

## Federal Crop Insurance for Massachusetts Quahog Farmers

What do quahogs have in common with soy beans, cranberries, and corn? All are recognized as agricultural crops by the federal government for inclusion in a federally subsidized crop insurance program. In a pilot program currently being developed by the United States Department of Agriculture (USDA) Risk Management Agency, quahog farmers in Massachusetts, Virginia, and Florida will be eligible for crop insurance in 1999-2000. The pilot insurance program is scheduled to be available to quahog farmers in Massachusetts during the fall of 1999.

### Background

Crop insurance is a federal program designed to protect insured farmers from crop losses resulting from 'unavoidable damage'. Natural phenomena, such as storms, disease, or changes to the local environment due to natural processes, can cause catastrophic losses to a crop and, in doing so, potentially devastate a farm. In terms of economics, the farm business is dependent on the farmer bringing the crop to market.



Photo © Marion Roth

**Quahog farmers in Provincetown rake the flats in preparation for planting small, nursery-raised quahogs. Raking helps soften the sediment so that the field plants (~15 mm) will be able to "dig in" easier. It also allows growers to remove predators and large clams.**

Since the Dust Bowl days of the 1930's, the USDA has offered farmers an opportunity to purchase insurance to protect the farm by compensating farmers in the event of devastating losses to the crop. Crop insurance works

in much the same way as homeowner's insurance does: a farmer purchases the insurance annually by paying a predetermined premium. If a loss occurs, the insurance company determines the value of a loss, less the de-

ductible amount<sup>1</sup>, and compensates the policyholder.

Under the federal crop

<sup>1</sup>For this program, coverage will be available for between 60 - 75% of the total crop value. The "deductible" amount is equivalent to the difference, or uninsured, portion of the crop, 25 - 40%.

insurance program, each type of crop is insured based on a specific risk model developed by the USDA Risk Management Agency. A crop insurance program is tailored to the individual crop, in terms of:

- the type of farming practices conventionally used to grow the crop,
- the location of the farm and the relative productivity of the area,
- the value of the crop throughout the growing period (not just at harvest), and
- the deleterious impact that various naturally occurring events may have on the crop.

These factors are used to develop a risk model that predicts the probability of loss for each crop.

Every dollar that is invested into the crop insurance program by the farming community is paid out in crop loss compensation. In addition, the USDA Crop Insurance Program is subsidized by the federal government: for every \$1 in premiums that the farm industry pays for insurance purchases, the program will pay out \$1.075 to its policyholders. The federal government also covers the administrative costs associated with the program. The subsidy schedule and risk assessment model are used to determine insurance premiums for each crop.

#### **How will crop insurance work for quahogs?**

Extension agents from Woods Hole Oceanographic Institution (WHOI) Sea Grant Program and Cape Cod Cooperative Extension have been working with the

Massachusetts Division of Marine Fisheries (DMF), the quahog growers in the region, and the USDA Risk Management Agency to gather the information that USDA needs to develop the risk models and to initiate the insurance program.

These groups are working together to define the following parameters:

- characterization of local differences in growing areas,
- estimation of production levels and production times for farmed quahogs in Massachusetts, and
- determination of methods to assess the standing crop, for both the farmer and the insurance adjuster.

The USDA Risk Management Agency will use these data and procedures to define the risk under which the crop production operates and to determine a way to define the standing crop. When these are in place, the quahog crop insurance program will be published in the Federal Register and it will be contracted out to local insurance companies as a federally subsidized program.

#### **How will this work for the farmer?**

Although the pilot program is just being developed, a likely scenario will be that the quahog grower must purchase the insurance from a local insurance agent, just as would be done for a house or automobile. The quahog farmer will need to define the amount of coverage desired and to provide proof that the crop is in the ground. Finally, an insurance adjuster may inspect the farm and measure the standing

crop. Following those simple steps, the crop is insured.

#### **Making a claim for a loss**

In the event that the farmer has a loss due to a cause other than poor husbandry or poor growth, the farmer can make a claim against the policy. What does this require? The farmer will be required to document the loss and offer evidence that the loss is due to causes that are covered in the policy. An insurance adjuster will visit the farm, assess the loss, and the farmer will be compensated for their loss based on the fair market value of their crop and on their policy coverage.

It should be emphasized that this is a pilot program for aquatic crops. And, as a pilot program, it will probably be limited to the grow-out stage of farmed quahog production in 1999-2000. As the program develops, the USDA will expand crop insurance to other aquaculture crops, and will include shellfish hatcheries and nurseries and finfish operations. According to the USDA, species that may be added to the program over time include oyster, scallop, salmon, tilapia, striped bass, and others.

#### **What does this mean for the aqua-farmer?**

Federally subsidized crop insurance is a very exciting development for the aquaculture industry. The most obvious benefit is that farmers can be compensated for naturally occurring disasters that can reduce their productivity and potentially eliminate their profits. A less obvious benefit, but one that is potentially more valuable: crop insurance adds legitimacy to the aquaculture industry. For example, lending institutions may be much more willing to negotiate with aqua-farmers for business loans if they have crop insurance. It is possible that crop insurance will open many doors that have been open to terrestrial farmers but closed to water farmers.

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