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Should We Develop a Livestock Business Interruption Insurance Policy?

BACKGROUND

Livestock producers have limited access to federally supported risk management tools. The current livestock producer programs include the Livestock Risk Protection (LRP) program, the Livestock Gross Margin (LGM) program and the Whole Farm Revenue Program (WFRP).

USDA's Risk Management Agency offers livestock insurance products, but the total livestock premium subsidies are limited to $20 million annually. Each year, the $20 million cap is apportioned across livestock species and policies are sold on a first come, first served basis. If unused funds exist, they are reapportioned across species and policy sales are resumed.

The Livestock Risk Protection (LRP) program is available to producers of fed cattle, feeder cattle, swine and lambs. It covers a decline in the price of the animal. The number of animals covered by each endorsement annually is limited, and an indemnity is paid if the actual ending value is less than the coverage price. Coverage is based on the number of head expected to be marketed multiplied by the expected weight. The premium subsidy is 13 percent.

The Livestock Gross Margin (LGM) program covers cattle, swine and dairy cattle (milk). The peril covered is a decline in expected margin. (For hogs, the price of the lean hog minus the cost of corn and soybean meal.) Margin formulas use futures prices and differ by type of enterprise. There is no premium subsidy for cattle or hogs, but for milk the subsidy ranges from 18 percent with no deductible to 50 percent for the highest deductible.

The Whole-Farm Revenue Protection (WFRP) program provides a risk management safety net for all commodities on the farm under one insurance policy. It is available in all counties. The insurance plan is tailored for any farm with up to $8.5 million in insured revenue, including farms with specialty or organic commodities (both crops and livestock), or those marketing to local, regional, farm-identity preserved, specialty crops, or direct markets. It also is limited to those farms that have no more than $1 million in expected revenue from animals and animal products and no more than $1 million in expected revenue from greenhouse and nursery products. Producers must have no more than 50 percent of total revenue from commodities purchased for resale. Additional requirements exist. Premium subsidy is available for the WFRP policies based on specific requirements.

ISSUE

The potential exists for an entire farm to have to be shut down and/or depopulated due to foreign animal disease outbreaks such as High-Pathogenic Avian Influenza (HPAI) or Foot and Mouth Disease (FMD). During the past few years, there have been outbreaks of HPAI that resulted in total depopulation of hundreds of egg and turkey production facilities and substantial losses to both owners of the birds and to contract operators (where applicable) whose facilities were idled.

There has also been more discussion within USDA and with livestock producers about the potential use of vaccination protocols in conjunction with eradication as part of the plan to respond to outbreaks of FMD.

Both of these types of events cause market disruptions as well as potentially significant disruptions to individual production operations. The existing LRP, LGM and WFRP programs are not designed to address these types of disruptions. USDA provides funding for indemnification for at least partial value of livestock and poultry that are required to be euthanized as a part of HPAI and FMD disease management and eradication programs. There is also funding available for producers and contract operators to partially offset direct costs for post-eradication clean-up and disinfection. There are, however, no programs that help producers cope with the loss of production and income from the extended interruption to their business that often occurs under such conditions. Often, it takes at least three months to recover from an HPAI event and frequently normal business operations can be interrupted for up to a year.

There is less experience with FMD as there has not been an outbreak of FMD in the United States since 1929, but it is expected that under an eradication protocol affected facilities could see business interrupted for many months. With the likely loss of access to export markets, markets could be interrupted for years after such an outbreak.

Business interruption insurance is currently available from some commercial insurance companies for such events as blizzards and floods, but that insurance is not available for disease outbreaks.

OPTION #1

Mandate USDA to develop an annual subsidized business interruption insurance policy for livestock and poultry production that would trigger indemnities due to foreign animal disease outbreaks.

OPTION #2

Mandate development of a business interruption insurance policy that contains a premium discount paid by the federal government.

OPTION #3

Mandate development of a business interruption insurance policy that contains various levels of deductibles.

OPTION #4

Mandate development of a business interruption insurance policy that is structured so that lower levels of coverage receive higher levels of subsidization similar to crop insurance policies.

OPTION #5

Mandate development of a business interruption insurance policy that is structured so that there is a limit on the total dollar amount of coverage offered for which a premium subsidy applies

OPTION #6

Mandate the development of a business interruption insurance policy that is structured so that there is a minimum number of days of business interruption that should be required in order to trigger an indemnity payment.

OPTION #7

Mandate the development of a business interruption insurance policy that is structured so that if an indemnity payment is triggered, it provides indemnity on a monthly basis

OPTION #8

Mandate USDA to use vaccination as a part of its recovery protocol for an FMD outbreak and to compensate producers for market losses even though business activities may resume.