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Poultry Growers Will Have to Wait a Little Longer for Crop Insurance Coverage

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Early in January, poultry growers got bad news that high pathogen avian influenza (HPAI) was back again this time in a turkey flock in Indiana. This brings back concerns that HPAI could hit the Delmarva area later this year. With poultry growers once again concerned about HPAI and its potential impact on our region there are calls for USDA's Risk Management Agency (RMA) to provide some form of crop insurance coverage for poultry growers.

The 2014 Farm Bill required RMA to study the potential of providing poultry growers with business interruption insurance and catastrophic disease insurance program. In December, RMA released the final reports related to the feasibility of providing these crop insurance products to poultry growers. In the cases of both programs, the final studies concluded the programs are currently not feasible.

Why is offering these forms of crop insurance to poultry growers unfeasible currently? Crop insurance is heavily regulated and RMA must follow strict procedures and criteria when deciding to approve or not to approve new types of products proposed by insurance companies. The reports found overwhelming difficulties in developing insurance products that would meet the required criteria and also meet the interests of poultry farmers.

Most readers know how the poultry industry operates: the industry is vertically integrated where the integrators control feed supply, grow-out requirements, and the steps necessary to get the birds to slaughter and on the consumers' plate. Because of this control, much of the data needed to make an actuarially sound, meaning premiums are sufficient to cover potential losses, is controlled by the poultry companies and not freely available to RMA.

Another concern raised in the reports, is that the need for both insurance programs would be sporadic. With a catastrophic disease outbreak, only certain regions will be impacted and the impact with not happens every year. Because outbreaks do not happen every year, growers may not always buy coverage, which goes back to creating an actuarially sound program. According to RMA, the biggest potential customer for catastrophic disease outbreak insurance would be integrators, but the integrators responded to be satisfied with current methods utilized to manage their risks related to disease outbreak.

Comparing this to a traditional crop insurance product, every year a corn grower faces potential risk of loss from a whole host of things, such as drought, disease, insects, flood, etc.. Corn growers typically buy some level of crop insurance coverage each year. This may not happen with poultry insurance due to the growers not facing the risk every year.

The other issue is that the existing legislation enabling the federal crop insurance program has been interpreted to preclude insurance coverage for labor and rent payments. As interpreted crop insurance can only be sold to farmers that have an "insurable interest" or "ownership interest". Because the growers traditionally do not own the birds and the birds are owned by the integrator, RMA's opinion is Congress needs to change the statute to allow for the coverage of poultry grown under contract. Without that change, RMA is concerned they will be paying for labor (grower feeding the bird) and rent (integrator utilizing the grower's houses) in direct violation of federal law. Crop insurance law also only allows insurance for "crops in the field" – for example, the loss of a crop that has been planted, and then is destroyed by hail or drought. The losses incurred by poultry farmers as a result of disease arise from the fact that they are unable to use their poultry houses for a period of time after the diseased flock is destroyed – not considered losses of "crops in the field."

The final issue with developing either insurance program is demand from growers. We have briefly discussed that growers expressed concerns they would not purchase the insurance every year. In the case of business interruption insurance related to the bankruptcy of an integrator this was not even an insurance program they were interested in. Growers did express interest in catastrophic disease insurance but expressed concerns that utilizing good biosecurity plans can prevent the need for the insurance program.

The reports are not favorable to developing crop insurance programs that work for the poultry industry. We realize this can be disheartening to many growers who want the ability to manage risks faced in their poultry operations. We will have to stay focused to see if Congress will address some of the concerns raised in the reports in the next farm bill debate. Until then, poultry growers will have to continue utilizing non-insurance risk management strategies.

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