THE IMPACT OF COMPULSORY CROP INSURANCE ON THE FARM BUSINESS: CASE STUDIES IN THE TASMANIAN APPLE INDUSTRY.

A dissertation submitted in partial fulfilment of the requirements of the Degree of Master of Economics

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DECLARATION

I certify that the substance of this dissertation has not already been submitted for any degree and is not being currently submitted for any other degree, and

I certify that, to the best of my knowledge, any help received in preparing this dissertation, and all sources used have been acknowledged in this dissertation.

Francis Bright
Hobart, Tasmania
November 15, 1995

ABSTRACT

Crop insurance is a risk reduction strategy available to farmers to minimise the financial impact of climatic variability on the yields of crops. There has been much debate and research since the late 1940s on the preconditions needed for crop insurance markets to develop and barriers to their development. Much of the literature deals with crop insurance of broadacre crops. There has been little work done on insurance of perennial tree crops such as apples.

The Tasmanian apple industry has had a compulsory crop insurance scheme running since 1982. The scheme covers all climatic events beyond the control of the grower. All growers who produce more than 20 tonnes of apples must insure their first grade fruit. The insurance benefit and base premium are fixed per carton irrespective of variety grown.

This study was conducted using a case study approach with three co-operating apple growers. The study involved stochastic budgeting of the farm business over a ten year time horizon. The main objective of the research was to analyse the impact of the compulsory insurance scheme on the financial performance of the farm businesses.

The author found that growers were better off by insuring their apple crops under the Scheme than having no insurance. As well as the monetary impact of the Scheme, there were important qualitative issues that reinforced the financial impacts of the Scheme for each case study grower. The conclusion of this research work is that for the three case study farmers, crop insurance has positive impacts on the operations of the farm business and is the preferred risk reduction strategy used by the growers.

By undertaking this work the author has increased the knowledge surrounding crop insurance of perennial tree crops in Tasmania.

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