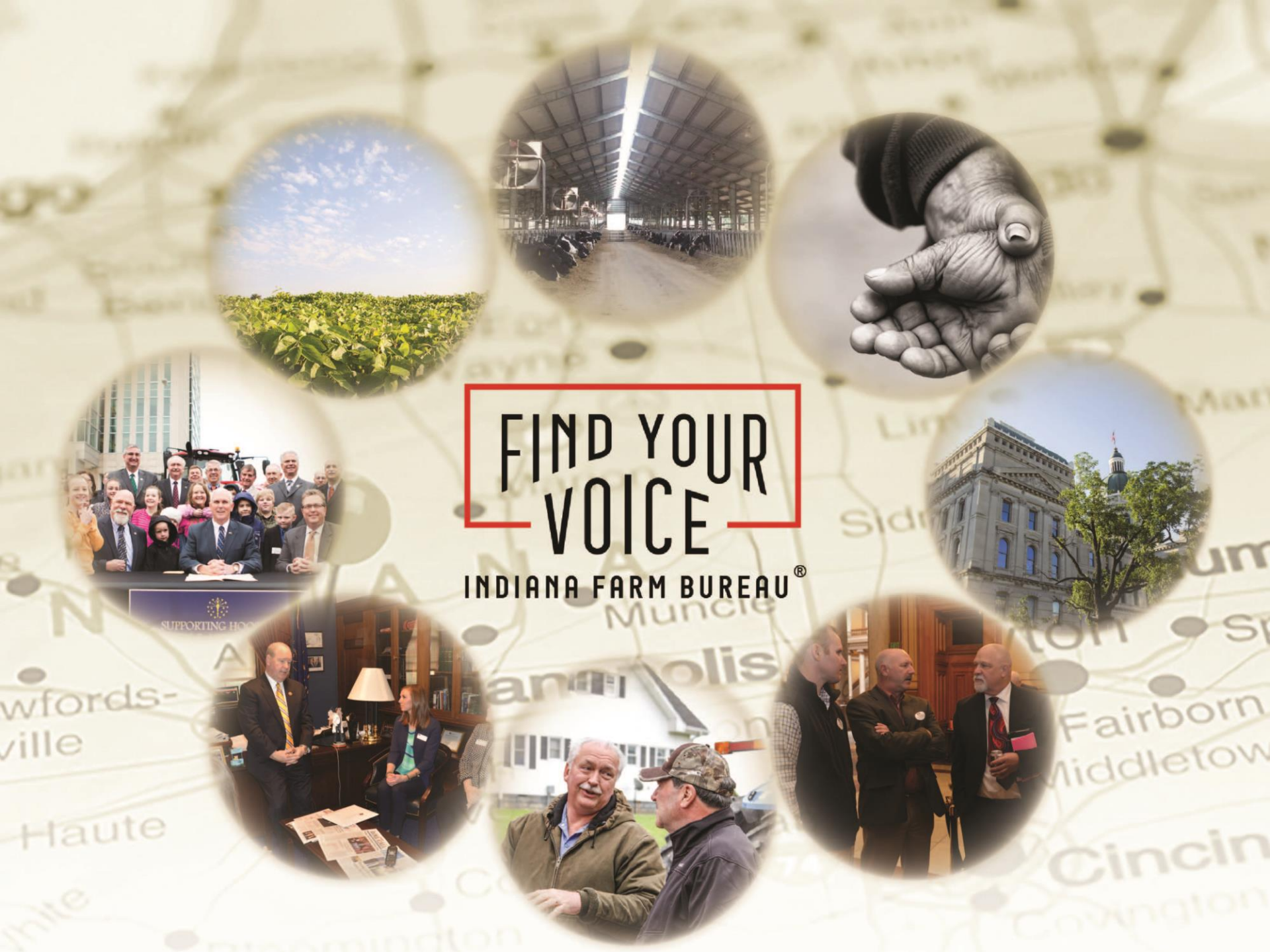




# FIND YOUR VOICE

INDIANA FARM BUREAU®



# Questions to Consider

- What are the goals for Indiana's future in agriculture?
- Given the farm economic conditions, what do farmers need help with?
- What are your farm's priorities moving forward?
- What role do you see yourself having in the next years related to agriculture?
- What role would you like to see the Farm Bill play?

# I. Commodity Programs - Part 3

Livestock

# Foreign Animal Disease Response & Indemnity Programs

Issue: An outbreak of Foot and Mouth Disease in the US would have a devastating impact on the US economy beyond animal agriculture.

- Herd sizes are too large to rapidly depopulate to stamp out the disease
- Operations are so diverse that the control program chosen will need to include operations of all sizes, which has great potential to overwhelm federal and state resources quickly.
- Animal movement will be stopped immediately in response to an outbreak, with large effects to follow. Some of those include halting day-to-day movement operations and euthanizing large populations for welfare reasons due to overcrowded facilities.
- Daily operations of people, feed, manure, and equipment moving on livestock premises, as well as wild birds carrying disease make it more likely to spread rapidly if an infection is not detected quickly.
- Vaccines for FMD are not available for U.S. to use and it would take many months to obtain the volume of vaccine needed.
- A control program would need to go across species to include cattle, swine, and small ruminants.
- It could take years to eradicate the disease. It is highly contagious, with high mortality rates in young calves and pigs.
- Shortage of personnel and equipment in steps to:
  - Implement biosecurity on farms, processing plants, and trucks
  - Conduct surveillance testing and epidemiologic studies
  - Conduct stamping out (if this strategy continues to be implemented)
  - Carcass disposal
  - Cleaning and disinfecting to return facilities to disease-free status

# Foreign Animal Disease Response & Indemnity Programs

## Steps to Better Prepare for an outbreak

- Establish a national Foot and Mouth Disease vaccine stockpile
- Create awareness of the consequences of a disease outbreak and plans to respond
- Enhance biosecurity
- Increase availability of resources needed by federal and state authorities
- Enhance testing capacity
- Ensure financial services industry is prepared to extend credit for animal care in the event of outbreak
- Increase Congressional understanding of the consequences of an outbreak to provide quick financial assistance to US agriculture

# Highly Pathogenic Avian Influenza

Issue: USDA authorized to provide indemnity payments to producers for poultry and eggs that must be destroyed during an outbreak.

- APHIS provides compensation for depopulation, disposal, and virus elimination activities.
- Payments are 100% of fair market value of birds destroyed.
- USDA not authorized to pay for income or production losses suffered due to business disruptions.
- Equipment necessary to de-populate large operations is critical.

Depopulation of large facilities is difficult due to the personnel required to remove birds by hand.

# Livestock Business Interruption Insurance Policy

- Limited access to federally supported risk management tools to livestock producers
  - LRP, LGM, & Whole-Farm Revenue Protection
    - WFRP provides safety net for all commodities on the farm under 1 policy. Available in all counties with plan tailored for any farm with up to \$8.5 million in insured revenue. Limited to farms with no more than \$1 million in expected revenue for greenhouse/nursery products. No more than 50% total revenue from commodities purchased for resale.

Issue: High-risk events that cause market disruptions and individual production operation disruptions are being discussed.

- Current insurance programs not designed to address operational disruptions
  - USDA provides funding for indemnification for partial value of livestock/poultry in event of disease management and eradication programs
    - Funding also available for post-eradication clean-up and disinfection
- No programs to help cope with loss of production and income from extended interruption to business in such conditional events
  - Often takes at least 3 months to recover from disruption events
  - Frequently, normal business operations interrupted for up to a year
- Some commercial insurance companies offer business interruption insurance for events such as blizzards and floods, but not for disease outbreaks

# Altering Livestock Insurance Programs

- Provide protection against loss of gross margin or price declines
- LGM-Cattle, Swine, Dairy – market value minus feed costs (available 20, 48, 48 states respectively)
  - Provides protection when feed costs rise or output prices for cattle, swine, or milk fall below guaranteed level
  - Uses future prices for livestock and feed ingredients
- LRP Cattle, Swine, and Lamb in select states
  - Provide price protection only on percentage of end commodity value



Livestock Gross Margin Programs				
	Cattle	Swine	Dairy	Lamb
<b>Risk Protection</b>	Doesn't insure against production loss: disease, natural disaster, etc.			N/A
<b>Basis Risk</b>	Is not addressed: Local prices vs national prices			
<b>Insurance Period</b>	Offered every month, for an 11-month period	Offered every month for a 6 rolling month period	Offered every month, for up to an 11-month period	
<b>Insurable Limits</b>	Cattle Owned: 5,000 head per 11-month insurance period & a limit of 10,000 head per crop year	Swine Owned: 15,000 for any 6-month contract, and 30,000 head per crop year	<ul style="list-style-type: none"> <li>No participation for producers participating in MPP-Dairy</li> <li>Up to 24 million lbs.</li> </ul>	
<b>Availability</b>	Select States	48 Contiguous states	48 Contiguous states	
<b>Deductibles</b>	\$0-\$150 per head, \$10 increments	\$0-\$20 per head, \$2 increments	\$0-\$2 per hundredweight, \$0.10 increments	
<b>Subsidy offered</b>	No	No	Yes, Up to 50%	
<b>Loss Ratio</b> (Avg. 2003-2015)	0.55	1.80	0.59	
<b>Total Policies Sold Since 2003</b>	897	2,232	12,211	

Livestock Risk Protection Programs				
	Fed Cattle	Feeder Cattle	Swine	Lamb
<b>Risk Protection</b>	Price Risk only: 70-100% of expected ending value			Price Risk only: 80-95% of expected ending value
<b>Basis Risk</b>	Is not addressed: Local prices vs weighted average prices (series dependent)			
<b>Insurance Period</b>	Sold Daily Endorsements: 13, 17, 21, 26, 30, 34, 39, 43, 47, 52 weeks Offered every month for a 6 rolling month period		Sold Daily Endorsements: 13, 17, 21, 26 weeks	Sold weekly, Mondays only (unless a holiday) Endorsements: 13, 26, 39 weeks
<b>Insurable Limits</b>	2,000 head per endorsement, annual limit of 4,000 head	1,000 head per endorsement, 2,000 head per year	10,000 hogs per coverage endorsement, 32,000 head per year	2,000 head per endorsement, 28,000 head per producer per year
<b>Availability</b>	Select States (37)	Select States (38)	Select States (38)	Select States (28)
<b>Subsidy offered</b>	Yes-13%	Yes-13%	Yes-13%	Yes-20%
<b>Coverage Categories</b>	Heifers and Steers 1000-1400lbs	Calves, Heifers, Steers, Predominately Brahman, Predominately dairy Two Weight Categories: <600lb, and 600-900lbs		
<b>Loss Ratio</b> (Avg. 2003-2015)	0.49	0.75	0.72	2.70
<b>Policies Sold Since 2003</b>	6,435	57,942	2,191	2,240

# Altering Livestock Insurance Programs

## Issues

- Not widely adopted since available in 2002, more private options utilized and Dairy MPP
- Dairy cannot enroll in both MPP and LGM-Dairy, unlike crop producers, limiting diversified risk management options
- Premium subsidies and administrative/operating subsidies capped at \$20 million each FY
  - Once limit is reached, products not sold, creating uncertain availability year to year
- Premium discounts not available across LGM/LRP products – cattle & swine LRP have 13% discount, LRP lamb 20%, dairy carries variable rate
- LGM products sold on specific day limiting window to get policy approved
- LRP cattle and swine sold daily and is more widely used by those producers
- LGM cattle and swine have fixed feed price parameters, dairy feed can be adjusted making it more complex
- Cattle premiums due when policy purchased, reducing cash flow with front-loaded premium; swine and dairy premiums due end of insurance period.
- RMA can decide to stop selling policies in event market conditions could be significantly different than those used to rate LGM, like news report, announcement, etc.
- LGM & LRP have eligibility constraints on how many livestock/how much milk can be covered
- LGM swine and cattle assume static market weight and are inflexible to market conditions that incentive weight conditions
- USDA provides limited and inequitable funding for livestock insurance products, many of which do not align with marketing practices employed by livestock producers