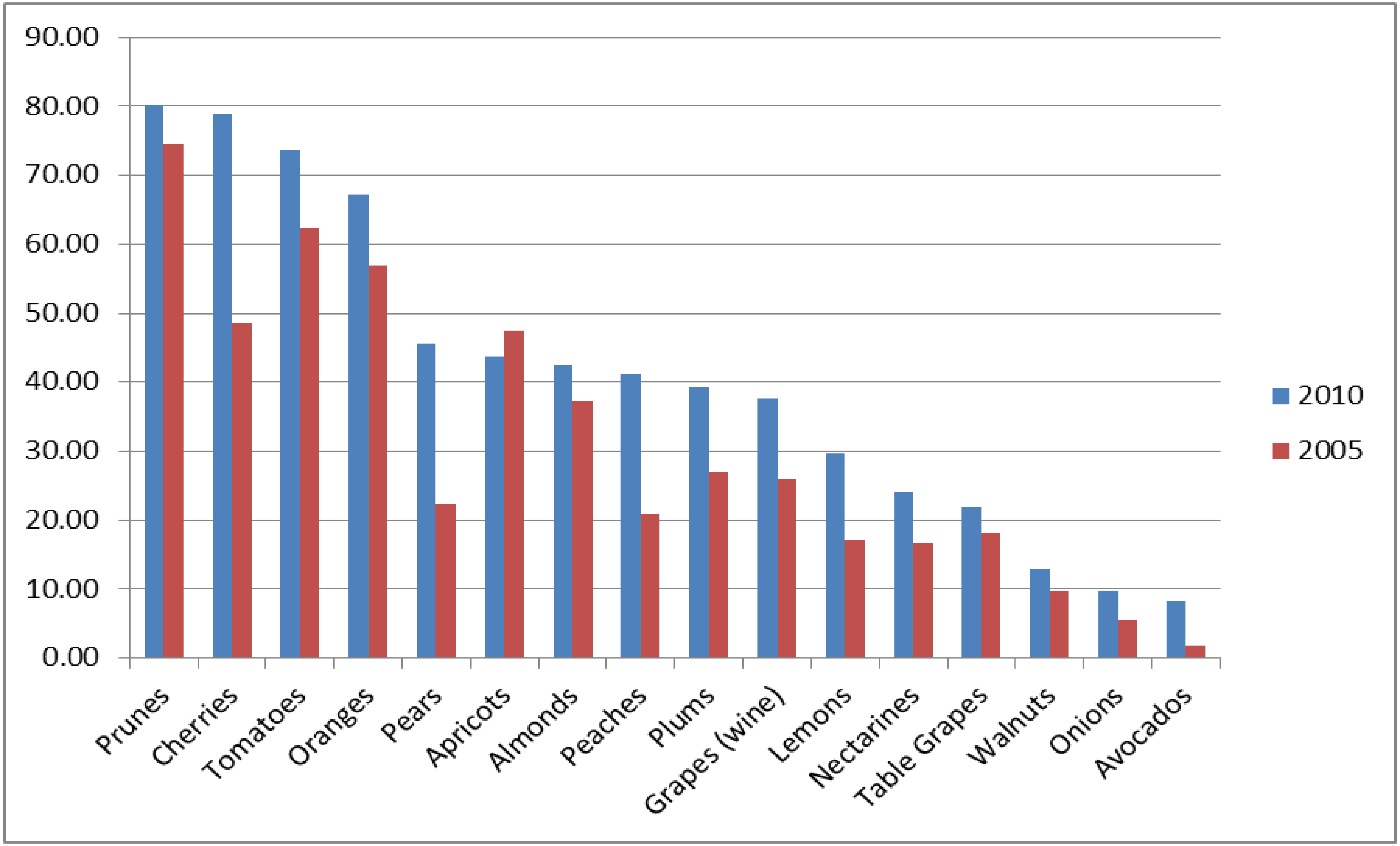
Crop insurance in California, 1989-2011: Total Liabilities and the number of policies sold



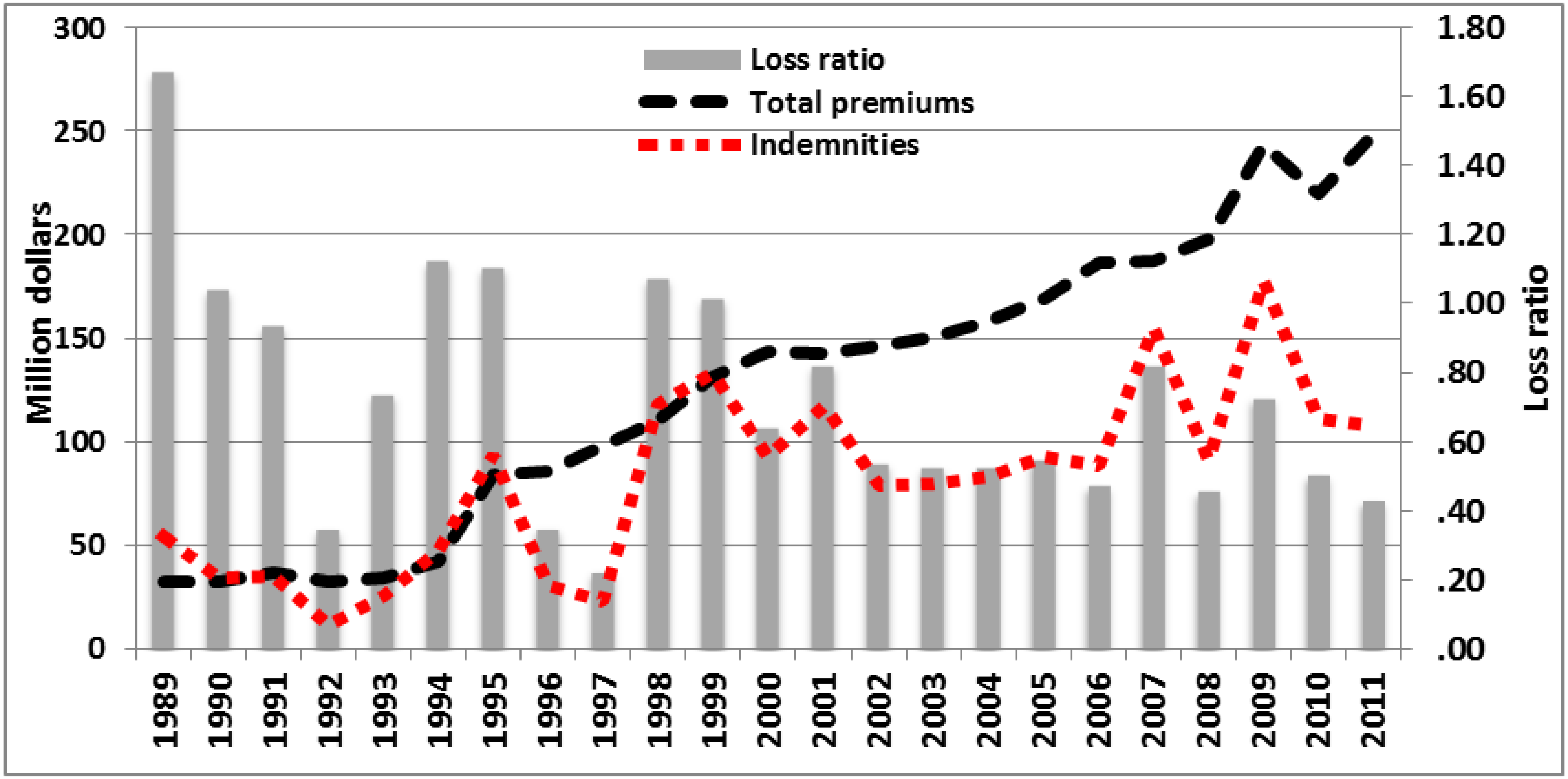
Liability shares by commodity group in California, 2011

	Crop insurance liability share (revenue share)
	%
Fruit	**42 (30)**
Grapes	23
Navel oranges	4
Cherries, lemons, mandarins	7
Tree nuts	**23 (18)**
Almonds	20
Walnuts	3
Field crops	**19 (9)**
Rice	7
Cotton, wheat, corn	10
Vegetables	**9 (26)**
Tomatoes	9
All other	**7 (17)**
Nursery	6

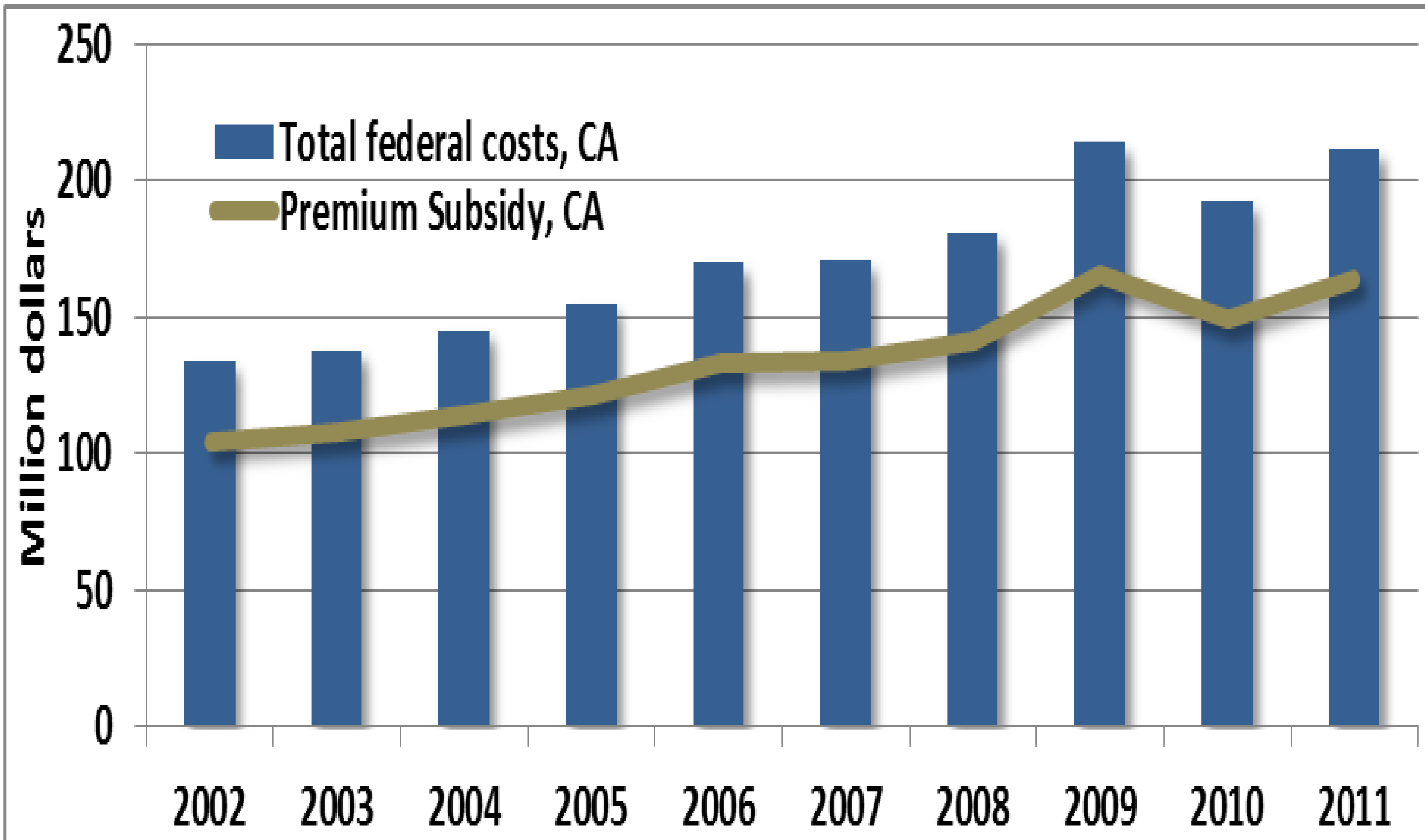
Ratio of buy-up insured acres to harvested acres for California specialty crops, 2005 and 2010



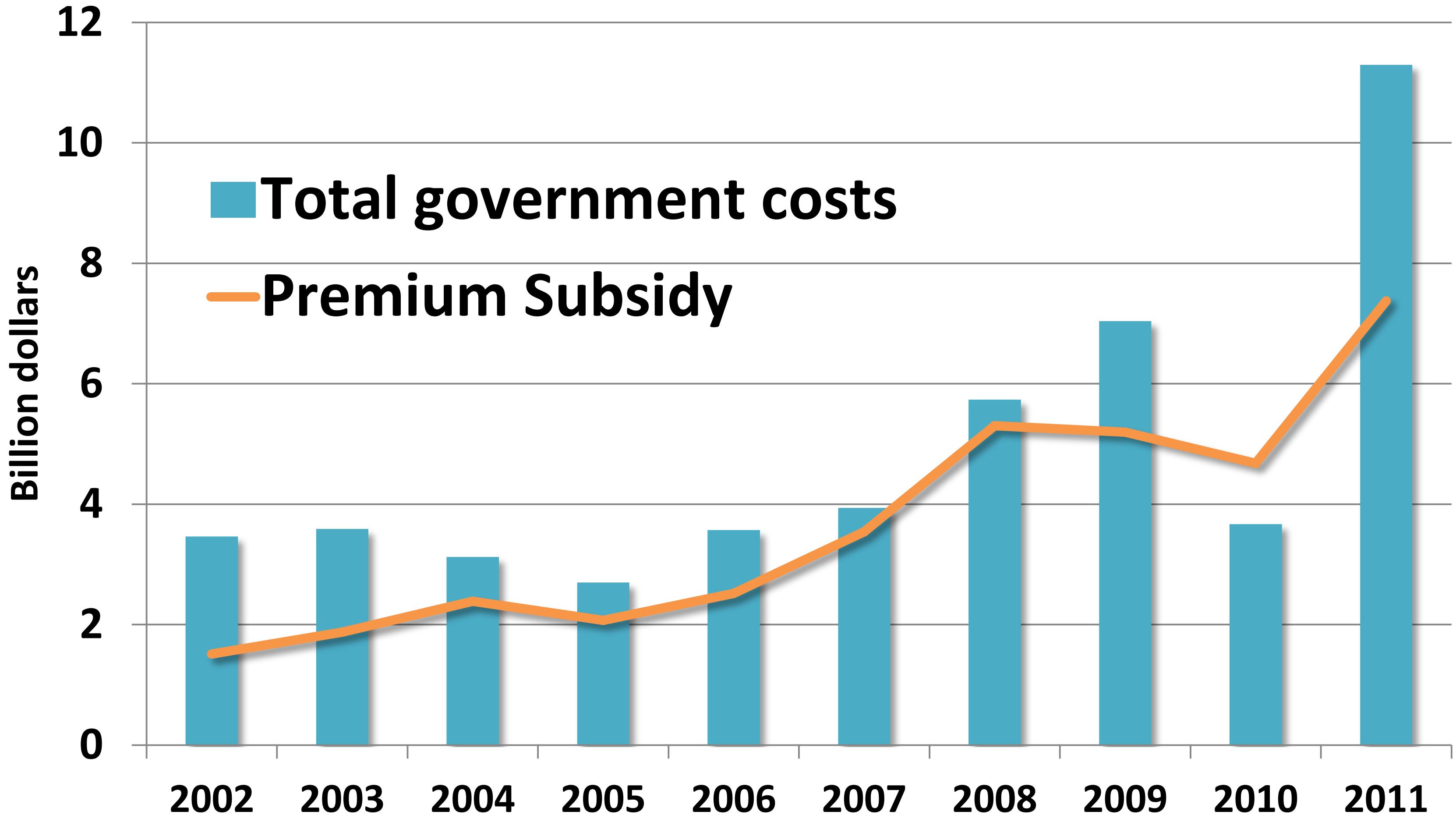
California crop insurance premiums, indemnities and loss ratios, 1989-2011



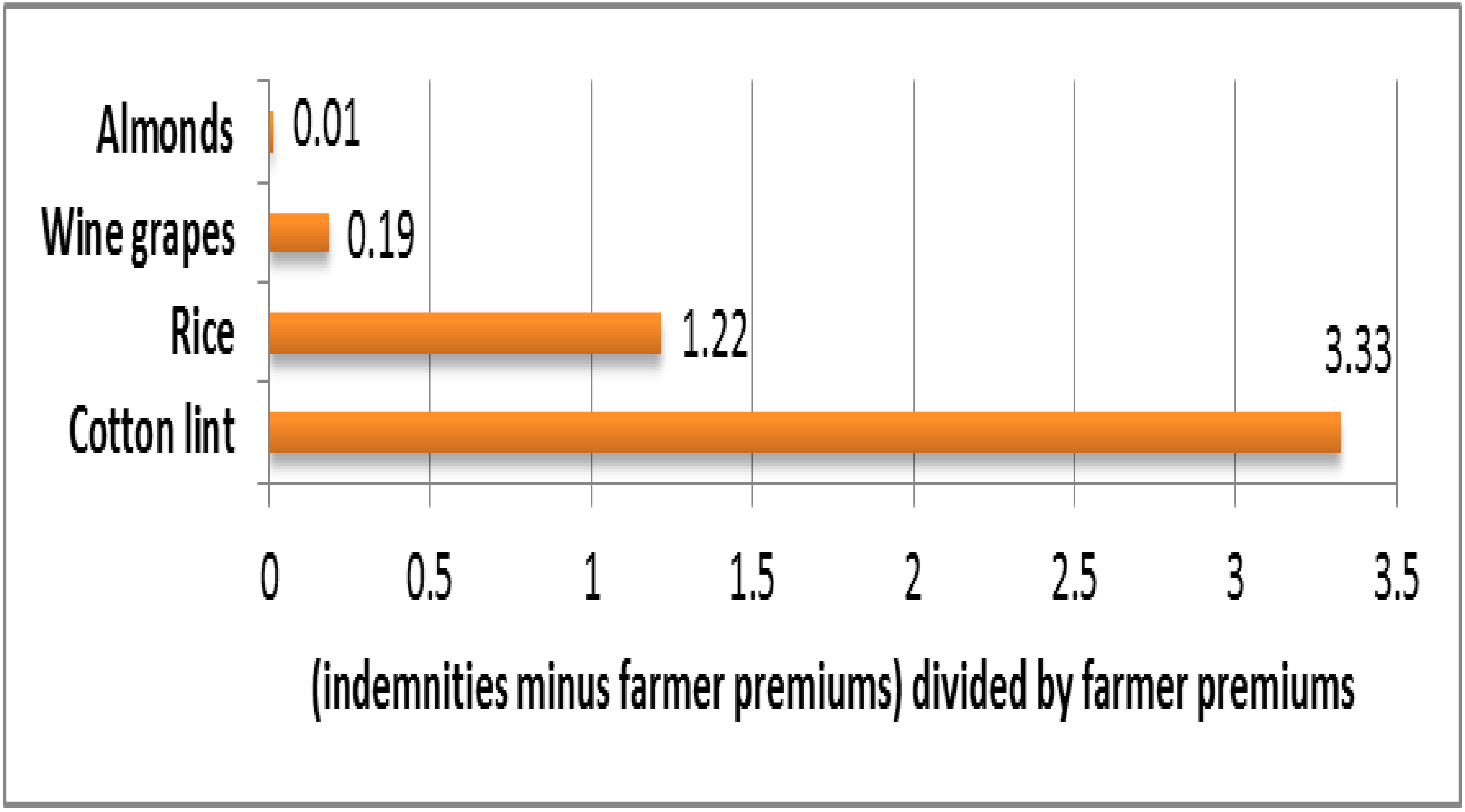
Estimated federal costs of the U.S. crop insurance program in California, 2002-2011



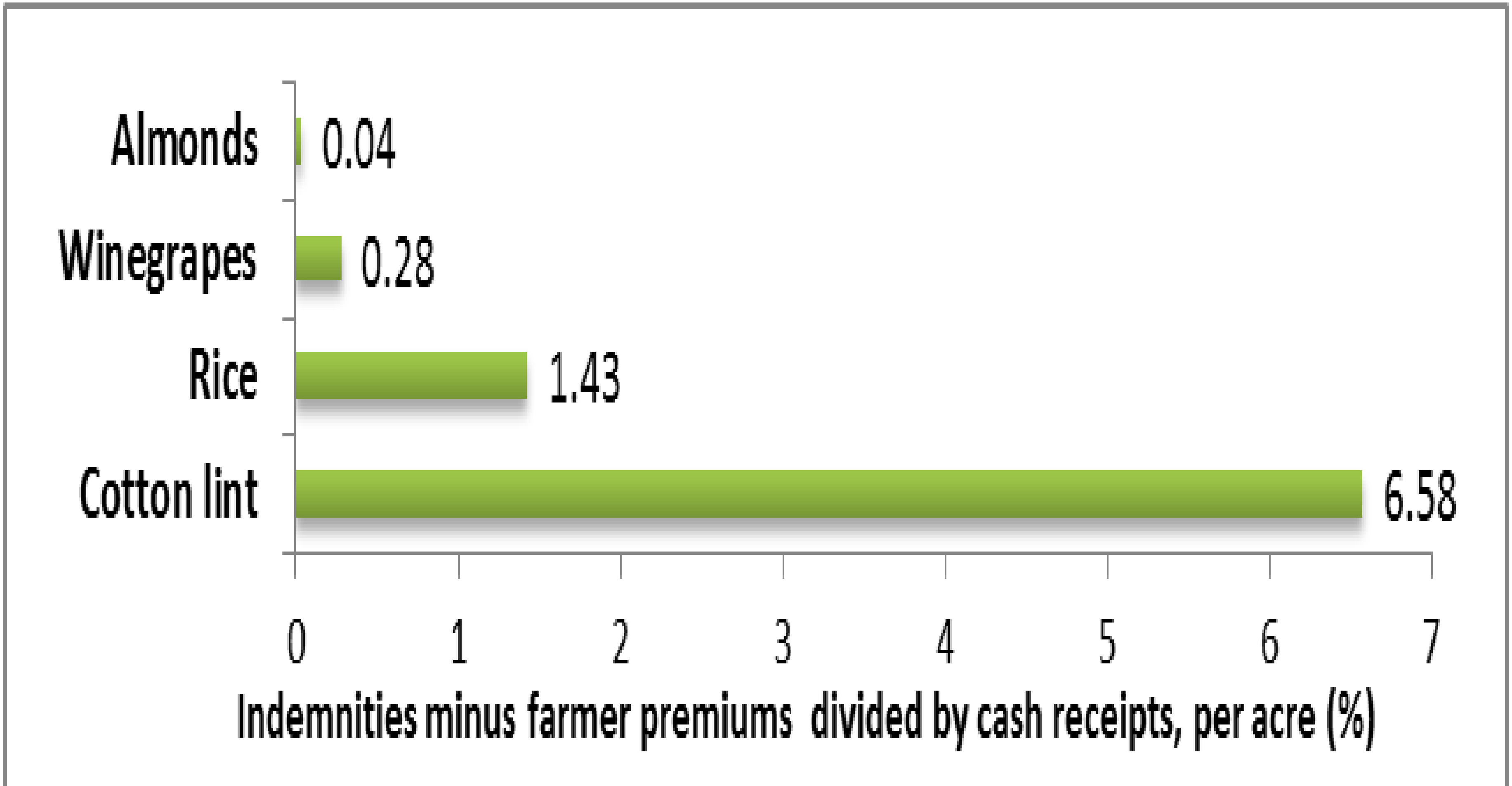
Total government costs of U.S. Federal crop insurance



Ratio of buy-up indemnities minus farmer premiums to farmer premiums in California, 10 year average (2002-2011)



Farmer net benefit (indemnities minus farmer premiums) from crop insurance as a share of cash receipts per acre in California, 2002-2010 average



Update on Crop Insurance Markup

a. There are new safety-net programs, price loss coverage, or revenue loss coverage, ARC (agricultural risk coverage), STAX for upland cotton, but they are all about program crops.
b. Creates Supplemental Coverage Option (SCO) with 65% subsidy premium (CBO forecasts SCO would costs $4 billion over 2013-2022, and others forecast up to $7 billion)
c. Improves declining APH due to continuing disasters—use transitional yield
d. Coverage expanded for underserved crops and regions– extended to more specialty crops and regions

Update on Crop Insurance Markup

e. **10% Premium discount for beginning farmers and ranchers**
f. **Expand index based weather insurance Allow coverage of enterprise units separately for irrigated and non-irrigated cropland**
g. **Mandates additional studies on insuring specialty crop producers for food safety and contamination-related losses.**
h. **Proposes improved Noninsured Assistance Program (NAP) from the current 50/55 to 65/100. Producers would pay a premium for such coverage.**

Closing remarks

- Risk management, especially, crop insurance are dominating farm subsidy discussion for this Farm Bill cycle.
- As other programs recede, crop insurance subsidies have a much large share in the transfer from taxpayers.
- Farms and insurance companies are strong advocates of maintaining and expanding the federal programs.
- Government budget costs of crop insurance have gained attention, but support by those who benefit have dominated the politics, so far.