

DISASTER PROGRAMS AND THE CHANGING FACE OF AGRICULTURE IN NORTH CAROLINA

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EXECUTIVE SUMMARY

Drawing on decades of intensive work with farmers and policy-makers, *Disaster Programs and the Changing Face of Agriculture in North Carolina* explores the growing gap between the needs of North Carolina farmers and the protection provided by federal disaster programs. It includes:

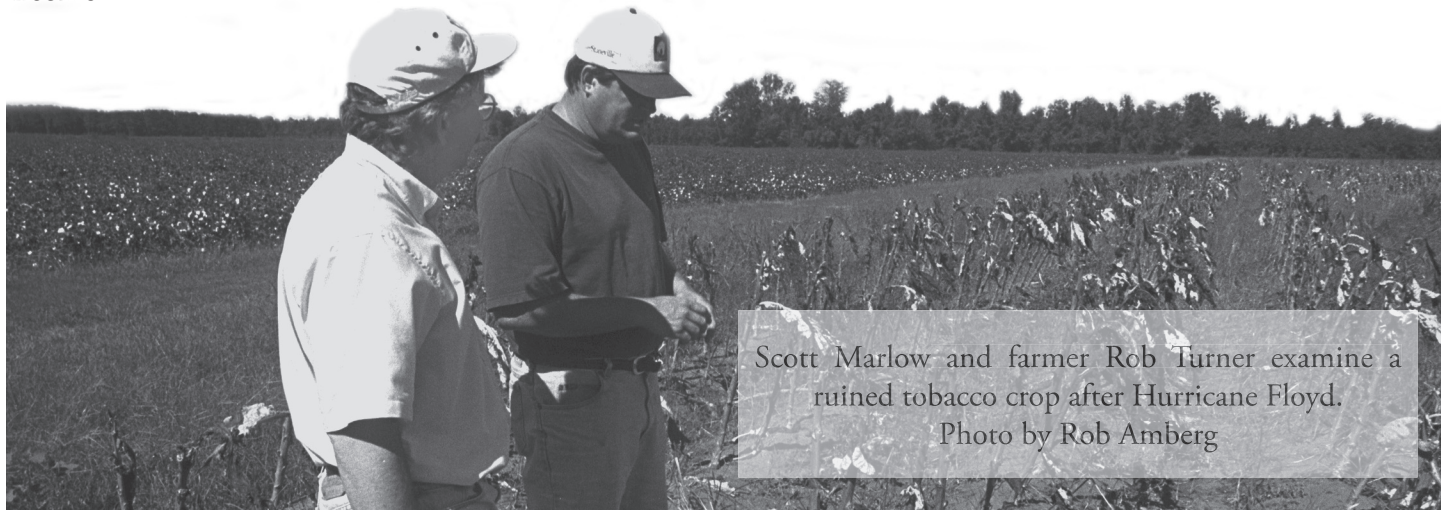
- an overview of the changes in North Carolina in the last 20 years, seen through the lens of disaster preparedness and recovery.
- a description of the three main levels of disaster assistance programs - crop insurance, standing disaster programs and ad hoc disaster programs.
- implications for specialty crop producers, contract growers, and value-added farm operations.
- recommendations for a disaster policy that would allow North Carolina farmers to create a thriving, diverse and resilient agricultural economy.

After each disaster, farm families across North Carolina sit down at their kitchen tables to figure out how to recover their losses and go forward. For an increasing number of families, the best and sometimes only option is to leave farming. More effective disaster assistance programs can change the view from those tables. They can help North Carolina farmers stay on the land and help our changing rural economy thrive.

The Changes in North Carolina Agriculture

For the last 20 years, North Carolina agriculture has been undergoing a structural change. The changes on North Carolina's farms vividly illustrate changes that are happening more gradually nationwide.

The role of traditional commodities, such as tobacco and peanuts, has decreased. In 1980, all crops comprised more than 60 percent of North Carolina farm income. In the 1990's, changes in federal programs for peanuts and tobacco led to significant drops in the price of those crops. By 2004, crops comprised just 34 percent of North Carolina farm income.



Scott Marlow and farmer Rob Turner examine a ruined tobacco crop after Hurricane Floyd.
Photo by Rob Amberg

Farmers are increasingly turning to income from livestock and other products grown under production contracts. Almost 60 percent of North Carolina farm income comes from contract production. Farmers also rely more on income from specialty crops such as vegetables, greenhouse plants, and Christmas trees. In 2006, greenhouse and nursery plants were the third largest source of farm income in the state.

The most promising source of new income is the rapidly growing value-added market, which brings greater value back to the farm because of specialized production, marketing or processing. Value-added enterprises offer a way for farmers to replace tobacco's high value-per-acre and are a focus of many state-sponsored economic development programs.

Disaster Programs

All of these changes have huge implications for disaster preparedness and response. Farmers are shifting from crops with extensive risk management programs to enterprises with little or no available protection. Programs for many new enterprises offer very low levels of coverage, take longer to take effect and often fail to cover important losses. Current disaster programs offer relatively strong protection for conventional commodity crops, but fail to adequately protect value-added enterprises, contract producers, and many specialty crop operations. As a whole, this change means that, without reform, federal disaster assistance programs will cover a lower percentage of the costs of North Carolina losses in future disasters than they did as recently as Hurricane Floyd in 1999.

Disaster programs take three main forms: crop insurance, standing programs, and ad hoc programs. In general, crop insurance offers the most predictable benefits. The Noninsured Crop Disaster Assistance Program (NAP) provides crop-insurance-like benefits at much lower levels for crops that do not have crop insurance programs available. Standing programs provide low-interest loans and cost-share payments for repairs to the land and facilities relatively quickly after a disaster, but frequently must depend on supplemental federal appropriations. Ad hoc disaster programs cover a range of damage including livestock production and feed losses, loss of trees and other losses, but must be created for each disaster, so their benefits are not as dependable and can take years to deliver assistance to farms. As farm income transitions away from traditional commodity crops, their disaster losses are more likely to be covered by NAP rather than crop insurance, and ad hoc programs rather than standing programs or crop insurance.

Specialty, contract, and value-added operations are challenging for disaster program administrators. Specialty crops and value-added farm enterprises often involve diverse crops, each with its own value, risks and benefits. Data on the value and the risks involved with these products is limited or non-existent. This makes developing sound insurance products difficult or impossible. Contract operations involve new systems of ownership that also complicate traditional crop insurance programs.

The result is inadequate coverage. For example, because there is so little information on value-added prices, no federal program recognizes value above the wholesale, conventional price. A farmer selling at a farmers market often counts on selling products for twice that price. This means that a program that covers 80 percent of a conventional farmer's income will cover roughly 40 percent of an organic farmer's income. No crop insurance program offers any coverage at all for contract producers, and even standing and ad hoc programs provide only sporadic, low-level payments.

All three emerging types of farm enterprises are vulnerable to kinds of loss that are not well covered by traditional disaster programming. For example, a hurricane might cause a tobacco farmer to lose the year's crop. A contract farmer, however, might have to pay to rebuild poultry barns and dispose of tens of thousands of dead birds. Because disaster programs were developed specifically for producers of commodity crops, they cover the kinds of loss that commodity crop farmers are likely to face. As farmers transition to new types of enterprises, they are more likely to experience losses that are not adequately covered by disaster programming. For example, ad hoc programming has only recently begun to cover contract farmers' losses.

Gaps in disaster programs create an economic disincentive for innovative farmers beyond compensation for disaster losses. Crop insurance coverage provides assured income that is the basis for farm operating loans. Without sufficient coverage, innovative farmers are often either under-financed or must put real property, often their personal home, up as collateral for the loan, increasing their risk in the case of income loss.

Our current system of disaster management fails to protect a growing number of farmers and consequently denies them adequate access to credit and places them at a distinct economic disadvantage. As more farmers meet the challenges and opportunities of North Carolina's changing agriculture, the gap between farmer's needs and disaster policy will only widen. Unless we make immediate changes to disaster programs, each hurricane, drought and frost will do more than destroy crops; it will take more of North Carolina's farmers off the land.

Recommendations

Dependable disaster assistance is crucial to effective agricultural economic development. As great a percentage as possible of North Carolina's farm income and assets should be covered by crop insurance, augmented by dependable standing programs. Ad hoc programs, which provide flexibility and adaptability, should be used to address specific losses, filling in gaps for new or specialized enterprises rather than reinforcing them. Lastly, state and local governments and nonprofit organizations that encourage farmers to transition to new types of enterprises should be prepared to help farmers understand and fill in gaps in disaster protection until federal programming can catch up.

Developing this stable yet flexible set of disaster assistance programming will take three steps. First, more research is needed. Legislators and administrators need accurate data on existing and emerging enterprises in order to develop the actuarial tables that are the foundation of a sound risk management program. Second, existing programs should be adapted, to the extent possible, to the needs of specialty, contract, and value-added farmers. Adapting existing programs will provide relatively speedy protection for farmers who are already transitioning to new types of enterprises. Third, new programs should be aggressively developed to meet the needs of specialty, contract and value-added farmers.

Federal, state and local governments and nonprofits should recognize that risk management and disaster assistance are a key component of a stable and innovative agricultural economy, and should work to augment the existing disaster assistance infrastructure to fill in the gaps and provide protection that recognizes the diversity of farm income.



Harold McAdams at the Carrboro Farmers Market.

The View from the Kitchen Table

The abstract requirements of policies and regulations become real over the kitchen tables of farm families across our state. Before each year and after each disaster, farm families sit down to decide how to go forward. Last year, North Carolina lost more farms than any other state in the nation. Current disaster programming leaves even successfully transitioning farmers vulnerable to disasters.

The McAdams family has been farming in Orange County, N.C., for 115 years. Until 2000, tobacco and beef cattle paid the bills on their farm. But in the late 1990's, as tobacco allotments were cut and cut again, it became obvious that they had to change. 2000 was the last year that they grew tobacco. They replaced tobacco with six acres of strawberries, mixed vegetables and cut flowers. "We sell everything we grow retail at the farmers market, pick your own, pre-picked or at our farm stand," says Karen McAdams. "We're making as much money, but we're working much harder." The transition has also meant a great deal of change in their risk management. With tobacco, the McAdams had access to a range of crop insurance and other disaster programs. With their new products, their disaster management options are more limited. "We have NAP on all of our produce," says Howard McAdams, "but other than right when we start picking strawberries, there is no point during the season when if we had a hail storm that destroyed the crop it would be more than the 50 percent damage threshold for us to get paid. We don't pay much for NAP, but we don't get much either."

Harold Wright, a fifth-generation farmer in Duplin County, N.C., has had a similar experience. Before the tobacco buyout, Wright grew 65 to 75 acres of tobacco. Now he grows corn and beans, both of which receive good disaster coverage. Half of his income, however, comes from mixed vegetables, pastured hogs and chickens. None of these products has crop insurance. Without crop insurance, Wright says he has had to keep the new enterprises small because of the risk. "I have been successful at that small scale by doing a good job, doing more intensive management, and selling retail," says Wright, "but a disaster year would cause a lot of financial damage. It would hurt my future."

Disasters will remain an inevitable part of farming. So will structural changes in ownership, products and markets. A thriving agricultural economy must provide farmers with the ability to weather disasters and the opportunity to pursue new and promising approaches. Our current system of disaster management fails to protect a growing number of farmers and consequently denies them adequate access to credit and places them at a distinct economic disadvantage. More effective risk management and disaster assistance programs can help families adapt to our state's changing economy and survive the inevitable storms, droughts and frosts that threaten their livelihood. Through research, program adaptation and new program development, disaster programming can change to meet the evolving needs of North Carolina farmers.



Harold Wright and his grandson, Austin.

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RAFI cultivates markets, policies and communities that support thriving, socially just and environmentally sound family farms.