

HSPD – 9

RISK MANAGEMENT AGENCY

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HSPD- 9

RMA

- "(17) The Secretary of Agriculture shall study and make recommendations to the Homeland Security Council, within 120 days of the date of this directive [by May 28, 2004], for the use of existing, and the creation of new, financial risk management tools encouraging self-protection for agriculture and food enterprises vulnerable to losses due to terrorism."

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- The directive:
 - recognizes that terrorism can impact any point in the food chain;
 - may not directly harm farms, but could disrupt substantial links in agricultural supply and demand chain;
 - could impact the price of food and the well-being of businesses and farms far removed from the point of attack.

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- The report:
 - put forth several considerations which were provided to the Homeland Security Council; however,
 - *Any recommendation for a stand alone, whole farm, net income, multi-year policy with retroactive premiums is problematic considering significant authority, moral hazard, actuarial and marketing problems*

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- Section 1508(a)(1)—Authority to offer crop insurance;
 - . . . to qualify for coverage under a plan of insurance, the losses of the insured commodity must be due to drought, flood, or other natural disasters (as determined by the Secretary)

“any disaster must be naturally occurring”

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- What the report provided:
 - substantial background information on the implications for agriculture of potential terrorists threats;
 - overview of the structure and location of U.S. agriculture production and marketing operations;
 - identifies various terrorist threats to the food chain;
 - analyzes current financial protection strategies and potential new strategies and tools and;
 - suggests a range of possible policy options.

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- The report made no specific recommendations
 - On-going study is required;
 - Non-farm agricultural sub-sectors require attention;
 - Existing statutory authorities are not sufficient;
 - USDA capacity for expanded obligations requires additional human resources and funding.

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- Quarantine—
 - Crop insurance can pay for crops that are destroyed pursuant to an order of a public official if the crop is infected or highly to be infected
 - Buffer zones are not covered [usually]
 - Phytosanitary agencies will sometimes impose quarantines on healthy plants to prevent the spread of disease and RMA can respond (Asiatic Citrus Canker)
 - Some discretionary authority--but for "how much and how long?"
 - Asiatic Citrus Canker coverage will not be provided after 2007

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- Problems with Quarantine:
 - to rate insurance the risk must be stable over time, known or predictable beforehand;
 - quarantine risks fluctuate wildly involving unknown pests and areas;
 - Rate increases are capped at 20% per year;
 - Actuarial soundness mandates will prohibit coverage.

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Questions?

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