REVIEW CROP INSURANCE FOR SPECIALTY CROP PRODUCERS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
AND RISK MANAGEMENT

OF THE

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HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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REVIEW CROP INSURANCE FOR SPECIALTY CROP PRODUCERS

THURSDAY, JULY 10, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM
COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:02 a.m., in room 1301 of the Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Smith, Jenkins, Burns, Musgrave, Peterson, Alexander, Pomeroy, Boswell, Etheridge, Marshall, Larsen and Holden.

Also present: Representative Putnam.

Staff present: Kelli Ludlum, subcommittee staff director; Elizabeth Parker, Callista Gingrich, clerk; Kellie Rogers, Elyse Bauer, John Riley, and Lisa Kelley.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. Good morning. The hearing of the Subcommittee on General Farm Commodities and Risk Management to review crop insurance for specialty crops, will now come to order. I am delighted to begin the process of discussing the topic of crop insurance, particularly as it relates to specialty crops, and I would like to thank our witnesses for their appearance before our subcommittee.

We will get a few of the administrative things out of the way on this hearing this morning. It is anticipated we have a 10:15 journal vote, one vote, so we will recess here momentarily if that occurs and come back. We have one panel today of these four witnesses, and I think that despite the journal vote, we can proceed expeditiously. I appreciate the time that these gentlemen are devoting to appearing before our subcommittee.

This is one in a series of hearings we will have on crop insurance and especially as it relates to specialty crops. I would readily admit that there are Members of Congress and members of this subcommittee who are much more familiar about crop insurance as it affects specialty crops than I am as a Kansan, but I am very interested in gaining additional information and addressing issues that those who participate in this very important segment of agriculture would like to see us address as it relates to crop insurance. I know that crop insurance is an increasingly important risk management tool for many farmers, including our nurserymen, citrus growers and fruits and vegetable producers. The Agricultural Risk Production Act of 2000 made progress in improving insurance availability for specialty crop producers. Following the passage of the crop insurance reform bill, products were expanded and additional coverage was offered.

Today, the Risk Management Agency offers permanent insurance programs covering 62 specialty crops. Twenty-five specialty crops currently have programs in pilot status. Coverage for specialty crops has doubled since 1998, increasing to approximately $8 billion last year. And despite significant progress, it is still difficult for some producers in specific counties to obtain coverage for their particular crops. The greatest interest I continue to hear from farmers in my own district as well as members of this subcommittee and Members of Congress is on crop insurance availability in providing average levels of coverage to meet our producers' needs. As we examine options to protect producers from natural disasters without ad hoc emergency spending, we will seek to address issues that can make crop insurance a more effective risk management tool for farmers and ranchers nationwide.

After today's hearing, I expect this subcommittee to hold additional hearings to focus on the changes needed to better serve farmers, both program crop producers and specialty crop growers and livestock producers. We will look at product availability, delivery of the programs and other issues that may be discovered through the testimony of our witnesses today and during future hearings. Again, I welcome our participants and look forward to their testimony and I recognize now the gentleman from Minnesota, Mr. Peterson.

OPENING STATEMENT OF HON. COLLIN PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman. I want to thank you for calling this hearing. I, like you, don't know as much about this issue as we probably should, so I look forward to the witnesses' testimony. It is clear that even though we have made tremendous progress in terms of the numbers of acres insured, last year's call for disaster assistance by many producers group tell us that there are still questions out there regarding producers' ability to adequately cover their risks. The past few years have been difficult on the industry as a whole, including the niche market for specialty crops. It has become clear concerning specialty crops that we must consider the programs for payouts from natural disaster losses, the impacts of the slow economy, September 11 and the lower commodity prices being paid to our farmers and ranchers that have made them even more aware of covering their bottom line. Now, we must be certain that the companies that remain will be able to deliver affordable risk management tools to our Nation's producers of these perishable crops that will allow them to cover external factors beyond their control. Again, I want to thank you, Mr. Chairman, and I look forward to hearing from our witnesses.

Mr. MORAN. Mr. Peterson, thank you very much. Any other statements for the record will be accepted.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF HON. NICK SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

I would first like to thank the chairman, ranking member, and members of the panel for holding this hearing to review crop insurance issues for specialty crop producers.

As a farmer, I know how vital it is to have a sound risk management strategy in order to be successful. Many ways exist for farmers to manage risk including storage facilities, forward pricing, off-farm income sources, Federal farm income support programs, commodity diversification, and the Federal Crop Insurance Program. Over the years the Risk Management Agency and the crop insurance industry have been very successful in expanding enrollment in the Federal Crop Insurance Program and in increasing the types of products offered and commodities covered. From 1979 to 2002 the number of insured acres has increased from approximately 21 to 215 million acres. Furthermore, in 1981 the Federal Crop Insurance Program offered 5,000 county-commodity-product combinations, and by 2002 the number of county-commodity-product combinations available was greater than 38,000. Currently, Federal crop insurance products exist for about 100 agricultural commodities. Clearly, the increasing utilization and demand for crop insurance products indicate that farmers are increasingly using crop insurance as one of their risk management tools.

Being from Michigan where a wide variety (more than 120 different commodities) of fruit and vegetable crops as well as traditional field crops are produced, I can appreciate the fact that specialty crop producers like the typical corn-soybean farmer must manage their risk in order to be successful. Michigan's specialty crop producers have been hit especially hard by weather the last several years. Eighty-two of Michigan's 83 counties were declared a disaster in 2001 due to extreme weather conditions. In 2002, all 83 counties received a weather disaster designation. As a result Michigan's specialty crop yields suffered tremendously: (2001) dry bean yields down 87 percent, grape yields down 64 percent, (2002) tart cherry yields down 95 percent, sweet cherry yields down 75 percent, grape yields down 66 percent, peach yields down 69 percent, apple yields down 41 percent, blueberry yields down 25 percent, asparagus yields down 24 percent, plum yields down 94 percent.

These data clearly demonstrate the need that specialty crop producers have for risk management tools such as crop insurance.

As we will hear today, however, crop insurance utilization and availability vary significantly across commodities. Despite the wide range of commodities covered, 74 percent of total crop insurance premiums in 2002 came from corn, soybeans, cotton, and wheat. For producers of these major commodities there is a wide-range of insurance products available as well as the traditional commodity support programs that help farmers remain viable. Unfortunately, fewer support and risk management options are available for our specialty crop producers. With the realization that it is both unrealistic and impractical for government to provide every option for every commodity, it is important and timely for this committee to carefully review the strengths and weaknesses of the current Federal Crop Insurance Program for these various commodities.

Mr. MORAN. We will begin our testimony with Mr. Brim. Welcome very much. Mr. Brim is the vice president of the Georgia Fruit and Vegetable Growers Association from Tifton, Georgia. Mr. Brim, please proceed.

STATEMENT OF BILL BRIM, SECOND VICE PRESIDENT, GEORGIA FRUIT AND VEGETABLE GROWERS ASSOCIATION, AND PRESIDENT, LEWIS TAYLOR FARMS, TIFTON, GA

Mr. BRIM. Good morning, Mr. Chairman and the members of the subcommittee. My name is Bill Brim, and I am the president and owner of Lewis Taylor Farms in Tifton, Georgia. I have a 750 diversified vegetable operation in packing peppers, tomatoes, eggplant, cucumber, squash, cabbage, cantaloupes and greens. We also have a 350,000 square foot greenhouse growing area that we grow 85 million vegetable transplants and 15 million pine tree seedlings.

Thank you for the invitation to appear here before the committee. As vice president of the Georgia Fruit and Vegetable Growers Association, I am here today not only to represent my farm and association, but also the growers that make up more than $750 million worth of fruit and vegetable industry in Georgia.

I will limit my comments this morning to the items which have been identified as a concern to all of our commodities. First, crop insurance availability. In my written testimony, I have cited examples in our pecan, blueberry and vegetable industry in which some growers have the benefit of crop insurance and others that do not.

Pecan, blueberries and some vegetable pilots are working quite well and need to be moved to a permanent status. We ask for your support in encouraging FCIC to move these pilots into a permanent program as soon as and as quickly as possible. While we support and want to see more crop insurance programs become available to our specialty crop growers, I would encourage that this subcommittee and RMA be cautious when new pilot programs are introduced. When the pilot program is made available to only one or two counties in a particular commodity-producing region, the availability of crop insurance can significantly skew market conditions and production competitiveness. Growers in the covered counties may have the opportunity to secure better loan rates from their bankers and more attractive purchasing items from their suppliers since they have, now, a safety net provided by the crop insurance product. As new product and pilot programs are developed, alternative introduction plans should be considered to keep all growers in a specific commodity-producing region on an equal footing and a level playing field.

Another industry concern is the issue of multi-unit field and orchards being covered under one farm serial number. Many times, growers do not receive loss payments on crops failure because of fields that suffer a loss, is one of several fields under the same farm serial number. If all other fields on that farm serial number have sufficient production, it will offset the losses and no payments are made on the field with a crop failure. Growers compare their crop insurance to property insurance, and if three houses on a farm are insured and one burns, the insurance company pays for the loss of that burned house. That same should be true with the loss of an insured field. To provide broader crop insurance coverage, consideration should be given to allow growers the options to have noncontiguous fields or orchard divisions within the same farm serial number. This is a not a new concept. A similar option is provided for in the walnut and apple crop insurance program.

For the past 2 years, the Georgia Fruit and Vegetable Growers Association has been fortunate to participate as an educational partner with RMA. During those 2 years, over 2,500 growers have received hundreds of hours of training on risk management to help improve their production, pest, food safety, personnel and marketing risks they face daily in their farm operations. In 2003, six different Georgia organizations received risk management education program funds totaling over $370,000. These organizations range in interest from organic production to nursery, shrubbery operations to fruit and vegetable growers. In the fiscal year 2004, regulations were published in the Federal Register on June 13 in order to simplify RMA supervision of partnership agreements. The new regulations allow for only one partner per State, and the allocation form provides only $89,000 for educational program funds through the winning Georgia organization. While we understand the need to streamline the reporting and accountability, it is very difficult for one organization to represent and oversee commodity programs as diverse as flowers and shrubs to fruits and vegetables. In the future, we hope that one partner per State will be reconsidered and eliminated. I very much appreciate the opportunity to provide this testimony to the committee and I will be happy to answer any questions at the appropriate time. Thank you.

[The prepared statement of Mr. Brim appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Brim, thank you very much. Our next witness is Mr. Bob Carden, a citrus producer and crop insurance agent, Carden and Associates, Inc., and he is here on behalf of the Florida Citrus Mutual and Florida Nurserymen & Growers Association of Winter Haven, FL. Welcome, Mr. Carden.

STATEMENT OF ROBERT E. CARDEN, JR., CITRUS PRODUCER AND CROP INSURANCE AGENT, CARDEN AND ASSOCIATES, INC., WINTER HAVEN, FL, ON BEHALF OF FLORIDA CITRUS MUTUAL AND FLORIDA NURSERYMEN AND GROWERS ASSOCIATION

Mr. CARDEN. Thank you, Mr. Chairman. Mr. Chairman, members of the committee, it is an honor for me to appear before you to discuss the status of the specialty crop insurance industry.

Again, my name is Bob Carden, and I am the president of Carden and Associates, Inc., which is an insurance agency in Winter Haven, Florida. We specialize mainly in writing specialty crop insurance there that are grown on the Florida peninsula. Specialty crop policies currently offer many benefits to growers, but improvements could greatly enhance their value as a risk management tool. Industry representatives are regularly in touch with the Risk Management Agency on these issues, and RMA's regional staff is always willing to listen to industry suggestions. However, many of the needs of the specialty crop industry remain unmet, largely due to an inability to have meaningful policy changes implemented through the procedural process used by RMA.

One such instance involves the peril of citrus canker. This disease is devastating to citrus, and when found in a grove, it requires the immediate destruction of all trees within a 1900 foot radius of the infected area. RMA correctly realized the need to add this peril as a covered cause of loss to the citrus tree insurance policy in 1999.

However, citrus canker has yet to be added to the citrus fruit insurance policy as a covered cause of loss. This makes very little sense to us, as any fruit that is hanging on a tree when it is destroyed is obviously lost as well. We have requested that RMA add this peril for the last 5 years and have worked with their Valdosta regional service office to see this task accomplished. Every year, we have expected this addition, but as of the 2004 crop year, the sales closing date for which just ended, it has not been done, and to us, it makes no sense to pay a grower for the loss of his trees but not the loss of a fruit crop that they are producing at the time. A premium rating problem also exists in the Florida citrus fruit policy. In 1996, RMA did a major design change in the structure of this policy that on the surface reduced rates substantially. However, when you take a closer look, it reveals otherwise. Prior to the change, a grower buying a citrus fruit policy had a 10 percent deductible regardless of the level of coverage he purchased. The policy implemented by RMA now mirrors the row crop deductibles of 15 to 50 percent, but when you do a premium calculation with a 15 percent deductible in the policy now, it is actually higher than the same coverage was at a 10 percent deductible under the old policy. The net result is that a grower pays more and he gets less.

Now, specialty crop policies are also very complex. A great deal of training is required by both company and agency personnel in order to provide the best information to growers to enable them to make sound risk management decisions. RMA should approve materials and training in time to give companies and agents a minimum of four months to work with this material once it is in its final form. In far too many cases, this does not happen. An insurance company must review all of the material pertinent to any given crop for any changes to the program that were made from the prior year. Once they have done this, they must then present it to their agents, who in turn present it to their growers, who decide on their appropriate levels of coverage for the upcoming year. All of this must be accomplished by a sales closing date which varies by crop and is defined in the policy. This is an inflexible date with no exceptions made. In each crop policy, RMA also sets a deadline for itself by which it must release this material for the upcoming year. For example, the eligible plant list and other materials for the 2004 crop year was just released for nurseries this past July 1. Companies are currently in the process of comparing the new list to the 2003 list to see what changes were made, and until this is done, the renewal process cannot begin. Currently, our agency's training in these materials is scheduled for July 22. That will leave us 28 working days to contact our 225 or more nursery customers and complete the renewal process by the September 1 deadline if no gaps in their coverage is to occur.

Now, all this assumes that the material is correct when it is released, and sadly, there are times when it is not. Such was the case of this eligible plant list last year, when some 150 varieties grown in central Florida were inadvertently left off the list, and by the time this was corrected, September 1 had come and gone. Now, this points out what from an agency standpoint we consider to be a high risk of errors and omissions exposure. In this case, we had two choices. We either have our growers report their inventories and choose their coverage levels based on a promise which was not yet in writing, or report their values on the printed schedule and then revise it after the corrected list came, but that would leave the grower underinsured during a 30-day waiting period before the coverage took effect after the revisions were made.

Now, to be fully fair here, I do believe that RMA tries to release material to us in what they consider to be a timely manner. However, when they cannot meet these needs for whatever reason, they need to be more flexible in giving us the time we need to adequately complete our tasks.

Finally, we in the specialty crop industry were very pleased with section 508(h) of the Agricultural Risk Protection Act of 2000 was included. This section allowed private entities to submit products that they had designed to the FCI Board. We felt that we could now move forward not only with some long-sought policy revisions, but also would finally be able to offer coverage on commodities for which no program currently exists. However, the procedure RMA has written for filing a policy with the Board is so onerous that it cannot be taken seriously and is an avenue that we can use. Exhibit 2, which is attached to my testimony, shows this very clearly. This is a procedure that must be streamlined.

Thank you for your invitation. I hope I have provided you with an informative snapshot of the challenges the industry faces, and I am happy to respond to your questions.

[The prepared statement of Mr. Carden appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much, Mr. Carden. Our next witness is Mr. John Watkins, legislative chairman of the American Nursery and Landscape Association of Virginia. Welcome, Senator, thank you.

STATEMENT OF JOHN C. WATKINS, PRESIDENT, WATKINS NURSERIES AND LEGISLATIVE CHAIRMAN, AMERICAN NURSERY & LANDSCAPE ASSOCIATION, MIDLOTHIAN, VA, ON BEHALF OF THE AMERICAN NURSERY & LANDSCAPE ASSOCIATION

Mr. WATKINS. Thank you, Mr. Chairman. Chairman Moran and Ranking Member Peterson and members of the subcommittee, I am grateful for this opportunity to present testimony today, to talk with you with relation to the Crop Insurance Program in the United States, and particularly as it relates to the nursery industry. My testimony represents both my views, my own personal views, and experiences as a nurseryman, and also the views of the American Nursery & Landscape Association. The American Nursery & Landscape Association is the national trade association for the nursery and landscape industry. ANLA represents 2,500 production nurseries, landscape firms, retail garden centers and horticultural distribution centers, and the 16,000 additional family farm and small business members of the State, regional nursery and landscape associations. The association's grower members are estimated to produce 75 percent of the nursery crops moving in domestic commerce in the United States that are destined for landscape use. I currently serve as the Chairman of this association's legislative policy committee.

According to the USDA's National Agricultural Statistics Service, the nursery and greenhouse industry remains the fastest growing sector of agriculture in terms of cash receipts. The 1997 Census of Agriculture shows that nursery and greenhouse floriculture crop sales totaled $10.9 billion in 1997, up $7.6 billion from 1992. This represents a 43 percent increase. In crop value, nursery and greenhouse crops have surpassed wheat, cotton and tobacco and are now the third largest crop, falling only behind corn and soybeans.

The nursery industry very much desires an efficient and affordable and sustainable Crop Insurance Program. At present, the Crop Insurance Program falls short on adequately addressing the extreme diversity and unique situations presented by a free market segment of agriculture that grows literally thousands of varieties in every State using an array of production systems and technologies. We offer the following thoughts and recommendations on the current program and some of the suggestions for improvement.

Nursery participation in the program is not as high as it should be. A broader participation will help to establish a program that can more reliably be sustained. There needs to be strong, sustained educational outreach for the program, and we are open to working in close partnership with Risk Management Agency on grower outreach.

Second, under catastrophic disaster coverage, the 50 percent loss requirement should be calculated based on losses of individual crop types rather than across the array of crops in a nursery, and I have some personal anecdotal evidence to that particular fact. Different crops have varied susceptibility to potential perils, unlike typical experiences in traditional row crops.

Third, in our own operation, I have production fields in three adjacent counties in Virginia. Under the current program, I must purchase three separate policies to cover these fields. There should be some reasonable way to insure that an entire operation can fit under one policy.

The structure of commissions paid to the agent encourages concentration on serving the needs of the largest 9 or 10 clients, but there is insufficient incentive for agents to reach out and target a lot of the smaller operations, which typically family operations and particularly nursery operations wind up being.

We strongly suggest using the grower's wholesale price list as the basis for coverage valuation based upon proof of market. As a result, it would become much clearer to the grower, the agent and the RMA exactly what the RMA is insuring.

Insure the container size of any plant as such is noted in the grower's wholesale price list without regard to the actual soil volume the container that it is capable of holding.

Include coverage of plants grown in smaller than 3-inch containers.

Treat field grown crops and containerized plants as separate crops.

Allow year-round sales of crop insurance policies, subject to a 30-day waiting period for coverage commencement.

The issue of injury accumulated over just one year has become a factor in the green industry. Flood, drought and disease that we have seen a lot of in the past couple of years is of particular note here.

Implement crop insurance for Christmas tree growers as well.

For growers in tropical regions, restrict the peril of excess rain to damage incurred in conjunction with a tropical cyclone or an event that causes an area to be declared a disaster by the President or the USDA.

Seriously explore coverage of trees and plants that fall within quarantine zones that are regulated by the USDA here in the United States.

In closing, I wish to emphasize that USDA's Risk Management Agency has reached out to our industry, and we are confident that a strong commitment exists on all sides to resolve many of these problems that are inhibiting the use and long-term validity of crop insurance for the nursery industry. We are equally grateful for the interest and support of Congress in this matter and look forward to your support of the Agency in making the changes necessary to accommodate our industry. Thank you, Mr. Chairman, and members of the subcommittee, for your attention and interest in ensuring a viable Crop Insurance Program in America. Thank you.

[The prepared statement of Mr. Watkins appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Watkins, thank you very much. I apologize to the Secretary, but I think we will recess our meeting momentarily while we cast a vote. We will be right back. There is, as I understand it, just one vote. So we will be back in about 10 minutes. The subcommittee will stand in recess.

[Recess]

Mr. MORAN. The subcommittee will come to order, and I would invite the gentleman from Michigan to join us. We are joined in our subcommittee today by the gentleman from Pennsylvania, Mr. Holden, who is the ranking member of the Conversation, Credit, Rural Development, and Research Subcommittee. He is not a member of this subcommittee and I would ask the subcommittee's unanimous consent to allow Mr. Holden to join us at the dais and to participate in questioning the witnesses. Without objection, so ordered. Welcome, Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman.

Mr. MORAN. And I would like to give you the opportunity to introduce our next witness, a witness from Pennsylvania. Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman, and thank you for allowing me to participate in this very important hearing today, and I thank you for inviting the executive deputy secretary of agriculture from Pennsylvania, Russell Redding, to be with us today. Russell is almost a fixture at the Pennsylvania Department of Agriculture, and before that, he worked for Senator Wofford handling his agriculture issues.

Mr. Chairman, as you and Mr. Peterson mentioned in your opening statements, certain parts of the country, particularly where you come from, you are not as familiar with the problems and challenges that we face because of our diverse agriculture in Pennsylvania and throughout the Northeast, so again, I want to thank you for having this hearing and I particularly want to thank you for allowing Deputy Secretary Redding to testify today, because we do face many serious challenges trying to get our level of participation up to what you all have in the Midwest and the upper Midwest, and Russell has worked tirelessly throughout his tenure at the Pennsylvania Department of Agriculture to try to get that participation level to moved forward. So again, I want to thank you and appreciate the opportunity to introduce my friend, the Deputy Executive Secretary of Agriculture from Pennsylvania.

Mr. MORAN. Mr. Holden, thank you for joining us, and we now recognize Mr. Redding. Please proceed.

STATEMENT OF RUSSELL C. REDDING, EXECUTIVE DEPUTY SECRETARY, PENNSYLVANIA DEPARTMENT OF AGRICULTURE, HARRISBURG, PA

Mr. REDDING. It is good to be here. Thank you, Mr. Chairman and members of the subcommittee. I want to thank you for the opportunity to testify, and thank Congressman Holden for his leadership, both currently in the Agriculture Committee, and his work to promote agriculture in Pennsylvania in the past. I am pleased to be here. A critical issue for Pennsylvania is crop insurance. We have followed it for the last couple of years. You have the testimony before you, the official record, and I will try to frame this a little bit just in the interest of time, but it is interesting how the Department of Agriculture came to crop insurance. It actually took a disaster in 1999. For those of you in the eastern part of the country understood well, we had a very serious drought in that year, realized the importance of disaster assistance, both at the State level and the Federal. Our State legislature and Governor at the time provided $60 million of State revenue to underwrite the crop losses, which was in addition to the Federal assistance, but it also underscored the need for crop insurance.

Clearly, the State was not going to be in a position financially to continue that. It was a unique point in history where we had the revenues to do it. If that were to happen today, it would be a very different discussion, but at the time, the State provided $60 million as part of that. They provided $5.6 million for crop insurance assistance that allowed the Department of Agriculture to cover the fees associated with producer policies and also cover 10 percent of the premium.

In 1998, the year just prior to the disaster that sort of framed our crop insurance initiative, we had about 20 percent of the eligible acres in the State that were covered under crop insurance. The perception of crop insurance at the time was in general that it just didn't work. I mean, it was too cumbersome. Growers had concerns about specialty crops and the diversification just didn't fit well with the current program availability.

The Department of Agriculture recognized the value of improving farm level risk management at both the micro and macro levels. The goal, of course, was to really increase participation statewide in crop insurance, and we have tried to do that. We wanted to make it affordable. Thanks to the work of Congress and the USDA and the State, we believe it is affordable at this point, but there are significant issues to deal with.

As part of the disaster legislation in 1999, the State gave the Department of Agriculture the authority to work in partnership with the USDA on the Federal program as well as with the private carriers.

Along came the 2000 ARPA legislation, which I give a lot of credit to this subcommittee and the committee for making some significant changes to crop insurance, which made it both more affordable but also user-friendly in Pennsylvania. It took us to a whole new level in the State, and I appreciate the work of this subcommittee in doing that.

In 2002, the Department of Agriculture developed an improved adjusted gross revenue product called AGR-Lite as a working title. Are you familiar with the Adjusted Gross Revenue Program? We had it in Pennsylvania, had it expanded in Pennsylvania to 14 counties, and then the concept is you basically insure the operation. It is a whole farm approach versus a very specific crop. We believe that this was the right approach. It has some limitations, but under the authority of the 508(h) provision, which allows the private sector to develop new products where they see need, the Department of Agriculture took the leadership, we developed a new product called AGR-Lite. We believe that it has tremendous potential both for the Department of Agriculture, Pennsylvania producers, but also all small producers across the country. It is one of the areas that I would ask for additional consideration by the subcommittee to focus on and also by the USDA because it holds real potential in addressing the needs of producers who are diversified, who have specialty type products, but at this point in Pennsylvania, at least, you cannot buy certain policies in certain counties. And that is a huge limitation, because what we are trying to do is protect the producers against lost income to basically guarantee them a payday, and that is what crop insurance does, but unfortunately as it stands now, it is not available to all producers in all counties.

So we took the leadership, developed a new product. It is working well. We are back to the USDA, the Federal Crop Insurance Corporation again, asking for their consideration on some modifications, which we hope will be addressed very soon. And I give a lot of credit to Ross Davidson, the team at RMA for considering that, and the Federal Crop Insurance Board.

The other point I would make is last year, for the 2003 crop insurance year, the USDA made the American Management Association funds available to the underserved States and the additional premium available. That was a huge benefit. I mean, with relatively little notice, about three week notice at the peak of the signup, Pennsylvania producers responded, and they responded very strongly. About 60 percent of the producers using crop insurance bought coverage of 75 percent or greater of their historical yields in 2003. That was an increase of 20 percent over 2002. It is estimated that the resulting buy-up coverage will yield an increase anywhere from $80 to $100 million in protection for Pennsylvania producers, and that cost about $6.5 million in USDA-authorized AMA moneys.

Furthermore, just to put it in perspective, for the 15 low-participating States, it is estimated that producers purchased about $200 to $250 million in increased protection, and again, that is about a 25 percent increase over 2002. The Department's opinion is that the positive producer response to this USDA initiative may well have been the most significant one year change of producer risk management preparedness of all time.

A couple of critical needs that we have, one in the specialty crops we have mentioned, the tree, vine and bush, our friend from Florida mentioned the citrus canker. We have a plum pox virus issue very similar to the citrus canker.

The fruit program, again, some issues there to deal with, but overall, I want to applaud the work of the subcommittee and the Agriculture Committee for taking the leadership, and the USDA. It has been a very rewarding partnership between the Federal Government, State government, producers and those in the private sector.

There are three keys to crop insurance for us. One is affordability, education, and I think we are making progress in that regard, but we need new products, and those three stools are critical to making this stand. I think we have taken steps to make it affordable. Education has been great, working with RMA and the State partnership, but we do need new products.

I will leave it there. You have the official testimony. I appreciate very much the opportunity.

[The prepared statement of Mr. Redding appears at the conclusion of the hearing.]

Mr. HOLDEN. Thank you.

Mr. MORAN. Mr. Secretary, thank you for joining us. I want to pick up on your final comment in my line of questioning, but let me first acknowledge that Administrator Davidson is here, and we are very grateful for that. I appreciate your interest in hearing the witnesses' testimony, and almost without exception, they have been complimentary of RMA and particularly you, Mr. Davidson, and I join in that compliment and thank you for your extra effort to join us today for this testimony. Thank you. Need new policies, need new product lines. That really is the crux, at least from my perspective, of this hearing, which is why is it so difficult to accomplish that? What do we need to do as a subcommittee or as a Committee on Agriculture to ensure that that occurs? Is it the nature of the specialty crops that make it so difficult that create the hurdles? Is it just the kind of agriculture that you are involved in? Are the impediments statutory or are they administrative? Are there specific things that we as Members of Congress need to do in order to change the law to give RMA additional authority, or do we just need to work with RMA to allow them to better utilize the authority they have? And I would offer that kind of line of questioning or series of questions to any of the panelists who would like to respond. Mr. Brim.

Mr. BRIM. Mr. Chairman, I appreciate the opportunity. I think one of the problems with specialty crops in my particular instance is I have so many different varieties of specialty crops, and with RMA and the insurance industry, I don't think they have the right amount of people available to be able to ensure that you are going to be able to collect on that insurance, and in some of our areas, we don't even have the insurance. We have some pilot programs, and I mentioned in my testimony about the difference in pilot programs and, highly unfortunately, some of the pilot programs have been abused, and it has hurt the growers that are in it full-time like I am. It skews the market and it also takes away from the market demand, so it decreases the prices that we have on our product.

I think RMA does a good job with what they have, but I think there are some areas of the specialty crop areas that they could, on the field of identities and different varieties and different commodities, to be able to give us a better insurance program and not do the pilot programs at such a significant area. If you are going to do it, do it in a wider county area than, like for instance, I have a cabbage pilot program in the county next to me. Well, everybody in that county planted cabbage. Well, I have grown cabbage for 15 years, and all it did was reduce the price of the market down so it made me suffer, so I think there is a lot of areas there that we need really some work on, so that it won't skew the market so way out of proportion.

Mr. MORAN. Other comments? Mr. Secretary.

Mr. REDDING. Yes, several thoughts. Looking at specialty crops, in Pennsylvania's case, at least, you know, we have a lot of folks who are producing for a fresh market or a metropolitan market, and the availability of good baseline data from Agricultural Statistics or the county, as Mr. Brim had mentioned, becomes a real issue. What we have tried to do is to say we have got those trends. I mean, they are not going to change. You are going to have specialty crop producers. If they see a market opportunity to produce for a direct market or metropolitan market in some way, they are going to do that, but they are doing that at this point in a fairly high-risk market because there is no protection.

That was part of what drove us to look at the AGR-Lite and to step back and say, you know, in our case, we've got 67 counties in the State. There are very few commodities that are covered statewide. If you look at winter squash, as an example, there is one county you can buy that policy in. There is one county for cabbage. There is 10 for processing beans. By the time we get to the point of developing new products for those counties or developing the baseline data to support or assure the underwriters that that is going to be a reasonable investment, too much risk has already been by and you run the opportunity, I guess, to lose some producers. We stepped into it and said, why don't we just put a wraparound policy on the operation? Because at the end of the day, what you are trying to protect is income. You really don't care about the crop. You are really trying to protect income, and to guarantee the producer a payday, make sure they have something in the terms of a crop if the weather and conditions are right, or if they are not, some type of protection.

And that was the approach that the Adjusted Gross Revenue policy set out. In principle, it is a great approach. There are some systemic problems with AGR that drove us to an AGR-Lite arrangement, but we think long-term, that is probably the better way to go. Step away from individual commodities and look really at protecting farm income at the farm level, and the way to do that is to use income tax records to base, actually get a handle on gross and net farm income, and then write a policy around the income and protect that income stream, and stay out of the discussion as to whether the beans are covered, strawberries are in, pumpkins are out, whatever it may be. Because at the end of the day, it is very difficult to get either private products written for those or to have the USDA, with all of their demands, to prioritize those for a particular State or a particular region.

Mr. MORAN. I discovered—we discovered in organizing this hearing and seeking witnesses that specialty crops is not a generic term. That there is a long list of agriculturally-produced products that I guess fit under an umbrella of specialty crops. But kind of every time we tried to bring a general discussion about specialty crops, another producer organization or set of producers came to us with well, we would like to tell you our story, which is different than the story told by somebody who produces another crop. We are going to pursue those, but I guess it lends itself to a question, are all the specialty crops, are they produced in a volume that is sufficient to adequately spread risks through crop insurance, or are there just specialty crops, are there crops that we produce in this country that insufficient number of farmers and acres planted and volume of production that would be very difficult to create a product to spread risks among?

Mr. WATKINS. Mr. Chairman, I will try to respond to that. I am not certain that the answer is adequately in the affirmative to your question, because there are a lot of people growing very, very specialized crops, and to have enough of that crop to make it worthwhile probably is very difficult. But I think what we are going to have to do is set up categories of specialty crops that some of these items can fit under, and try to see if there is some way to insure them or give them at least some support in that direction.

Another point that I think I would like to bring back up is dealing with RMA. We have—the nursery industry has worked with them and we have had a good working relationship, but they don't feel that their policies, as they are seeing them right now, give them the breadth to change some of say, the pricing structure of using wholesale prices of nursery stock, for example. And I am not certain that we don't need to at least direct them through Congress to address that issue and try to find out how to adequately compensate some of these specialty crop areas by using and looking at and doing studies on that pricing structure.

If you are not meeting that payday for that particular crop, you are really not benefiting the industry, and you are not supporting it.

Mr. MORAN. Thank you. My time has expired. I would only respond with two thoughts. One, the suggestion by the Secretary about income coverage may address the issue of all the variety of specialty crops, if we are looking at income rather than crop production, and then the point that you make, Mr. Watkins, you used the word policies, which means something to me different than the law. We may need to encourage, direct RMA to do some things, but the use of the word policy suggests to me that RMA would have the ability to change the policies that you believe are impediments to them addressing the issues you think are important as a nurseryman.

Mr. WATKINS. Yes, sir.

Mr. MORAN. OK. I recognize the gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. I think it was in 1991 when I introduced an amendment to one of our bills to have a whole farm coverage in the program crop area. We really haven't made that happen. To this day, there has been some attempts, but it seems like we always get back to the crop by crop situation. I am curious about how this pilot project system works. How do you get into—do you have to—does the local area have to petition in or does RMA go out and select things, or how does that work? Could anybody explain that to me?

Mr. BRIM. I believe that RMA selects the counties that they are going to put the pilot programs in. Mr. Davis—or the Board of Directors, he said, select the counties that——

Mr. PETERSON. Do you growers have any input into that?

Mr. BRIM. No, sir.

Mr. PETERSON. Mr. Davidson is saying that you do.

Mr. BRIM. Well, we didn't in our county, because I have never been selected, so the counties they have selected may have been involved in it.

Mr. PETERSON. Well, I keep hearing that part of the problem is that these pilots are not big enough.

Mr. BRIM. Right. Yes, sir.

Mr. PETERSON. And you've relayed that, I assume, to the Department.

Mr. BRIM. Well, it is like in the cabbage, for instance that I talked about, the cabbage counties. There is about 10 or 12 counties right in that area that all grow a certain amount of cabbage, and we singled out one county right there, right close to me.

There are four counties altogether, I think, in the whole State of Georgia that were selected, but it just needs to be in a wider range of area so that it doesn't skew the market for all the rest of us.

I think it is a great thing that they are trying to do, but I mean, I think it just defeats the purpose——

Mr. PETERSON. I understand your situation, but it seems to me if you covered all cabbage, you may get more production of cabbage than you could sell.

Mr. BRIM. Exactly.

Mr. PETERSON. You could collapse the price anyway. That has been one of the issues with having a whole farm situation, other people have been concerned that we are going to give too much protection to people. We have had, up in our area, navy beans and these kinds of things that have been——

Mr. BRIM. Well, if RMA could go in and reduce the amount of acreage that each farmer could grow in those particular pilot programs, or whatever amount of funding that they want to spend on that pilot program, then reduce it down and let everyone have an opportunity to grow that *X* amount that they could have dollars available, then that might stop some of the skewing of the market.

Mr. PETERSON. But another way to get away from it is if you just have this whole farm option, then people could grow whatever they want and you wouldn't get into that situation so much, I would guess.

Mr. BRIM. Yes.

Mr. PETERSON. Is that where you would like to see this thing head?

Mr. BRIM. I think that AGR is a good way to go, I think there's some things that they need to tweak in it to make it work better, but it definitely has a great potential for us.

Mr. PETERSON. The problems now are what, it costs too much for what coverage you get, or what are the problems?

Mr. BRIM. Yes, sir. The cost of the insurance program.

Mr. PETERSON. Do you all agree with that?

Mr. CARDEN. In our area, we really can't say. There are some pilot counties that have the AGR in them in Florida, but they're not really the counties that are producing large amounts of agricultural volume in terms of dollars or crops or anything else. Therefore, we really don't have that experience. Again, we are in the same boat where we would like to see that expanded into some of what I call the more meaningful counties, so then we could get a better evaluation of it.

And at the same time, in some of our vegetable policies, we had the same concern when we designed those 20 odd years ago, and what we finally came up with was a limitation in order to keep the market from being flooded with a crop, in that no grower for crop insurance purposes could increase his acreage by more than I believe it is 20 percent from one year to the next without certifying why that was happening. In other words, he bought out an existing farming operation or something like that, but the whole idea was to prevent them from throwing a big flood of that commodity on the market.

Mr. PETERSON. Yes, Mr. Redding.

Mr. REDDING. Just on the AGR product, I had mentioned this sort of in—it is the right concept, I mean at least from our perspective in the Department of Agriculture in Pennsylvania. But the limitation on AGR for us, at least, in a State that has 40 percent of its gross farm income is from the dairy industry, from livestock, is that there is a cap on the percent of income that could be counted towards a gross farm income. And it is currently at 35 percent of the income, or no more than that can be from livestock-generated income, to include milk receipts.

Mr. PETERSON. Gross income?

Mr. REDDING. Yes. And that is a real limitation. So a lot of producers like the concept, but when you start talking about what is eligible and crossing the 35 percent threshold, that is a problem. The other issue simply is paperwork. I will tell you that when you get into adjusted gross revenue and you put 5 years of historical tax records on the table, one, there is always sort of a reluctance of producers to share tax information and to share the Schedule F with a crop insurance agent. They normally give that to the banker, they give it to somebody else to help on the farm management side, but historically not to a crop insurance company or an individual.

But that is one of the trade-offs. I mean, if producers want to protect their income, you now have to bring people into the conversation maybe that previously were not part of that. That has taken both a tremendous amount of education at the producer level, but also the agent level, and both for cooperative extension in this State and also the insurance agents in the State to educate them about the value of the product, but also handling some of those sensitivities and reassuring producers that the information being requested is for purposes of establishing that baseline that is critical before you can have somebody actually write a policy on the operation. So it is really an income cap for livestock income and a paperwork issue.

Mr. MORAN. Thank you. The gentleman from Michigan.

Mr. SMITH. Mr. Chairman, thank you very much for holding this hearing. I am somewhat embarrassed, being from Michigan, we have a lot of diversification. We have 120 different commodities grown in Michigan. We rank second only to California, and we have some dramatic losses in 2002. In fact, dry bean yields were down 87 percent; grape yields down 64 percent; tart cherries, 95 percent; sweet cherries, down 75 percent; grapes, 66 percent; peach, 69 percent; apple yields down 41 percent; blueberries, down 25; asparagus, 24; plum yields were down 94 percent. So a system in this country where we—and the crop insurance is subsidized, that I am assuming it is subsidized at the same—about the same level. And I don't know if I can ask Mr. Davidson a question, but I am assuming that crop insurance is subsidized for the specialty crops at about the same level as it is for the major field crops.

But we distort the marketplace a little bit by saying that we are going to have all this crop insurance available for wheat, soybeans, cotton, rice, and yet on the specialty crops, we are way behind, just starting out, starting to move ahead. So we tend, I suspect, to disadvantage those specialty crop farmers, which in the long range probably isn't the right way to go. How many—is there a limitation—so I am just going to ask some questions to better understand it. Is there a limitation on the number of acres that you have to have or the amount of income that comes from your specialty crop production to be eligible to do insurance, if it is available in your particular area?

Mr. BRIM. No, sir, it is not. There is not a limitation on that.

Mr. SMITH. So a person that grows a quarter of an acre of pumpkins is as eligible to buy that crop insurance as somebody that has 20 acres of pumpkins?

Mr. BRIM. Instead of like a quarter of an acre, I mean, there may be like a 20-acre limit or a 25-acre limit on crops——

Mr. CARDEN. In a lot of cases—excuse me, In a lot of cases, that is true in terms of some of the specialty crop programs we have is that the limitation comes in the form of a grower had to have produced a minimum amount of a crop the previous year in order to qualify to enter into the insurance program. But generally, it is enough to make sure that he is professionally growing, that it is not something that he is just growing in his backyard to sell off the front of his house.

Mr. SMITH. Is the availability of insurance for certain crops in certain areas make financing for the farm operation and that specialty crop more available in those areas, so if you are not in an area that can't buy the insurance and can't guarantee through insurance that you are going to have some income to pay back your loans, if you borrow money to do your operation, is the importance of having crop insurance available somewhat important, very important, extremely important, in terms of getting a loan if a farmer is borrowing money to do their farm specialty crop operation? Maybe just go down the line. I don't know how to——

Mr. BRIM. I think it makes a lot easier to go into your banker to ask to borrow money if you have got something to back it up with, and I have talked with my banker right before to left to ask him, you know, what kind of situation he felt like, and he thought the gross revenue product was a good idea.

Mr. SMITH. Mr. Carden.

Mr. CARDEN. It has become more important over the years, very definitely, and I don't know that it in any case that it is the critical decision right now, but I do know that it is a big part of it in the case of our growers.

Mr. SMITH. And Mr. Watkins.

Mr. WATKINS. I have seen it in the nursery industries becoming more and more important to find out if in fact the product can be insured, or if in fact the crop can be insured. Up until the past 5 or 6 years ago, they never even asked. They probably didn't assume it was there.

Mr. SMITH. Help me understand a little better. The insurance coverage in terms of quality reduction as opposed to yield reduction, whoever wants to get that.

Mr. BRIM. I think it would basically all be included in the Gross Revenue product if that is what we could come up with.

Mr. SMITH. No, but right now, how does it work?

Mr. BRIM. I am not sure. I am not in that program, so I really can't answer.

Mr. CARDEN. It really varies on a crop by crop basis, and it varies even within some crops in a State by State basis. I know we have got—for example, I have got farmers that insure tomatoes in several different States. They will have one policy that is based on a dollar type amount of protection in Florida, where up in the Virginia area or in California, they are dealing with a yield policy that is based strictly on their historical yields, just like a row crop policy.

So it really does vary a lot within the policy and, you know, so many things go into the designing of those policies; the type of market that you are trying to approach and whether or not you can store it, whether it is fresh market production, or it is canned or processed or something else, all of those factors have to weighed when you are deciding what kind of a program to put together.

Mr. SMITH. Mr. Chairman, the other question that I have some time for somebody is what percent of the specialty crops have revenue assurance insurance available? So maybe some time Mr. Davidson or somebody could——

Mr. MORAN. Having asked the question, if anyone has an answer on the panel, I would be glad to have you answer the question. The gentleman from Pennsylvania, Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman. Mr. Chairman, I have several questions for Mr. Redding that he has already addressed, but I am just trying to analyze what Pennsylvania's noninsured exposure is. Mr. Redding, I guess since 1998, we went from 7,000 policies to 15,000, but that is still less than 50 percent participation, am I right?

Mr. REDDING. It is going to be in the ballpark of 50 percent.

Mr. HOLDEN. And would that be about the same in New York and New England and the mid-Atlantic States? If anyone can answer that.

Mr. REDDING. My understanding on the other sort of New England States, Northeastern States, it is going to be probably closer to 25 percent than 50.

Mr. HOLDEN. And is that because of the AGR-Lite program?

Mr. REDDING. It is part of the interest or at least what has spawned some of the interest in the neighbors to our north of Pennsylvania to participate in AGR-Lite. They recognize to bring a lot of these folks in, you are going to have to have a product, and currently that product is not there. Either it doesn't address the needs, or isn't available for one reason or another, so the way to address that is to try to reach out and bring in the revenue side of the operation.

Mr. HOLDEN. So the AGR-Lite program has enrolled 14 of Pennsylvania's 67 counties, correct?

Mr. REDDING. That is correct. We started with six, we added eight additional counties in a pilot basis. We have 14 out of 67.

Mr. HOLDEN. And out of the 67, we probably have significant production in 55, 57 counties?

Mr. REDDING. Sixty-six. If you take Philadelphia County out, then you are left with some production——

Mr. HOLDEN. What do they grow in Allegheny County?

Mr. REDDING. Oh, they have some nice farms in Allegheny County. The southern part of the county towards the airport, if you fly into Pittsburgh Airport, you see Allegheny County.

Mr. HOLDEN. OK. So the negotiations with RMA you said are going along in a positive manner. I am just curious what are the main sticking points in the negotiations. Is it the subsidy price if you try to enroll the 66 counties, or where in the negotiations are you having trouble?

Mr. REDDING. Well, I think there are a couple of issues. Clearly we are into new territory, and part of the 508(h), which is the new product development provision, part of this is you need to have somebody take the leadership in that farm community, in the insurance community, in the State Government community somewhere. In Pennsylvania, we have done that, but part of the issue is trying to work through that process, but also sort of reassure those who have to make some decision about the fiscal health of those types of policies. There just aren't enough of them to sort of provide that, first of all.

Two, there are issues of trying to verify income, and when you start down this road of looking at a whole farm approach, there are issues you immediately run into that are very separate from crop-specific income, and we spent a lot of time working with RMA, and to their credit have looked at it, but that is a challenge. And I would say part three is sort of getting the private companies who are going to write the insurance, to get them to buy into it and get them comfortable with the idea of now they have got a field staff who has to understand both crops and revenue, and that has taken some time.

Specifically to the proposal we have pending, we have a proposal before the Federal Crop Insurance Corporation that looks at a 12-

State AGR-Lite proposal. We have brought in all of the New England States, and we are trying to work through that. I would say the most important provision for us is going to be raising the gross income level from where it is today at about $100,000 in liability to $500,000. That $500,000 cap will allow a lot more producers to come in, and particularly, specialty crop and livestock producers.

Mr. HOLDEN. Well, thank you, and I also want to thank Mr. Davidson for being here today and also for your continuing cooperation in these negotiations so we can try to get that exposure reduced. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Holden. The gentleman from Florida, Mr. Putnam, although a member of the full Agriculture Committee, is not a member of this subcommittee, and I would ask unanimous consent that he join us at the dais and be able to ask the panel questions.

Mr. SMITH. I am reserving the right to object.

Mr. MORAN. Without objection——

Mr. SMITH. I relinquish that right.

Mr. MORAN. So ordered. Mr. Putnam, I appreciate you joining us. In fact, your input to me is part of what sparked my interest in this hearing, and I appreciate your accommodating us with the suggestion that Mr. Carden be one of the witnesses. So we are delighted to have you and recognize you for any questions you may have for the panel.

Mr. PUTNAM. Thank you, Mr. Chairman, and thank you so much for your interest in this issue and particularly for indulging us in having a local expertise on the panel. When ARPA passed, the nursery industry, the fruit and vegetable industry generally, I think, was pretty excited about the opportunities that it presented, and perhaps we were guilty of unrealistic expectations, because at least in my part of the world, we have been fairly disappointed that a lot of what we hoped would occur has not come to pass, particularly, and Mr. Carden mentioned this in his testimony, that the procedures that were set up to encourage outside innovation of policies—in Mr. Carden's words, he said the procedure they have written for filing a policy with the Board is so onerous it cannot be taken seriously as an avenue we can use. And that while RMA has contracted out a large number of studies and programs as mandated by ARPA, few have seen the light of day and none have been to the benefit of specialty crop growers.

My first question, probably to Mr. Watkins, would be do you share that same concern? Has it not been effective as you had hoped?

Mr. WATKINS. Thank you, Mr. Putnam. In response, I would say my concern is I don't think that we have done a good enough job, number one, educating the growers, particularly the specialty growers, a lot of citrus growers, a lot of nursery growers, of the availability of the product. And second, as I pointed out in my testimony, there are several changes that need to be made to make the insurance applicable or properly applicable to that kind of crop. And again, I point at the pricing, and the RMA has just said, you know, we can't do that. That is not how we do that now, so we are not going to look at it. And I think that with the appropriate direction from this subcommittee that we could at least get that part of it studied and looked at.

I think also the looking at container crops versus crops that are field growing, you know, there are differences and there are differences of exposure that exist there, and none of these are recognized right now. So I think there are a lot of needs to make the program work better for the nursery industry in particular, as well as some other specialty crops, and I thank you for the question.

Mr. PUTNAM. Mr. Carden, do you wish to further develop your thoughts on ways that some obstacles could be removed to get new policies into the system and yield greater participation by growers?

Mr. CARDEN. Well, I think one of the biggest problems that we have seen, a lot of the problems that we are talking about here are what I call time-tested problems or time-tested issues. These are things that the industry has been bringing forward to RMA year after year after year, asking for these changes to be put in place. And we just—basically, in most cases, they seem to be thrown out kind of out of hand, and that is what we had hoped we would see here is—with the 508(h) submissions, was an avenue to make those submissions maybe through a different route or to a different body, and not have to have the same people telling us the same answer over and over again, and see if we could get some relief in that area.

Mr. PUTNAM. Mr. Brim, do you wish to comment on any of those concerns?

Mr. BRIM. Yes. RMA has tried to do a very good job of what they are doing. Their technology and all has changed so much in agriculture and forestry and the floral industry and the citrus industry and all that we have there—the types of avenues that they go about appraising what the value of the product is, particularly like in my case, I have drip irrigation. Well, it costs a lot more money to do drip irrigation than it does to grow a bare ground crop of vegetables, and I think there needs to be some work done on the political side of it to see if, with their policies, that they would be able change some of their policies without having to go back through the legislature to do it.

Mr. PUTNAM. Mr. Carden, you have asked for 5 years. You have been working with RMA to try to implement a citrus canker peril and fruit policy. Do you have any idea why there has been such resistance to that?

Mr. CARDEN. Absolutely no idea. In fact, we are generally told—every year we bring it up with our committee at the Florida Citrus Mutual and ask for it, and we are told that it looks fine. It should be fine. It should be there, and then, lo and behold, when the program rolls out, it is not there. And, you know, again, we don't know why. We contact back with the same people, and they seem as mystified as we are. But it simply isn't there, so I can't tell you why. We have never gotten what I would call a great explanation for it. It just never shows up.

Mr. PUTNAM. The Federal and State governments have spent a fortune both in eradication and compensation programs to growers that certainly could be offset to a great degree through a thoughtful risk management program. So hopefully, we will be able to either get a good reason why it hasn't occurred, or bring it about. So thank you very much. Thank you, Mr. Chairman.

Mr. CARDEN. I certainly hope so.

Mr. PUTNAM. I see my time has expired.

Mr. MORAN. Mr. Putnam, thank you. The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman, and thank you for holding this hearing. Let me thank our witnesses for being here this morning. Being from North Carolina, you may or may not know, we are probably the third or fourth most diverse agricultural State in the Nation, growing a lot of specialty crops out of necessity in recent years, because we are trying to diversify our base more and more. So we have a large number of specialty crops, as you can appreciate, and I would tell you I am particularly interested in this area because it is an area that not only is it difficult sometimes to get bank loans, the insurance is critically important as farmers start to diversify. Today, with a farmer diversifying with a small plot, it is becoming fewer and fewer diversifying with larger and larger acreage, and of course the exposure is tremendous. And if you can't get some insurance, I know you understand the problem they face. They could be out of business very quickly in a very bad year without some help.

Mr. Brim, I especially noted in your testimony about your difficulty in expanding pilot programs for commodities to other parts of the State and beyond. I had in my office just in the last 10 days a group from the sweet potato group that would affect not only North Carolina, but Georgia and one or two other States, I think. But by and large, large numbers are grown in eastern North Carolina, and they have been experiencing the same difficulty, so I know what you are talking about. But my question is, and I am very curious, what has been RMA's answer to your complaints or your problems or your prodding and your concerns, and is the cause of the delay, in your opinion, a systemic problem within what we are dealing with, a legislative problem, or is it related to a specific crop?

Mr. BRIM. No, sir. I appreciate the opportunity to respond. I think that the problem—and I am familiar with the sweet potatoes in North Carolina, because I have some friends, growers up there, that they really complained about the way that the pilot programs up there worked because it skewed their markets as well. But I think that RMA has tried to do a good job. I think things get bogged down out in Kansas City for some reason or another, and I am not sure why, but we have, not in my particular area, but the pecan area, we have had some permanent policies put in for pecans that it has just—and it should have already been instituted in 2003. And I think it is sitting there now out in Kansas City and they are not doing anything with it, and we just don't know why they continue to sit on it out there.

I think there are some areas that the pilot programs really do work, but like I said a while ago, I think they need to be expanded so that the acreage is a wider area of coverage so it won't skew the markets out of proportion.

Mr. ETHERIDGE. Mr. Chairman, I would hope in the future we can invite someone from Kansas City and get some answers, because I know a little bit about this, and what really happens is if I am covered and you are not, and you happen to have—you are right across the county line from me or in the next community, and you are covered and I am not, you have an advantage over me because your insurance is covered. Mine is not. If we have a loss, the bankers are going to look at us, and you can literally rent land and pay more for the land than I can, so we are putting farmers at a disadvantage, and then the marketplace pays the difference in that price, and I think that is unfortunate in our policies. Wherever the bottleneck is, we need to open up that neck.

Mr. BRIM. Might I respond again? I think in North Carolina in several counties, they had a pepper pilot project as well, and I have some good friends that are in the pepper business up there, and it almost put them out of business because it skewed the market so bad that acreage went up to 3 or 4,000 plus more than they normally have, and it almost put them out of business.

Mr. ETHERIDGE. And I think the pilots are great, but the problem is, we keep having pilots and don't expand them when we have got good data, and I think, Mr. Chairman, that is important. Mr. Chairman, if I may, I have a letter from the North Carolina Strawberry Association to the Risk Management Agency, and they have got some of the same problems and I would appreciate your position to insert this letter as part of the record, if I may.

Mr. MORAN. Without objection, so ordered.

[The letter appears at the conclusion of the hearing.]

Mr. ETHERIDGE. Thank you. I yield back.

Mr. MORAN. The gentlewoman from Colorado.

Ms. MUSGRAVE. Thank you, Mr. Chairman. You know, a lot of this doesn't pertain to where I live and where my producers are in the State of Colorado, but I do have one county specifically that has some of the best agricultural land in the United States, Weld County in Colorado, and a number of specialty crops are grown. So I am trying to just listen and figure out how this all works, but of primary concern to me is how agents are educated and how producers are educated and kind of some of the complicated issues that might be found with some of the crops in Colorado, where a particular kind of squash is grown for the Japanese people. And you have one little minor storm where they may be a blemish on the squash from some very soft hail or whatever, and that crop suddenly becomes worthless. And, you know, it is given to homeless shelters, and it still—even getting it out of the field is expensive even if much of it is done by volunteers, so the whole issue of crop insurance for specialty crops is of great interest to me.

I don't know if anyone on the panel can address the education issue of agents and producers, so people, whether they are in the east or whether they are in Colorado, they know what is available to them and the peculiar situations that arise with some kind of weather issue that might make the crop unsalable to anybody even though it is still perfectly edible and good, but it is worthless to the farmer then.

Mr. CARDEN. Yes, I will try to answer that, Ms. Musgrave. The education issue as—and I am a crop insurance agent as well. It is a huge issue for us. I addressed some of that in my testimony in that because of this, every single one of these crops is different.

The policies and the idiosyncrasies of them make each one completely different. It requires a completely different set of knowledge for each one of them. We need time to digest everything that comes in there.

There are also fairly dynamic. There are things within these programs that change every single year. We need time, the companies that have to service the policies need time to know what they are going to be doing, educate their own people, and then pass that knowledge down to me as an agent. I need the time to digest it and then go out and present it to the producers in the field so that they can know what exactly they are or are not buying when they make that decision, and know how the policy works.

I can remember when things were expanding so much back in the early and mid–1990's with this program. We went from in the citrus industry participation of probably 10, 12 percent of the acreage out there to somewhere around 80 percent in a matter of 2 years. Growers were taking losses that they didn't even know that they could claim an insurance indemnity on, and we were finding out about it almost after the fact and going back and trying to help them figure out how to prove what they lost, and you know, I think it is critical.

This is a big issue with me personally. I know it has been a big issue with the crop insurance industry in general, is getting this information from RMA in a timely enough manner for us to be able to get it out there properly so that everybody understands what is going on, from the grower to the banker that is lending him the money to the insurance companies that service it, everyone.

Mr. MUSGRAVE. Thank you, Mr. Chairman.

Mr. MORAN. Thank you very much, Ms. Musgrave. Just a couple of followup questions, if I could. Mr. Brim, in your testimony, a couple of things stood out to me about production records and your concern about the price effect when people in a pilot county begin growing cabbages, in your case. It seemed to me that your testimony, you have had that answered by RMA who says we have got to have 3 years of production records before we will provide insurance coverage. And yet my impression was that you don't think that is the way it is working.

Mr. BRIM. Well, up until this point, and in my earlier testimony, I didn't realize that they had a 3-year—they had changed the law to where it was three years, which would work. But back in 1999, we had a watermelon issue where they had a pilot project for Georgia and Alabama, and some of the agents called and asked me what I thought about it. I told them that they had better not do it, because, I said, you need some history behind the growers, and don't insure somebody that is not growing already, and they went ahead and did the pilot project.

And I think Mr. Davidson can tell you what it cost them to do that pilot project. It was a disaster, and I hate to see our Government be abused as well as us trying to abuse the Government, so I think it is just an opportunity for us to rewrite some regulations with these pilot projects to keep them from abusing the government as well as abusing our taxes.

Mr. MORAN. Do you believe that that is continuing, the practice that you are complaining about, it is still a problem today, or it has been corrected?

Mr. BRIM. Well, we don't have enough pilot projects now to speak to that.

Mr. MORAN. And then I just would agree with you about this issue of unit, which you described as field or orchard, that is a problem for all of us in crop insurance as to what unit of the farming operation is covered, a loss on a particular field and production that is successful on another. And we need to continue to work, I think, on that issue, and I share Mr. Putnam's question or frustration.

If there is an example of why there is frustration with government, the canker story, 5 years of effort is an awfully good example or a bad example about how things should or shouldn't work, and again, would—hopefully, RMA listening to the testimony, maybe they have an explanation for why this shouldn't happen. But just reading your testimony, Mr. Carden, it doesn't appear to be a good explanation, and would encourage RMA to finally resolve this issue, as compared to what has happened in the past.

Mr. Watkins, Christmas trees, that is one I can relate to as a Kansan. We have a few folks who raise Christmas trees. Are Christmas trees not covered at all under crop insurance? When you asked for a program for Christmas trees, there is no program today?

Mr. WATKINS. I do not think that they are covered as it currently exists.

Mr. MORAN. And any inherent problems in Christmas tree production that would make it difficult to insure?

Mr. WATKINS. I would think in terms of specialty crops, it would probably be one of the easier ones to insure.

Mr. MORAN. That is the way my reaction would be to that. It is a crop that you can easily define. The value is there.

Mr. WATKINS. It is pretty easy to define the value, and pretty easy to define the market.

Mr. MORAN. One of you, and I couldn't find it while I was sitting here, but in reading your testimony, I remember one of you talking about greenhouses and the inability to insure greenhouse-grown products or crops. Would you expand upon that? I mean, I had not thought about that, but it seems to me there is an obvious issue about a farmer who utilizes a greenhouse as compared to one growing more fully with nature, a different kind of risks, I assume, and I would like to know a little bit more about that.

Mr. CARDEN. Sure. Yes, and that was in my testimony, Mr. Chairman. What you are dealing with there is, within the eligible plant list that comes out in conjunction with the nursery policy eligibility material, they define whether or not a plant is insurable in a given physical or geographical location. They define that by hardiness zone, and they give each county a particular zone number. If the plant in question is not listed as hardy to that zone number, it is not insurable on that geographical spot.

Now, it makes sense if you are leaving it outside, but again, if you are putting a controlled structure over it, controlling the water, controlling the temperature, hot or cold, and doing the things that you need to do to ensure that it, in fact, is in an artificial environment now that is conducive to raising that plant, it doesn't make sense to us not to insure it.

Mr. MORAN. Are greenhouse-grown plants insurable? Today, there is a program that exists for——

Mr. CARDEN. They are insurable, and there are different things within a hardiness zone that will tell you in those given plants what you have to do to protect them. In some cases, they are required to be in a greenhouse. But again, there are a large number of plants that are not insurable in that zone. They are just not rated for it. And that is true, as far as I know, across the whole spectrum in the United States.

Mr. MORAN. The insurance policy is directed toward greenhouse-grown, environmentally-controlled growing conditions and the policy is different and the premium is different than if you were growing it outside?

Mr. CARDEN. No, there is a difference. The only difference that is there from an insurability standpoint, they break it into two categories. One is field-grown and one is containerized stock. It can be inside or outside depending on the variety. Now, if you have got a variety of, say, some type of a specimen indoor plant. That has to be insured in a greenhouse. I mean, that has to be covered and protected by a greenhouse so that you can't leave it out there, so that if you get a freeze in the area, it won't die.

Mr. MORAN. Let me try it this way. We can grow tomatoes outside, we can grow tomatoes inside. Is the insurance policy different for greenhouse-grown tomatoes than field-grown tomatoes?

Mr. CARDEN. No, it is not.

Mr. MORAN. Really? What is the explanation for that?

Mr. CARDEN. No explanation.

Mr. BRIM. I have a greenhouse operation and we grow pine tree seedlings, and we can't insure the pine tree seedlings that we grow inside the greenhouse. We can insure them outside the greenhouse, but we can't insure them inside the greenhouse.

Mr. MORAN. Would you say that again? I am sorry.

Mr. BRIM. Yes, sir. I will grow pine tree seedlings, and we grow them outside under irrigation, and we also grow them in the greenhouse. We can insure them outside, but they will not allow us to insure them inside the greenhouse. I am not sure why, but that is just the way it is.

Mr. MORAN. Are the risks for an insurable event less for greenhouse-grown plants?

Mr. BRIM. Yes, sir. I mean, it is easier for us to grow them in the greenhouse. They are more protected in the greenhouses than they are outside, so I don't know why they won't let us insure them, but that is just the way the law reads it.

Mr. MORAN. OK. Let me see if anyone else has questions. Mr. Putnam.

Mr. PUTNAM. Just very briefly, and again, I don't want to abuse the privilege of being allowed to speak, but notwithstanding Mr. Smith's objection.

Mr. MORAN. You are a Member of Congress, which would suggest that it is abused regularly.

Mr. PUTNAM. Well, then I will move forward.

Mr. MORAN. Please do.

Mr. PUTNAM. I just would leave with this comment. It is not a question, it is that the sense that I get is that nobody really wants to mess with specialty crops because they are hard. Because it is difficult. You hear Mr. Smith talk about asparagus and plums and grapes and apples and cherries and we have got strawberries and all the winter vegetables and it is just not easy to do, but I would remind everybody on the committee, because sometimes I feel like that is sort of my role as the redheaded stepchild of specialty crops, which is that this is all specialty crops have. There isn't a program, there isn't a target price, there aren't any AMTA payments for these specialty crops.

They count on some type of thoughtful risk management tool, occasionally a disaster assistance tool, which can be mitigated by a thoughtful risk management tool, and if you approach the perils correctly, then you can avoid the problems that OMB is about to create by setting a 50/50 payment limit on eradication of pests and diseases. So all of these things that we get hit by, whether it is opening up particular markets that have infestations, whether it is the lack of AFIS protection at the borders, whether it is the lack of OMB's willingness to pay the tab to clean up the mess that AFIS allows in here, or whether it is the simple threats that have faced agriculture since the dawn of time that are weather-related.

This is really the only opportunity that these crops have to get a limited form of assistance or protection from the Federal Government, unlike the grains, and so while I know that it is difficult for RMA to go about designing these policies, they need to do it, and they need to work with the industry and develop the innovation necessary to have a workable, worthwhile system. We take a lot of votes in the Congress that are naming Post Offices and recognizing heroes, and we take some votes that are balancing the budget or working with tax policy or dealing with Medicare. Some days are easier than others, but you still get paid for the hard votes, and I think that RMA really needs to adjust their approach to this and understand that they just need to move forward and work with it.

When we were trying to devise a canker policy statewide for Florida, it took legislative action to do it in 1999, and hopefully, it won't require further legislative action to bring about a workable program for the rest of the specialty crops.

I appreciate the input of the panel, Mr. Chairman.

Mr. MORAN. Mr. Putnam, thank you for those comments. Only, perhaps, to prove that I listen to you regularly, I have heard that argument, but I have also heard you make that argument during discussions about funding of research, that it is the only opportunity that your farmers have for assistance for the government. So there is at least two, crop insurance and research.

Mr. PUTNAM. I apologize for leaving that one out in this particular tirade.

Mr. MORAN. Yes, sir.

I appreciate very much the witnesses' participation today, the knowledge that I have gained and I hope other members of our subcommittee have gained. My staff was telling me, Mr. Brim, when you were answering my question, I apologize for my inattention, but they were telling me that Christmas trees now have a feasibility study underway in 2003, so I have a number of issues that I am interested in pursuing, and the information that I have gained today is very useful to me, and again, thank you for being here.

Without objection, the record of today's hearing will remain open for 10 days to receive any additional material or supplementary written responses from the witnesses to any questions posed by a Member.

This hearing of the subcommittee is now adjourned. Thank you.

[Whereupon, at 11:46 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF RUSSELL C. REDDING

Mr. Chairman and members of the subcommittee, thank you for the opportunity to be here today. My name is Russell Redding, Executive Deputy Secretary of the Pennsylvania Department of Agriculture. I am pleased to participate on this panel and explain how the Department has worked over the past several years to address the crop insurance needs of our specialty crop producers.

The drought of 1999 served as a wake-up call for Pennsylvania producers. They realized that crop disasters do happen in Pennsylvania. The State provided a $60 million disaster assistance program to producers to strengthen agriculture. This was in addition to the USDA's disaster program. Participation in crop insurance was low at the time but did pay producers $22.5 million for crop losses.

In 1998, producer participation in crop insurance programs included about 20 percent of the eligible acres in Pennsylvania. The perception of crop insurance and risk management in general was that such programs did not work well at the farm level, unless the grower mirrored the typical mid-west operation. Producers spoke of a lack of effective crop programs and crop quality protection that was out of sync with eastern markets. Producers also had difficulty with the requirement that they must have third party verifiable records (which were available only for commercial grain producers) to qualify for actual production history coverage.

The Pennsylvania Department of Agriculture recognized the value of improving farm level risk management at both the micro and macro levels. A producer task force was established to formulate recommendations to improve the Crop Insurance Program so that it would work as well for Pennsylvania farms as it did in the Midwest and Great Plains states. The goal was for the program to be available statewide to all producers and at an affordable price.

As part of the 1999 State disaster legislation, some funding was provided for crop insurance grants as an incentive for producers to buy meaningful crop insurance protection in future years. From a public policy standpoint, increasing producer participation in crop insurance programs would increase the financial security of producers at the farm level and reduce the need for future, costly State disaster assistance.

The 2000 ARPA crop insurance reform was a boost to the process, as it provided additional cost share, making higher levels of coverage more meaningful and affordable, and provided authority for outside development of new or improved products and seed money for more aggressive educational efforts in low-participation states.

In 2002, the Pennsylvania Department of Agriculture developed an improved and streamlined version of the Adjusted Gross Revenue (AGR) program called AGR-Lite. Although the policy size was quite limited ($100,000 of liability per policy), it provided more streamlined, whole-farm coverage that provided protection for almost all commodities, including the production of animals and by-products such as milk. It was based on readily-available income tax records and guaranteed a combination of production, quality, and price, based on the producer's actual history. About 60 AGR-Lite policies were written in the first year alone versus only seven AGR policies written after 5 years of marketing efforts.

The Pennsylvania Department of Agriculture, in cooperation with Penn State University and RMA/USDA, launched an annual, intensive producer education program to encourage producers to make broader use of federally-sponsored risk management programs. By 2002, producer enrollment doubled to about 14,000 policyholders with insurance protection of $222 million for a producer paid premium of $5.7 million. Because of the devastating drought, producers received $63.6 million in crop loss payments. So, with about $1.5 million annually of State provided producer cost share and considerable producer educational efforts, annual protection at the farm level increased about $100 million and the State avoided the need for a another costly disaster aid program.

USDA Secretary Venneman, in 2003, authorized the use of funds from the American Management Assistance Program (AMA) of the farm bill as an additional producer premium cost share on spring planted crops in order to make the higher, more meaningful crop insurance coverages more affordable. With only a three-week enrollment period, Pennsylvania producer response was outstanding. About 60 percent of the producers using crop insurance bought coverage of 75 percent or greater of their historical yields in 2003, an increase from 20 percent of producers in 2002. It is estimated that the resulting buy-up coverage will yield an increase from $80 to $100 million in protection for Pennsylvania producers, from about $6.5 million of USDA-authorized AMA mandatory cost share funds, because policies are more affordable.

Furthermore, in the 15 low- participation states, it is estimated that producers purchased about $200 to $250 million in increased protection (a 25 percent increase from 2002) because of the increased USDA cost share of about $15 million. The positive producer response to this USDA initiative may well have been the most significant one year change of producer risk management preparedness of all time.

Pennsylvania Producer Needs

Specialty crops. These crops are taking on increased importance as more growers are producing for local and metropolitan markets in order to survive. Most of these crops are either currently uninsurable or coverage is limited to a few counties. Much remains to be done in this area.

Forages—There are 2 million acres of forage crops produced without a meaningful Crop Insurance Program in place. The program currently available does not recognize quality which is of paramount importance to Pennsylvania producers.

Tree, Vine and Bush—Pennsylvania had an outbreak of Plum Pox several years ago. Grower losses have been partially covered by indemnification programs. It is critical that a meaningful crop insurance coverage be provided for these producers.

Fruit Programs—While there is reasonably good participation in the apple, peach and grape programs, there is a deficiency in the quality protection of the policies and in the case of grapes, coverage needs to be expanded to additional counties.

AGR/AGR-Lite—These whole-farm coverage programs currently make crop insurance available on many of the otherwise uninsured commodities. However, considerable work remains to make these programs work as well as they should for producers. The twelve-state AGR-Lite proposal for 2004 currently before the FCIC Board of Directors is a must-have proposal in order to provide meaningful protection to the small to mid-sized producers of animals and by-products such as milk. Higher levels of coverage in these plans also need to be explored to be consistent with the producer needs and the authorization of the 2000 ARPA. AGR should be expanded statewide and streamlined to fit the needs of larger producers.

Summary

Promoting improved farm-level risk management has been a good public policy for the Pennsylvania Department of Agriculture and has added financial strength on thousands of Pennsylvania farms. With repeated disasters within the last several years, crop insurance has been the cornerstone for the survival of Pennsylvania farms.

At the functional level, there is still much that can be done to improve crop insurance so that it better fits the needs of Pennsylvania producers. We pledge to continue this effort as evidenced through the submission of three 508h risk management proposals submitted to the USDA/RMA on behalf of 12 northeastern states.

We also ask Congress to commend the USDA for the additional premium cost share from farm bill AMA funds for 2004 crops. The $15 million in estimated cost share dollars that generated an estimated $200 million in farm level protection was a public policy bargain that should be repeated.

Pennsylvania Producers— Benefit From Additional Crop Insurance Cost Share

Spring Enrollment Highlight: USDA/RMA made additional crop insurance premium cost share money available that provided up to an additional 50 percent discount to the producers' cost of 75 percent and higher levels of coverage. Producer response was outstanding. For 2003, many of the producers chose to use the discounts to purchase protection at 75 percent or greater levels of coverage. The chart shows the impact of the additional cost share on Buy-Up coverage. The actions by producers when increased protection became more affordable are a testament to their desire for improved protection to the extent that it is affordable.

Pennsylvania producers enjoy $80 to $100 million of additional protection in 2003 because of the added USDA cost share.

STATEMENT OF THE U.S. APPLE ASSOCIATION

The U.S. Apple Association (USApple) appreciates this opportunity to provide the committee with information regarding the adequacy of risk management options for our Nation's apple growers.

USApple is the national trade association representing all segments of the apple industry. Members include 40 State and regional apple associations representing growers the country, as well as individual companies. USApple's mission is to provide the means for all industry segments to join in appropriate collective efforts to profitably produce and market apples and apple products.

Over the past 8 months, apple growers have been working directly with the U.S. Department of Agriculture's Risk Management Agency (RMA) in an effort to improve the apple crop insurance policy. This joint effort is expected to generate significant policy improvements for apple growers nationwide. We are hopeful the committee's interest in this effort will help ensure its prompt implementation and success will depend on growers using it.

At the height of apple bloom in the spring of 2002, temperatures plummeted in Midwest and Eastern apple growing regions causing devastating apple production and quality losses. This single event highlighted the dismal inadequacies of the apple crop insurance policy and drove the apple industry to seek disaster relief from Congress. In an effort to reduce the need for future disaster assistance payments, apple growers have since partnered with RMA in a determined effort to improve the apple crop insurance policy.

A task force of regional grower representatives was assembled under the leadership of USApple to work with RMA's Product Development Division to identify problems and solutions that could be incorporated into a new apple crop insurance policy. This collaborative process has resulted in a proposed apple crop insurance policy that will soon enter the rule-making process.

USApple recommends implementation of this proposed apple policy as soon as possible, so growers will have an improved risk management tool.

APPLE CROP INSURANCE PROBLEMS

I. The current apple crop insurance policy does not cover some common weather-related perils that reduce grower profitability and threaten the long-term economic viability of apple growers.

Solution: The proposed policy will cover all common weather-related damage that growers are unable to prevent through accepted horticultural practices or common sense management. Some damages in the current or proposed policy include hail, frost, freezing damage and limb rubs.

Comments: The inclusion of additional weather-related perils is a significant improvement in the apple crop insurance policy. USApple is confident this improvement will be incorporated in the final apple crop insurance policy.

II. The present apple crop insurance policy stipulates that damaged apples are not covered by the base policy as long as the damaged apples were as good or better than juice-grade apples. Juice-grade apples are a low grade apple, and under current economic conditions have little or no market value. This feature was a disincentive for participation because apples would have to sustain tremendous damage to grade lower than juice-grade, and they would still have little economic value.

Solution: The proposed policy establishes U.S. No. 1 Processing grade as the standard damaged apples should meet to allow grower claims. The proposed policy also gives growers producing apples designated for the fresh market the option to purchase coverage for U.S. Fancy grade, which is a higher specification grade.

Comments: USApple's Task Force recommended growers should have options to purchase the other fresh market grades of U.S. No. 1 Fresh grade and U.S. Extra Fancy grade. The U.S. Fancy grade falls in between the U.S. No. 1 Fresh grade and U.S. Extra Fancy grade. RMA agreed but indicated it did not have the necessary data to immediately provide these options. RMA has agreed to collect this data to incorporate these options in the apple policy. We urge these additional options be available to apple growers as soon as possible, so they can better manage weather-related risk.

III. The coverage period for some apple varieties ends before they are harvested. These varieties then can become vulnerable to late season weather problems, but are ineligible for claims because the coverage is not in effect. Under the current policy, the insurance coverage period ends November 5, while some varieties are not mature enough for harvest until after November 5.

Solution: The proposed policy includes provisions to expand the coverage period for late season varieties.

Comments: RMA plans to work with its regional offices to identify apple varieties that would qualify for a policy date extension, and then set the final coverage date based on that variety. This effort should be a high priority for implementation in the proposed apple crop policy.

IV. The USDA-collected State averages designating fresh and processing apple production are a disservice for the grower and discourage grower participation. Apple production averages used to calculate coverage should be based on county data instead of State data because county data is more representative of actual production for growers that have not developed a production history for specific orchards.

Solution: RMA recognizes the problem and the need for revising data to be more accurate at the State level, and revising production history by county instead of state.

Comments: RMA indicated this data may be too expensive to revise given USDA's current budget. Apple growers are concerned they will not receive fair apple crop insurance policies because of continued use of inaccurate government data. Use of accurate county data is important to encourage and expand grower participation.

V. Average production history (APH) records are used to determine the amount of insurable apple production when apple policies are sold. Under the current policy, production loss years are included when constructing the APH. These weather-related loss years lower the total amount of insurable acreage even though the acreage has a greater production potential. Apple growers need an APH calculation that does not penalize growers for weather-related losses in such a way that discourages future participation in the apple crop insurance program.

Solution: RMA has agreed to reduce the APH by no more than 10 percent each year even if the five-year apple production average calculation causes the APH to decrease by more than 10 percent.

Comments: USApple's Task Force recommended RMA remove the lowest production year from the five-year average APH calculation to help keep APH levels more in-line with normal production. Since removal of the lowest year would require a change in current law, USApple recommends adoption of legislation to implement this APH change.

VI. Under the current apple crop insurance policy, growers break acreage into units to more accurately insure orchards, which may be distinct because of varietal differences or its destination in fresh or processing markets. Smaller units are more advantageous to growers because growers are more likely to meet claim thresholds if the units are smaller. However, growers are unable to define the size of their orchard units unless they can be defined as non-contiguous. RMA's definition of non-contiguous is "any two or more tracts of land whose boundaries do not touch at any point, except that land separated only by a public or private right-of-way, waterway, or an irrigation canal will be considered as contiguous". Growers should be able to use right-of-ways and other obvious boundaries to break orchards into smaller units.

Solution: RMA recognizes this problem, and is considering allowing public right-of-ways to define non-contiguous units in the forth-coming policy.

Comments: USApple is concerned that RMA may not incorporate this definition into the new apple crop insurance policy because RMA claims this change will also have to be allowed for all other crops.

VII. RMA's actuarial estimates indicate the proposed apple crop insurance policy may be as much as 33 percent more expensive than the current policy. If the improved policy is too expensive, USApple is concerned that grower participation in crop insurance programs will decrease, and apple growers will face continuing risk management challenges.

Solution: If grower participation in crop insurance decreases, greater Federal incentives to help offset premium costs should be established for apple crop insurance policies to make them more reasonably priced.

Comments: USDA's annual crop insurance incentive payments are not structured to benefit apple growers or other tree fruit growers. Although the program is intended to provide financial incentives to all growers, apple growers must sign up for crop insurance by Nov. 20, several months before knowing how the Federal financial incentives would impact the cost of the apple policy. USApple recommends restructuring the annual crop insurance incentive program so that apple growers can equitably participate as intended by USDA when the program was established.

VIII. There is widespread lack of knowledge concerning crop insurance among growers and within the insurance industry. This is an impediment to greater participation in apple risk management programs.

Solution: RMA should place a greater emphasis on educating apple growers and insurance agencies selling to apple growers. This could be accomplished through regional education meetings, World Wide Web education modules and policy information sites. Once a new apple crop insurance policy that is supported by USApple, is finalized and implemented by RMA, we hope to partner with RMA and the crop insurance industry to inform and educate growers about the benefits of participating in the improved program.

USApple appreciates this opportunity to provide input on the apple industry's risk management challenges and opportunities to improve risk management options for all apple growers.

Statement of Bob Carden

Mr. Chairman, members ofthe committee, it is an honor for me to appear before you to discuss the status of the specialty crop insurance industry. My name is Bob Carden. I am the president of Carden and Associates, Inc., an insurance agency in Winter Haven, FL. I am also a member of Florida Citrus Mutual, and the Florida Nurserymen & Growers Association. My agency specializes in writing crop insurance for the specialty crops grown on the Florida peninsula. Currently, we have over 125,000 acres of citrus and $700,000,000 in nursery inventory insured under the Federal Crop Insurance program, as well as more than 40,000 acres of other fruit and vegetable crops. This morning I would like to talk about the Federal Crop Insurance program as it relates to these crops specifically, and to specialty crops in general.

1. The Crop Insurance Program for Specialty Crops Not Perfect. Because of their perishable nature and lack of Federal price support programs, specialty crops do not neatly fit into the standard yield/price structure used to insure traditional row crops. As such, specialty crop policies have been developed over the years to address crop-specific issues. While these policies do offer many benefits and protections to growers, improvements could greatly enhance their value as a risk protection tool. Industry representatives are regularly in touch with the Risk Management Agency (RMA) on these issues and RMA's regional staff is always willing to listen to industry suggestions. However, the needs of the specialty crop industry remain unmet largely due to an inability to have meaningful policy changes implemented through the procedural process used by RMA .

Citrus Canker. One such instance involves the Citrus Canker. This disease is devastating to citrus, and when found in a grove it requires the immediate destruction all citrus trees within a 1900-foot radius of the infected area. RMA correctly recognized the need to add this peril as a covered cause of loss to the Citrus Tree insurance policy in 1999, and growers are now paid for trees destroyed as a result of this disease. However, Citrus Canker has yet to be added to the Citrus Fruit insurance policy as a covered cause of loss. This makes little sense to us, as any fruit hanging on a tree when it is destroyed is obviously lost as well. We have requested that RMA add this peril to the Citrus Fruit policy for the last 5 years, and have worked with RMA's Valdosta Regional Service Office to accomplish this task. Every year we have expected this addition, but as of the 2004 crop year, for which the Sales Closing Date was April 30 of this year, it has not been done. The logic in this is nonexistent, as it makes no sense to pay a grower for the loss of his trees but not the loss of the fruit crop they are producing at the time of destruction.

Nursery Stock. Coverage for Nursery Stock is another area of concern. This policy came into existence in the mid–1980's, and has been of great assistance to our growers through the disasters that have occurred over the years. However, the diversity of this industry, not just in Florida but nationwide, makes it such that gaps in coverage exist under this policy. Again, in 1999, RMA revised the policy and made many needed changes; however, it did not go far enough. Additionally, it added some new guidelines and restrictions that have, in many ways, made the policy less useful as a meaningful risk management tool for growers.

For example, only plants for which RMA has established an average price in an area are insurable. In the opinion of industry, price should not be a factor in whether or not coverage is offered, as price risk is not a covered cause of loss. Industry believes that, if a plant can be established as hearty to a given area under a specific set of growing conditions; it should be insurable whether or not RMA has established a value for it up front.

Along those same lines, RMA requires that inventory be valued at the lower of the grower's actual selling price or the price listed in RMA's Eligible Plant Guide. This sounds good up front, but is a nightmare in practice, as most growers have multiple varieties of plants in their inventory, in many different container sizes. The container size issue here is a problem its own, as RMA prints a guide as to entire how a container's size is determined. While the guide is taken from an industry publication, in practice it has very little to do with how growers and buyers of plants perceive these sizes.

As such, in order to know how much insurance they have, growers must utilize an RMA-provided computer program that they must input each variety they grow; in each container size it is grown (after adjusting these to meet RMA standards), just to establish the value RMA considers their plants to have. They must then compare this list to the prices they charge for their plants, take whichever figure is lower, and multiply their inventory numbers, on a size-by-size, variety-by-variety basis, and then total them. All this just to know what their inventory value is for insurance purposes.

Just from the description above, you can see the problem. Add to it the fact that the computer program is not user-friendly for growers, to the point that in my agency we carry out this task for our growers, as they simply cannot do it themselves in any kind of timely or accurate manner. While I consider this a huge risk to my agency from an errors and omissions standpoint, I feel it is one that I must take in order to see that my growers are adequately and accurately protected.

All of that being said, there is a simpler way to do this: simply use the growers' price list as the basis of value. At the time of loss, a loss adjuster can verify that the prices used by the grower in establishing his value are indeed what he sells his plants for, and the inventory value can be revised at that point if in fact the growers' prices were inflated. The potential savings from this simplification in terms of time wasted in re-calculating inventories alone is huge and would be a benefit to all. This has been and continues to be the nursery industry's recommendation to RMA for 15 years, but to date they have expressed no interest in implementing it.

The nursery industry has offered many other suggestions to RMA as well. Several of these have been on the table for over 10 years, but never acted upon. The entire list is attached as Exhibit 1, but I would like to touch on two of them specifically.

First, RMA currently allows growers to insure plants only if they are grown within a given Hardiness Zone. This makes perfect sense when the plants are grown outdoors, as a palm tree could not reasonably be expected to survive in Maine. However, this requirement becomes meaningless when the plants are grown in a controlled environment such as a greenhouse. In this instance, the grower has minimized if not entirely removed the risk of loss to those plants. Under current guidelines, though, the stock not listed as hardy to the area is uninsurable whether or not it is grown in a controlled environment.

There is also a major issue in Florida with rating. Currently, a nursery grower in my hometown of Winter Haven, which is centrally located and 90 miles from each coast, pays the same rate for insurance coverage as a grower in Miami, almost 200 miles away. However, in our area, nurseries rarely take losses, while the Miami-Dade area experiences regular and disastrous events, primarily from hurricanes and heavy rainfall. This cannot be justified actuarially and has been pointed out to RMA many times. We are often told that the policy will be re-rated, and while this has been done in some instances, it has yet to take on a meaningful form. As such, growers in the Miami-Dade area are able to purchase high levels of coverage to protect their risk, yet growers in Central Florida by and large only purchase CAT coverage since they consider the cost to be excessive when compared to their risks.

The rating problem exists in the Citrus Fruit policy as well. No meaningful reduction in rates has been implemented during my 23 years of involvement with this crop insurance policy, although it has a very low loss ratio over that time. In 1996 RMA did a major design change in the structure of this policy that on the surface reduced rates substantially. However, a closer look reveals otherwise.

Prior to the change, a grower buying a Citrus Fruit policy had a 10 percent deductible regardless of the level of coverage he purchased. The policy change implemented by RMA mirrored the row crop deductibles of 15–50 percent. When a premium calculation was done, the cost of a 15 percent deductible was actually higher than the same amount of coverage available under the old policy. The net result of all of this was that growers now had a larger deductible, and had to pay more to maintain the lowest deductible available. In other words, they paid more and got less.

Situations like these exist in most if not all specialty crops. While I applaud all of the effort of RMA has made to meet the needs of our growers, and their willingness to listen to our needs, more needs to be done to make these policies all that they could and should be.

2. Inadequate Time Between Release of Information by RMA and the Sales Closing Date. As you can see from the examples I have given above, these policies are by their very nature complex. A great deal of training is required of both company and agency personnel. It also requires a great deal of grower education in order for them to make the most informed risk management decisions possible. Materials and training must be provided early enough in the process to allow all of these functions to take place. We should be given a minimum of four months, and longer if possible, to work with this material once it is in its final form. In far too many instances this does not happen.

The insurance company must review all of the material pertinent to any given crop to know whether or not there have in fact been any changes to the program. This includes a review of the Crop Insurance Handbook for that year, both the general and crop-specific policy provisions involved, and the actuarial documents, among others. Once they have done this, they must then present it to their agents, who, in turn present it to their growers, who decide on their appropriate levels of coverage for the upcoming year. All of this must be accomplished by the Sales Closing Date, which varies by crop and is defined in the policy. It is also an inflexible date, with no exceptions made. If a grower hasn't made his risk management decisions by a certain date, he's out of luck for a year.

In each crop policy RMA has also set a deadline for itself by which it must release this material for the upcoming year. However, in many cases this deadline does not allow sufficient time for all of the activities described above to take place. In the case of nursery stock, for example, the deadline for release of the material is June 30, and the Inventory Filing deadline for renewal policies is October 1. 90 days is an insufficient amount of time from the perspective of private industry. In reality, if the grower is renewing his policy, he must report any changes to his inventory value by September 1, if he wants the changes in effect on his policy by October 1. This is true because there is a 30-day waiting period for any changes to take effect. As such, private industry actually only has a 60-day window in which to review the material for the upcoming year, prepare the necessary inventory schedules, inform our growers, and the growers make their insurance decisions for the upcoming year and report their inventories.

This task is virtually impossible to carry out professionally within this time frame, yet this is exactly what we are faced with this year. The Eligible Plant List for the 2004 crop year was released July 1. Companies are currently in the process of comparing the new list to 2003's to determine if there were any changes, and if so, what they are. Once I know that, I can begin the renewal process, but I cannot begin until that time. Currently, our training is scheduled for the 22nd of July. This will leave 28 working days my two agents and I to contact our 225-plus+ customers and complete the renewal process.

All this assumes that the material is correct when it is released, sadly there are times when it is not. Such was the case of the Eligible Plant List last year, when some 150 varieties grown in Central Florida were inadvertently left off the list. By the time RMA was able to make the correction and release the final version, September 1 had come and gone. We as agents were thus put in the position of asking our growers to report their inventories and make their risk management decisions as though they were based on the corrected price list, even though the corrected list had not yet been released. This points out our high risk of errors and omissions exposure. In this case, I had two choices: either have my growers report their inventories and choose their coverage levels based on a promise which was not yet in writing, or report the value based on the printed but soon to be revised schedule and revise it after the corrected list came out, thus leaving them underinsured during the 30 day waiting period after the revisions were made.

To be fully fair here, I do believe that RMA does make every effort to release material to us in what they consider to be a timely manner. I also believe they understand the time requirements of the private sector. However, when they cannot meet these needs, for whatever reason, they must be more flexible in giving us the time we need to adequately and professionally complete our tasks. In a nutshell, and I don't mean to be overly harsh here, but RMA's release dates are written in sand for themselves, but in concrete for the private sector. This is a situation that should be addressed.

3. Regulations under section 508h of ARPA for Submissions of Private Designed Insurance Products Must Be Streamlined. Section 508h of the Agricultural Risk Protection Act of 2000 (ARPA) allows for private entities to submit private products, which they have designed to the FCIC Board of Directors. The Board then has the

option of approving the program presented, with the submitting group then entitled to reimbursement for the cost of developing the program.

We in the specialty crop industry were very pleased when this provision was a part of the final bill. We felt that we could now move forward not only with some long sought policy revisions, but also would finally be able to offer coverage on a large number of commodities for which no program currently exists. However, the procedure RMA has written for filing a policy with the Board is so onerous that it cannot be taken seriously as an avenue we can use. Exhibit 2, which is attached to this testimony, shows this very clearly. If Congress' goal under this section of ARPA was to allow for a simplified procedure for the improvement and addition of specialty crop policies, this procedure must be revised.

Additionally, while RMA has contracted out a large number of studies and programs as mandated by ARPA, few of these have seen the light of day, and none have benefited specialty crop growers. This combined with RMA's slow pace of making changes recommended by private industry has left us in the same place we were in before the passage of ARPA frustrated. This is a major stumbling block for us, and we would urge that the necessary changes be made to implement the intent of Congress in allowing us freer access to the Board with our programs.

I would like to thank RMA for its efforts in offering coverage to the specialty crop industry in America to date. I would also like to thank in particular the Administrator of RMA, Ross Davidson, who has been extremely open and available to listen to our needs and requests. I would also be remiss if I did not mention the ongoing assistance of the staff of the Valdosta RSO, as well as Bob Vollmert and his team at RMA's Research and Development office in Kansas City. We are all working toward the same goal, to offer a sound protection to America's specialty crop producers. The specialty crop industry is willing and available to work with Congress and RMA to make changes to improve the program.

Thank you again for your invitation, I hope I have provided you with an informative snapshot of the challenges the industry faces and I will be happy to respond to your questions.

STATEMENT OF JEROME STEHLY

Mr. Chairman and members of the committee:

This statement is presented on behalf of California's 6,000 avocado growers and the California Avocado Commission. We appreciate this opportunity to comment on the effectiveness of the current crop insurance program for avocados and to share our ideas on how the program can be approved to better serve the needs of the Nation's avocado growers.

Avocado growers in California produce about 89 percent of the total U.S. avocado crop and the other 11 percent of production is in the State of Florida. In total, U.S. avocado growers produce about 240,000 tons of avocados on 65,000 acres annually, with a value of approximately $350 million.

AVOCADO PRODUCTION PERIOD DIFFERS FROM OTHER CROPS

The production cycle for avocados is much longer than other crops. In some areas, avocado trees produce fruit for as long as 11 months, with the trees bearing fruit in various stages—from bloom to ripen multiple times during the harvest period. Therefore, growers are more at risk to the vagaries of the weather, since the period in which losses may occur extends throughout most of the year.

The crop year for avocados is defined by the Risk Management Agency (RMA) as "the period beginning December 1 of the calendar year prior to the year in which the avocado trees normally bloom, extending through November of the year following such bloom, and will be designated by the calendar year following the year in which the avocado trees normally bloom."

AVOCADO CROP INSURANCE PILOT PROGRAM

Avocado growers are very appreciative of the Avocado Revenue Insurance Pilot Program, which was initiated in Ventura County, California in 1996, and extended to five additional counties in 1999.

This pilot program insures commercially grown Hass avocados that have reached the sixth growing season after being transplanted into the grove. The program provides coverage for a decline in prices or loss production due to a number of conditions including adverse weather, fire, wildlife and earthquakes. However, it does not provide coverage for damage or loss dues to disease or insect infestation or the inability to market the crop for any reason (e.g., quarantines).

The Avocado Pilot Program differs from the traditional multi-peril crop insurance policy in that the standard actual production history (APH) rules do not apply. For avocado coverage the grower's yields are multiplied by the standardized season average prices and the sum of these results divided by the number of years of yields determine the grower's average farm revenue per acre. The standardized season average price is the average price per pound determined by dividing the value of all Hass avocados in the State by the pounds of Hass avocados produced in the State for the marketing year, as reported by the California Avocado Commission and announced by FCIC. The price may be adjusted by FCIC to represent prices based on current dollar values, as defined by Federal Crop Insurance Corporation avocado policy provisions. Therefore, the season average price is not announced by FCIC until many months after the crop is harvested.

Concerns with the Existing Avocado Pilot Program

Unfortunately, these differences and the length of time involved in this process leads to unnecessary confusion and frustration among many avocado growers.

The Avocado Pilot Program is excessively complicated and should be streamlined. Additionally, growers are often frustrated because they receive conflicting information from their insurance agents and RMA personnel. This confusion has the effect of discouraging grower participation in the program. Many growers are so exasperated by the unnecessary complexity of the program that they only carry the catastrophic level of coverage.

Recommended Improvements in Crop Insurance for Avocado Growers

We recommend the following changes to enhance the program to make it more attractive to avocado growers:

- Revise the method of compensation so growers receive compensation for losses when the crop year is completed. Currently, loss compensation is based on the avocado industry season ending price, which is not available until assessments are paid. This is not until mid-January of the following year. Consequently, avocado growers may have to wait 13 to 14 months before having their claims finalized. Therefore, we recommend the adoption of a program similar to the crop insurance revenue program for cherries in which a preset flat rate is established, so there is a guaranteed price at the beginning of the year. At the end of the harvest, when a grower has sold all of their production for the year, they would submit their receipts and be paid for any loss below the guaranteed price. This way, the avocado growers' claims could be settled in a matter of weeks, not months.
- Expand coverage to other Hass-like varieties (most importantly Lamb-Hass) and also to all counties in California with commercial avocado production;
- Provide quality loss adjustments where wind or cold damage results in post-harvest price reduction and loss of fruit (for example, losses occur when there is a retail call-back); and

Establish a crop insurance rider provision as an optional coverage feature for avocado growers who suffer revenue loss due to government-imposed quarantines and for growers with losses due to insect pests when no quarantine has been declared. Avocado growers would pay an additional premium to obtain this optional coverage.

Relief Needed from Huge Losses Caused by Pest Infestations

Currently, there is no Federal crop insurance product that covers economic damage due to government-imposed quarantines. Over the past 10 years, domestic quarantines on avocados have been imposed due to outbreaks of a number of different insects most notably the Mexican fruit fly, the Mediterranean fruit fly and the Oriental fruit fly. Since quarantines are becoming increasingly common, with declarations almost on a yearly basis, avocado growers have become increasingly concerned about the financial impact of quarantines on their ability to market avocados. Pest infestations in California avocado groves have caused huge losses to avocado growers, and with USDA pushing to expand Mexican avocado imports, this situation will only get worse.

Crop Insurance Rider Option for Quarantine Loss Coverage

Therefore, we strongly support the efforts of Congress to direct RMA to develop and implement a rider option to the current Crop Insurance Program for avocados to cover losses due to quarantines, and to do so in close cooperation with the California avocado industry. We also believe RMA can be of assistance in reporting on the economic impacts of recent domestic quarantines and analyzing the options for protecting avocado growers against future losses due to such regulatory actions.

In fact, we have asked our California Congressional representatives to work with the Appropriations Committee to direct RMA to report within six months on its progress in developing a program for a rider option for avocado crop insurance that will address quarantines imposed due to any injurious pest or disease, including fruit fly infestation.

MEXICAN FRUIT FLY INFESTATION QUARANTINE IN SAN DIEGO COUNTY WAS COSTLY

Avocado growers are particularly supportive of a new quarantine crop insurance rider option in the aftermath of the recent quarantine in the Valley Center area of San Diego County, California. Until just recently, avocado growers in this area were the victims of the longest government-imposed quarantine for Mexican fruit fly infestation ever experienced in the State of California.

Growers in this area were notified by the State of California that no avocados could be moved from the Valley Center area beginning on November 21, 2002. This action adversely affected 10,533 acres of avocados that were subjected to preventative bait treatments that were required to be applied every ten days. These mandated bait treatments that were necessary for growers to be in compliance with the quarantine regulations amount to an unforeseen out-of-pocket cost to avocado growers estimated at $8.3 million.

Additionally, avocado growers in the quarantined area incurred market losses of $7.4 million as a result of not being allowed to sell 10 million pounds of windfall fruit during the quarantine period. There were four windfall events on November 25, 2002; January 6, 2003; February 2, 2003; and February 20, 2003 in the quarantine area. Losses due to windfall under these circumstances were not covered by crop insurance because the fruit could not be marketed because of the quarantine.

This particular quarantine, which cost California avocado growers an estimated $15.7 million, followed other costly quarantines in the last few years. In fact, the last quarantine covered 15 million pounds of avocados in Fallbrook area of California in 1999/2000. Therefore, based on the financial cost to growers due to these losses, we urge the committee and RMA to seriously consider offering a crop insurance option to provide avocado growers the opportunity to purchased coverage for losses due to quarantines.

We commend the committee for this review of the crop insurance available for avocado growers. We look forward to working with you to ensure that the crop insurance products available through RMA provide sufficient coverage and flexibility to meet the needs of a dynamic U.S. avocado industry.

STATEMENT OF JOHN C. WATKINS

Chairman Moran, Ranking Member Peterson, and members of this subcommittee, I am grateful for the opportunity to present testimony today on the state of the Crop Insurance Program in the U.S. as it relates to the nursery industry. My testimony represents both my own views and experiences as a nurseryman in the Commonwealth of Virginia, and as well the views of the American Nursery & Landscape Association.

The American Nursery & Landscape Association (ANLA) is the national trade association for the nursery and landscape industry. ANLA represents 2,500 production nurseries, landscape firms, retail garden centers and horticultural distribution centers, and the 16,000 additional family farm and small business members of the State and regional nursery and landscape associations. The Association's grower members are estimated to produce about 75 percent of the nursery crops moving in domestic commerce in the U.S. that are destined for landscape use. I currently serve as Chairman of the Association's legislative policy committee.

According to the USDA's National Agricultural Statistics Service (NASS), the nursery and greenhouse industry remains the fastest growing agricultural sector in cash receipts. The 1997 Census of Agriculture shows that nursery, greenhouse and floriculture crop sales totaled $10.9 billion in 1997, up from $7.6 billion in 1992. This represents a 43 percent increase in sales over the previous 1992 Census. More recent USDA analyses show that the industry is now valued at over $13 billion at farmgate. Together these crops make up 11 percent of total U.S. farmgate receipts. An estimated 33,935 farms produce nursery plants as their principal crop.

In crop value, nursery and greenhouse crops have surpassed wheat, cotton, and tobacco and are now the third largest plant crop behind only corn and soybeans. Nursery and greenhouse crop production now ranks among the top five agricultural commodities in 24 States, and among the top 10 in 40 States. Growers produce thousands of varieties of cultivated nursery, bedding, foliage and potted flowering plants in a wide array of forms and sizes in the open ground and under the protective cover of permanent or temporary greenhouses.

The nursery industry very much desires an efficient, affordable and sustainable Crop Insurance Program. At present, the Crop Insurance Program falls short of adequately addressing the extreme diversity and unique situations presented by a free-market segment of agriculture that grows thousands of varieties in every State using an array of production systems and technologies. We offer the following thoughts and recommendations on the current program, and some suggestions for improvement:

- Nursery participation in the program is not as high as it should be. Broader participation will help to establish a program that can be more reliably sustained. There needs to be strong and sustained educational outreach. We are open to working in close partnership with the Risk Management Agency on grower outreach.
- Under the catastrophic disaster coverage, the 50 percent loss requirement should be calculated based on losses of individual crop types rather than across the array of crops in a nursery. Different crops have varied susceptibility to potential perils, unlike typical experiences in traditional row crops. In my own operation, I have production fields in three adjacent counties. Under the current program, I must purchase three separate policies to cover these fields. There should be some reasonable way to ensure an entire operation on one policy.

The structure for commissions paid to the agent encourages concentration on serving the needs of the largest nine or 10 clients, but there is insufficient incentive for agents to reach out and target smaller operations.

We strongly suggest using the grower's wholesale price list as the basis for coverage valuation based upon proof of market. As a result, it would become much clearer to the grower, the agent and the RMA exactly what the RMA is insuring. The use of the current arbitrary Federal Crop Insurance Corporation (FCIC)-printed wholesale price eligibility list for valuation purposes could be eliminated, although such a list could continue to be used for plant eligibility purposes.

- Ensure the container size of any plant as such is noted in the grower's wholesale price list without regard to the actual soil volume the container is capable of holding.
- Include coverage for plants grown in smaller than three-inch containers.
- Treat field grown and containerized plants as separate crops.
- Allow for year-round sales of the crop insurance policy subject to a 30-day waiting period for coverage commencement.
- Pursue continuity on how insurance rates are calculated. For example, Georgia's rates are .039 with a zero loss ratio while North Carolina's rates are .033 with a loss ratio of 7.4. Florida's rates are substantially higher than Georgia's.
- The issue of injury accumulated over just one year has become a factor in the green industry. Flood, drought, disease or winter injury may occur in one year and the loss can occur that same year and/or the following year or years. There is little if any continuity on how adjustors process and handle these types of situations. Can this be regimented within the program?
- Implement crop insurance coverage for Christmas trees. Historically, Christmas trees were not intensively managed; many were harvested from the wild. However, production practices in nurseries and Christmas tree farms are now often indistinguishable. Christmas trees as a commodity should be covered under RMA policies and be treated like similar nursery crops.
- For growers in tropical regions, restrict the peril of excess rain to damage incurred in conjunction with a tropical cyclone or an event that causes an area to be declared a disaster by the United States President or the USDA.
- There seems to be a great degree of variation as to how well the program is managed across the country. There should be an agent certification program coupled with a fraud elimination aspect.
- Seriously explore coverage for trees and plants that fall within a quarantine zone especially if those green goods are rendered un-salable due to infestation by a quarantine pest, or ordered destroyed. Quarantines are sometimes imposed while study and assessment of extent of the infestation and risk of harm are being completed. Coupled with the short shelf life of our products and our condensed selling seasons, quarantine restrictions with or without mandated crop destruction pose unanticipated hardships and losses for growers. Currently, ANLA members under current or expected Federal quarantine actions with Federal crop insurance are yet without recourse in many parts of the country. A few examples include:

- Emerald ash borer; impacting growers in southeast Michigan;

• Ralstonia, a bacterial disease of geraniums and other crops, affecting growers nationwide;
• Sudden Oak Death; affecting many counties in central and northern California, and limited areas in Oregon;
• Plum Pox in central Pennsylvania;
• Citrus canker in Florida.

In closing, I wish to emphasize that USDA's Risk Management Agency has reached out to our industry, and we are confident that a strong commitment exists on all sides to resolve such problems that are inhibiting the use and long-term viability of crop insurance in the nursery industry. We are equally grateful for the interest and support of Congress in this matter. Thank you, Mr. Chairman and members of the subcommittee, for your attention and interest in ensuring a viable Crop Insurance Program for the American nursery industry. I would be happy to respond to any questions you may have.

STATEMENT OF BILL BRIM

Mr. Chairman, members of the subcommittee, fellow panel members and other distinguished guests, my name is Bill Brim, president of Lewis Taylor Farms in Tifton, GA. Our farm is a 750-A diversified vegetable operation growing and packing peppers, tomatoes, eggplant, cucumbers, squash, cabbage, greens and cantaloupes. We also operate over 350,000 square feet of greenhouse space growing more than 85 million vegetable transplants and over 15 million pine seedlings each year.

I serve as vice president of the Georgia Fruit and Vegetable Growers Association. I am here today not only representing my farm and association but also Georgia's fruit and vegetable industry that had a farm gate value in 2002 of over $750 million dollars.

Thank you for the opportunity to appear before this subcommittee to discuss the Federal crop insurance products designed for our specialty crop growers. I bring these comments to you in the spirit of cooperation and improvement. FCIC can be a very important farm management tool for specialty crop growers if the products are developed in which growers can utilize them and understand their intended purpose. Georgia growers look forward to working with the Risk Management Agency to continue to improve the methods by which growers manage their crop risks. My comments specifically address issues and concerns with the Crop Insurance Program for pecans, blueberries, peaches, vegetables and RMA educational programs.

Pecans. In 1998, three counties in Georgia (Mitchell, Lee and Dougherty) were approved for a pilot pecan crop insurance program. The pilot was scheduled to go to permanent status as a nationwide program three years later in 2000. It is now 2003, five years later, and the pilot is still not permanent.

For crop year 2003 the three county pilot programs was expanded to include 79 additional counties in Georgia. At the September 19, 2002 RMA Board of Directors meeting the Board voted to convert the pecan pilot program to a permanent status for the 2004 crop year. The proper paper work and reports were submitted to Kansas City. However, our pecan growers are now told this cannot be accomplished until the 2005 crop year due to the regulatory process of policy conversion required by the Office of General Counsel. Georgia growers in non-covered counties and growers throughout the U.S. desperately need the availability of this Crop Insurance Program. Southeastern pecan growers solicit this committee's support and encouragement for the FCIC to put this pilot program on a fast track and move it to permanent status as soon as possible.

Attached to this testimony is a letter from Hilton Segler, Crop Insurance Committee Chair for the Georgia Pecan Growers Association outlining six changes southeastern growers have requested of RMA and FCIC which would improve the current coverage levels and better meet grower/producer needs. In March 2003 12 items of concern or improvement to the pecan crop insurance pilot program were submitted to the Kansas City office for review. Several of those suggestions were approved and included in the 2003 program. We hope the additional suggestions and improvements outlined in Mr. Segler's letter will be approved and included in the 2004 program.

One of the most critical items included in the letter is an industry concern that crosses all crop boundaries and is not specific to any one commodity. This is the issue of multiple units (fields or orchards) being covered under one Farm Serial Number. Many growers have not received payments on crop losses because the field which suffered the loss was one of several fields in the farm and all the other fields produced sufficiently to generate an average yield/income for the farm above the required crop lost level.

It is Georgia growers contention if production records are maintained for each unit (field or orchard) and the crop is insured by the unit, then claim payments should be made whether other units (field or orchard) on the farm produced higher yields/income or not that year.

Growers compare their crop insurance to homeowners insurance. if three houses on a farm are insured and one burns, the insurance company pays for the burned house. The same should be true for an insured field. If that field is insured and has a loss, then crop insurance should cover the loss, regardless of the other field's production or yield.

In order to provide broader product coverage, consideration should be given to allow growers the option for unit (field or orchard) division within a Farm Serial Number, or by noncontiguous tracts. A similar option is provided to growers in the walnut and apple crop insurance programs.

Fruit Crops. At this time the only fruit crops in Georgia with crop insurance protection are apples, blueberries and peaches. As with any new program each of these pilots required some time to resolve all of the details and uniqueness of the different commodities.

Blueberries. Initially the blueberry insurance program experienced pricing and yield projection problems with Georgia's high bush variety versus the traditional rabbit eye variety. It appears most of those issues have been resolved; however, revenue estimates continue to be of some contention. Several members of our association recently provided yield and pricing information to the Valdosta regional office, which we hope, will clarify some of the pricing and yield questions.

Our primary concern with the blueberry program is the lack of availability of the crop insurance product to all Georgia and southeastern growers. The pilot program is available in only three counties whereas we have commercial production of blueberries in 12 counties. In 2002, Georgia had over 6000 acres of commercial blueberry production; however, less than 28 percent of Georgia's commercial acres have crop insurance available to the growers. The 2003 RMA crop insurance records show 1684 Georgia acres in the program, or 72 percent of the Georgia acreage that was eligible for crop insurance protection utilized the program. This represents a very high grower participation in the program.

For Georgia's blueberry growers, the program needs to be expanded to cover all 12 counties with commercial production. Georgia now ranks fifth in the Nation in blueberry production with a 5-year average in excess of 17 million pounds of blueberries grown annually.

Peaches. Product delivery, availability and grower knowledge of the product appear to be satisfactory for Georgia's peach growers. We estimate over 80 percent of the peach acreage in Georgia is covered under the Federal Crop Insurance Program.

Georgia and SE peach growers primary concerns have been in the area of establishing price elections. In some southeastern states, the 2002 price election decreased while the current fresh market price received by growers increased over 2001. The FCIC price decrease occurred in Georgia, South Carolina and Alabama. It appears this decrease is due to the averaging of historical price data to create the yield/price standard at which losses are paid. Both South Carolina and Alabama have suffered multi-year losses in the past 5 –10 years. This has caused some grower's insurance guarantee to be significantly lower than the market price. South Carolina and Georgia growers currently pack peaches in half-bushel cartons while the price election is in bushels based on NASS data. FOB prices are issued daily by the Thomasville market on a half-bushel basis for the Southeast and reflect the true price received by growers at the pack house door. The Thomasville market price is also used in adjusting quality losses on peaches in the event of a loss. Prices are also available through the Thomasville market avenue for prior years, which would establish a more accurate average price received by growers. The prices set by NASS is based on random surveys rather than true market conditions. The southeastern peach growers encourage FCIC, RMA and this committee to evaluate the use of the Thomasville market pricing mechanism instead of NASS. It appears to be a more accurate pricing method.

The issue of allowing for optional orchard (unit) division by noncontiguous tracts is also a major concern among peach growers. Many times a peach farm may have 3–4 orchards separately over a two-mile area. Other commodity programs, such as walnuts and apples, allow for this division if production and income records are maintained for each unit. Allowing for this option in the peach program would improve the quality of the FCIC product and help it to better meet the needs of the individual growers based on their specific situation.

Vegetables. Crop insurance coverage for most vegetable crops in Georgia is available only on a limited basis. Currently over 85 percent of the Vidalia onion acreage is covered by crop insurance. At this time crop insurance for cabbage is available on a pilot basis only in certain counties. Insurance for tomatoes and sweet corn is available as a permanent program in a few counties but may be insured by written agreement in other non-program counties. Peppers are insured only by written agreement in Georgia.

We appreciate Congress and USDA's efforts to increase the number of vegetable crops for which coverage is offered. The volatility of the price returns due to weather considerations and high cost of production makes the need for developing a safety net for vegetable growers even more critical. The fruit and vegetable industry recognizes development of new products require time and experience to refine. Listed below are our observations concerning the current status of crop insurance product availability and delivery for vegetables in Georgia.

- Many Federal crop insurance agents do not inform growers of the possibility of obtaining insurance coverage by written agreement for vegetable crops. It has been my experience that agents generally are not well informed on many issues concerning the insurance program for vegetable crops and consequently producers are not provided the coverage they need. In preparation for this testimony I found out my farm was eligible for pepper crop insurance under a written agreement. I am one of the largest pepper growers in our county but no agent has ever informed me that this coverage was available.
- With some crops the yield/production cost records are not current. Many Georgia growers now use plastic mulch that generate a much higher yield than the traditional bare ground production methods. When claims are made, some vegetable growers have experienced inadequate payments for the high cost of input and anticipated yield. Basing claim payments on inaccurate yield models and selling prices, many times does not reimburse the grower for even his cost of input (materials and labor).
- When new pilot programs are offered in an area, growers should not be eligible for the program without two to three years of production records establishing their cost and yield history for the crop. There have been pilot programs (i.e. watermelons in 1999 and others) in which dishonest growers planted a commodity because crop insurance was available with little or no intention of harvesting the crop. Due to the anticipated over-production of the commodity, prices plummeted and the legitimate growers lost due to low market prices.

This was mentioned during a recent listening session with RMA Administrator Davidson in Valdosta, GA. We were informed the current guidelines require a grower to have three years of production records before they can apply for crop insurance for the commodity. We hope this policy will continue and be vigorously enforced.

- As outlined above in the pecan and fruit sections, the issue of the unit (field) division by Farm Serial Number is also a concern to Georgia's vegetable industry. If production records are maintained for the field and the crop is insured by the field, claim payments should be made whether other fields under the same Farm Serial Number produced higher yields/income to cover total farm revenue or not.
- When pilot programs are introduced in selected counties in a particular commodity producing area, product availability can significantly affect market prices and production practices.

For example the cabbage pilot is offered in three or four counties in Georgia. One of those counties, Colquitt, is a neighboring county to my farm in Tift County. However, the program is not available to our farm. When my neighbors go to the bank to borrow money for their production, they have a definite competitive advantage from an economic risk management standpoint. The bank is much more inclined to offer a production loan, possibly at a better interest rate, to someone who has crop insurance available to them.

We realize a pilot program is just that, an opportunity to see if a program will work and if enough interest is present to generate permanent program status. However, the pilot very often skews market conditions and production competitiveness. In Georgia many times the bulk of a commodity's production is going to be in a 5–15 county area (i.e. sweet corn is in a 6–7 county area in southwest Georgia; cabbage is in a 10–12 county area in south central Georgia, etc.) Possibly allowing all growers in a commodity region to make application when a pilot crop insurance program is offered should be considered. If the demand for the pilot is too large for the funds that are available, then only allowing a certain percentage of the applying grower's crop acreage to be insured could be an alternative.

With regard to product availability vegetable growers and shippers quite possibly present the most challenging opportunity for FCIC with the diversity of commodities, production and yield/price models. Based on conversations and interviews, we believe the Adjusted Gross Revenue (AGR) program, now offered as a pilot program in Florida would be utilized by many of our specialty crop growers in Georgia. We understand the participation in the pilot program has been limited. The Georgia Fruit and Vegetable Growers Association would certainly be happy to assist RMA with educating growers on the program and the advantages of AGR over the traditional FCIC programs if the pilot was also offered in Georgia at a later date.

With the diversity of the vegetable crops in Georgia, having the ability to insure the complete farm revenue should have some interest in Georgia.

RMA EDUCATIONAL PROGRAM ACTIVITIES

For the past 2 years (2002–03), the Georgia Fruit and Vegetable Growers Association has been fortunate to participate in Partnership Agreements with RMA to provide educational programs to specialty crop growers. During those two years, over 2500 growers have received hundreds of hours of training to learn to better manage the production, pest, food safety, personnel and marketing risks they face daily in their farm operations. This has been an excellent program and extremely beneficial to Georgia and southeastern growers. We encourage the continuation of educational partnerships and offer the following comments to improve this program,

The 2002 and the 2003 RMA Partnership regulations allowed for any commodity association, educational institution or other organization to submit a funding proposal for educational programming. In 2003 six different Georgia commodity/ educational organizations received risk management education program funds totaling over $370,000. These organizations ranged in interest from organic farmers to nursery/shrub growers to fruit and vegetable producers.

The fiscal year 2004 regulations were published in the Federal Register on June 13, 2003. In order to simplify RMA supervision of partnership agreements the new regulations allow for only ONE partner per State and the allocation formula provides only $89,000 to a Georgia organization for educational programming funds. While we understand the need to streamline the reporting and accountability, it will be very difficult for one organization to represent and oversee commodity programs as diverse as flowers and shrubs to fruit and vegetables. Our fruit and vegetable association does have a good working relationship with other RMA partners in Georgia and we are developing a joint master application from the Georgia Fruit and Vegetable Growers Association for all the organizations in Georgia. In the future we hope the one partner per state will be reconsidered.

The Federal register regulations did not appear until June 13 and the RFP deadline is July 28 with the project beginning date on October 1. We would ask for earlier publication of the RFP guidelines and earlier award announcements. It is very difficult to plan for FY04 projects when the RFP guidelines, proposal deadline and award decisions/announcements are not made until the fourth quarter of 2003.

I very much appreciate the opportunity to provide this testimony to the committee. I hope the committee and the Risk Management Agency will accept these comments in the spirit in which they are offered as suggestions for improvement to a very important and critical program for our fruit and vegetable growers. I look forward to continuing our work with RMA in the future for the betterment of agriculture.

David Hatch
Associate Administrator
USDA Risk Management Agency
1400 Independence Ave. S.W.
WASHINGTON, DC 20250–0801

Dear Mr. Hatch:

Thank you for taking time to address issues discussed per our telephone conversation on 6/25/03. It is my understanding that the Board of Directors approved conversion of the pecan pilot program to permanent status for the 2004 crop year on September 19, 2002. As of this date, I am informed that this will not be possible due to the regulatory process of policy conversion to a permanent program in view of this; I would hope we could at least implement program changes for the interim.

The Valdosta Regional Office submitted several recommendations to Kansas City in March of this year. Some have been implemented such as the insurability of all varieties, not just improved varieties, for the 2004 crop year. Other recommendations I respectfully request for the 2004 crop year are:

Expansion of the pilot pecan program in Alabama, Florida and South Carolina for the 2004 crop year. Valdosta is now in the process of forwarding production data, where available, to Kansas City. Due to limited numbers of growers in these areas, disclosure becomes a sensitive issue.

Add a provision for optional unit division by Farm Serial Number or by noncontiguous tracts, as do walnuts and apples. Currently all acreage in a county is one unit.

Revision/correction of program dates. Sales closing (11/20) is entirely too early, the billing date is September 15, before pecans are even harvested, cancellation and termination dates are August 31, and should coincide closer with sales closing.

Elimination of the 30 percent reduction in insurance guarantee if an orchard is sequentially thinned. Pecan experts from Auburn University, Byron, Georgia and Tifton, Georgia have provided documentation to Kansas City that discredited this theory. No other tree policy to my knowledge (almonds/walnuts) has this ludicrous approach.

Added land provisions for row crops are initiated at a 50 percent increase in acreage while pecans acreage begins at 12.5 percent. Pecan growers feel a threshold of a 40 percent or 200 acres would be equitable.

The Pecan Revenue Pilot Program does not allow for Direct Marketing, this should be corrected so that Direct Marketing will be allowed provided that the guidelines in section 10(2) are met.

Thank you again for you prompt attention to this matter. Implementation of these changes would greatly improve the pecan program and expedite the regulatory process for the 2005 crop year.

Sincerely,

Hilton R. Segler

CONGRESS OF THE UNITED STATES

July 9, 2003

Dr. Keith Collins, Chairman
Federal Crop Insurance Corporation Board of Directors
1400 Independence Avenue, S.W.
Washington, DC. 20250

Dear Dr. Collins:

We are writing to urge the serious consideration by the Federal Crop Insurance Corporation Board of Directors to expand the pecan revenue coverage insurance program to include the top pecan producing counties. in Alabama. It is our understanding that this issue will be before the Board at its meeting August 1.

In 2001, Alabama ranked seventh nationally in pecan production, with 15 million pounds valued at $7.6 million. The leading pecan producing counties in Alabama are Baldwin, Bullock, Covington, Lowndes, and Mobile. While we would like to see coverage provided for all counties in the State with production, we recognize the uncertainty introduced by the lack of production and price information available for many of the counties with small production levels.

These producers desperately need this risk management tool, especially since there is no Federal crop program available for pecans and currently no insurance coverage available for these producers. Specifically, we encourage the Board to approve as many of the pecan producing counties in the State as possible, particularly the higher production counties, for inclusion in the pecan revenue coverage insurance program administered by the Risk Management Agency.

Thank you for your attention and consideration to this important matter for Alabama pecan growers. Please let us know if we need to provide further information or if you have any questions.

Sincerely,

Terry Everett, M.C.
Jo Bonner, M.C.
Mike Rogers, M.C.

NORTH CAROLINA STRAWBERRY ASSOCIATION

June 25, 2003

William Rafferty
USDA Risk Management Agency
4407 Bland Rd., Suite 160
Raleigh, NC 27607

Dear Bill:

The North Carolina Strawberry Association, speaking for all strawberry growers in the North Carolina, strongly requests that the strawberry crop insurance program, now operating as a pilot program in only 13 counties, be extended throughout the State. This has been a difficult year for many growers, with multiple incidents of devastating hail damage and widespread losses due to wet, cold weather. Many growers who could not take advantage of the program because of the county limitations would have benefited from it.

We urge that the prohibition on "written agreements" that currently exists for the pilot program be removed so that growers in North Carolina's 87 other counties may participate immediately. This will not only-expand the number of growers who benefit, but also greatly improve the actuarial basis of the program. Production methods and expected yields in these counties do not differ substantially from those in nearby pilot counties, so writing the insurance would not be a difficult extrapolation. Yet, in the North Carolina climate, conditions and circumstances vary so much from year to year and farm to farm that expanding the sample base will allow much more accurate information to be gathered quickly.

We also urge that the review process for the pilot program be expedited with a goal of expanding the program state-wide as soon as possible.

If our organization can in any way help with this process, please let me know.

Sincerely,

John Vollmer
President, NCSA

REVIEW OF CROP INSURANCE AND COMMODITY PROGRAMS

TUESDAY, AUGUST 19, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM
COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 8:40 a.m., at the Ada/Borup High School, Ada, MN, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Peterson and Larsen.

Also present: Representative Kennedy of Minnesota.

Staff present: Kelli Ludlum, subcommittee staff director; Anne Simmons, minority professional staff; and Chandler Goule, legislative assistant to Representative Peterson.

STATEMENT OF DONALD VELLENGA, VICE MAYOR, ADA, MN

Mr. VELLENGA. I'm Don Vellenga, and as vice mayor of the city of Ada, I welcome the congressional representatives, their staff and the public to Ada, MN, and the Subcommittee on General Farm Commodities and Risk Management. Mayor Jim Ellefson asked me to extend his personal greetings. He's away on a fun family trip.

Ada is located in northwestern Minnesota, and is in the Wild Rice Watershed District. Our community and region have been plagued by spring and summer floods during the past three decades.

During the spring of 1997, Ada was totally evacuated for 11 days; had several homes and businesses destroyed. Members of the National Guard patrolled our community for 14 days. The city operated on temporary electrical power for 14 days. The spring flood ruined the high school, the hospital, the nursing home, and the clinic. The Ada/Borup school operated out of temporary facilities, church basements, fairgrounds, for over a year and a half.

Our community is extremely grateful to FEMA, the State of Minnesota, Republican Representative Collin Peterson, the late Senator Paul Wellstone, and Senator Rod Grams, for their efforts and their assistance to rebuild our community.

Also, regional floods have been disastrous to area farmers in 2000 and 2002. The city is grateful to the farmers, business owners, residents and organizations that have rebuilt, remodeled, and have the vision for promoting progress in our city and our region.

Our region also recognizes the fact that Federal crop insurance has played a beneficial factor in the majority of the area farm owners and landowners. The Federal Crop Insurance Program allows farmers to continue working in agricultural activities even though, through no fault of their own, a national disaster at the local or regional level wipes out if not all of the farm income.The risks of farming taken by individuals who have the will and the desire to farm provide the majority of economic stimulus in most rural communities. The United States needs area farmers protected from financial disasters in order to have prosperous rural cities, counties and States.

The national commitment to cheap food in the United States must also take into consideration the fact that farmers must not take all of the agricultural risks themselves in order to properly nourish the strongest Nation on Earth.

I'd like to remind people, if you have not signed the registration paper, please do so this morning. And now I would like to turn this over to Representative Collin Peterson.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Don, and thank you and everyone else in the Norman County/Ada area for your leadership in helping us put this area back together.

I want to welcome Chairman Moran to the seventh district. We appreciate him coming up here and listening to some of our problems. You should know that Jerry has been one of the people that's really worked with us on getting the disaster assistance through. He was a leader, sometimes to the chagrin of his party, on pushing this, and one of my big allies in getting this done, so he's been a very good friend to this area, even though he hasn't been here before. He also is a leader in the rural healthcare area. He's co-chairman of the rural healthcare caucus in the House, along with Earl Pomeroy from North Dakota. Earl couldn't be here today, wanted to be, but he's got other commitments, but Jerry's really worked with us, and in the Medicare bill this year, in the House we've gotten just about everything we've asked for in rural healthcare, and we're hoping that we're going to be able to get that through when we go back after Labor Day.

Also want to welcome Representative Mark Kennedy, who is from the sixth district. He's got part of my old district, and I've got part of his old district, in the switch that happened in the reapportionment last year, but Mark has been a leader on farm policy, and has worked with us as well on the disaster and the other issues that are important to not only this area, but all of Minnesota.

We also have Representative Rick Larsen from the State of Washington. We appreciate him being here today. Rick has got a little bit different agriculture, he serves on the House Agriculture Committee, and I believe on the subcommittee as well, and he's also a property owner here in the seventh district. He's been up here vacationing for a week with his family over at Bass Lake by Nay-Tah-Waush, so we appreciate him taking his time to be with us today.

And you can listen to me all the time, so I'm going to turn this over to Chairman Moran and the other members, and we very much appreciate them coming here. And what we're trying to do here, we're looking at the possibility of making some additional changes to crop insurance, especially folks that have multiple-year losses that can't get the kind of coverage that they need at a price that they can afford. I think Jerry has similar problems in his district, and we're going to see if there's some possibility that we can make some changes to improve that, so Chairman Moran, welcome to the seventh district. I appreciate you being here.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. Mr. Peterson, thank you very much. I'll formally call this subcommittee meeting to order, and I'm delighted to be in this part of Minnesota. It is my first visit to your State. It was great to see the rich, dark soil, and green. We are in the fourth year of a drought at home in Kansas. I represent the western three-fourths of the State, 69 counties. It takes a lot of geography to get one fourth of our State's population. We have four Members of Congress.

And I am pleased to be here. This is our first field hearing of our subcommittee. We've had a number of hearings on the farm bill and disaster payments in Washington, DC, along with crop insurance issues, and we will have a series of hearings across the country in various regions, and this is our initial visit here in the upper Midwest, the High Plains, and I'm delighted to be in Mr. Peterson's district. I consider him a good friend, and a very honorable Member of Congress, someone who is a great colleague to work with on issues that affect rural America, and so in his home district, I am pleased to be able to say that he's a Congressman that works very hard on your behalf in our nation's capital.

I'm also glad that Mr. Larsen and Mr. Kennedy can join us. This hearing will give us the opportunity to take back to Washington the input that you provide us today.

I have a formal opening statement that I would like to place on the record to kind of set the stage of where we are and what we're doing, and then we'll begin immediately with our witnesses.

I am thankful that our witnesses are appearing before our committee today. I think we have a lot to learn from them. And I thank Mr. Peterson, and as well as the vice mayor, the former superintendent of this school district, and the staff of Ada/Borup High School.

I can tell you, when I drove into Ada this morning, and I saw the high school, I come from a town population 1,900, very similar to Ada, and it was like, "Wow, what a school." I'm sorry that you had to go through the weather problems in order to get a school facility like this. I've also questioned people, "Why are we in Ada?" And out of every place I've been, they say, "That's the flood." Any time the word "Ada" is mentioned, they know that's where the flood was. And so I know you've had some unique problems that crop insurance and farm programs we hope can better address, although we hope those problems do not return. But we've had great cooperation from Mr. Peterson and his staff, as well as the folks here in this community, and agriculture within the State of Minnesota, and we're grateful for that.

I welcome the opportunity to hear from State and local agricultural leaders in Minnesota and North Dakota as the subcommittee holds its initial field hearing. We're glad to be in west central Minnesota, hearing firsthand from producers about how the results of the crop insurance reforms approved 3 years ago, along with the new farm bill, have benefitted or not benefitted their operations. Crop insurance is an increasingly important risk management tool for farmers in almost all growing regions of the country, and this area is no exception. Both Minnesota and North Dakota are among the top 10 States with the highest dollar amount of crop insurance protection. With 97 percent of eligible acres insured, North Dakota has the highest percentage participation of any State in the country. Similarly, both the acres and level of coverage in Minnesota have increased over the past 10 years, from 54 percent of acres insured in 1994, to 81 percent acres enrolled last year.

In addition to hearing what is working well, we're here also to learn what might be improved to better serve the farmers in this region, as well as their lenders and insurance agents. We know that despite increased crop insurance incentives, expanded guaranteed support in the farm bill, and most recently ad hoc disaster assistance, some needs remain unmet.

In the upper Midwest, as in my own district in Kansas, multiyear losses continue be a problem which crop insurance does not fully address. The story of premiums going up while coverage goes down is one that I've heard frequently from my own constituents as a result of four consecutive years of drought. Despite significant progress, it's still difficult for some producers in specific counties to obtain coverage for their particular crops.

The greatest interest I continue to hear from farmers in my own district, as well as members of this committee and Members of Congress, is crop insurance's availability, and providing adequate levels of coverage to meet the producers' needs.

After today's hearing, I expect this subcommittee to hold additional field hearings to focus on the interests of farmers in different regions. As we examine options to protect producers from national disasters without ad hoc emergency spending, we will seek to address the issues that can make the combination of crop insurance and other farm programs a more effective risk management tool for farmers and ranchers nationwide.

We will also hold hearings in Washington and across the country to look at other issues of concern that may be discovered through the testimony of our witnesses today, and during these future hearings.

I welcome today's participants, and look forward to their testimony.

Mr. Larsen, any comments of an opening nature?

OPENING STATEMENT OF HON. RICK LARSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. LARSEN. Just very briefly, Mr. Chairman. First, I want to thank you for holding the hearing. I want to thank Collin Peterson as well for hosting this, and for an opportunity to come to Ada.

And we did just finish our vacation. I spent 7 days in the backwoods, no electricity, no running water, and I didn't bring a suit with me on that trip, so I want to just address that today, and I hope people appreciate that.

But I do want to just point out, my district is very different. We have 180 different crops in Washington State, 120 of those are grown in my district. Very diverse and very different from this area, but it's important to me to be here to learn how I can help farmers all over the country as a member of this committee, and that's why I'm here today, and certainly do appreciate the opportunity to be.

Mr. MORAN. Mr. Larsen, we are grateful for you joining us, and Mr. Larsen is a member of this subcommittee, and I think his backwoods, wilderness approach is appropriate, and I would suggest that those who have coats on, take them off.

We're also delighted to have Mr. Kennedy, a Congressman from Minnesota, join our panel. He is not a member of this subcommittee, and I'd ask unanimous consent that he be allowed to join us at the table and question the witnesses. If there's no objection, he has some friends at the table, you're welcome to join us. And Mr. Kennedy, I ask you for an opening comment.

OPENING STATEMENT OF HON. MARK KENNEDY A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. KENNEDY. Well, I'd like to thank you, Mr. Chairman, for being here, and also Collin Peterson for inviting us. I think there's probably no better place for us to better understand crop insurance than right here in Ada. I've appreciated the opportunity to write the farm bill with the two of you, and with the four of us, but as we are in between farm bill years, it's important for us to look at the important programs like crop insurance.

I will say that I'm very near the home of my in-laws, as Collin well knows, with my in-laws, parents, Stanley and Ellen Miller, right near here in Hawley, MN; my brother-in-law's a crop consultant down in Elbow Lake; and another brother-in-law in Park Rapids; so when I go home for Christmas, it's the agriculture in this area that I always hear about, so I'm very interested in getting a broader perspective, understanding the needs that we have in crop insurance.

It's important that we have this broad regional representation here, because one of the main things that people don't really understand, the challenge we have in Washington, is we need 218 votes in order to get anything passed, whether crop insurance adjustments or anything else, and having a broad regional representation is critical for us to accomplish that.

I thank you, Rick Larsen, and thank you, Chairman Moran, for joining us here in Minnesota, better representing our issues.

Mr. MORAN. Great to be with you. This is my first visit to your State, and it's a real delight. If nothing else, we're going to help the economy, because my family's also with me, and we're going to spend 3 days vacationing in your State.

Mr. KENNEDY. Spend lots of money.

Mr. MORAN. My family actually wanted to go to Disney World in Florida, and I insisted that we go someplace north where the weather would be cool. And we're in Minnesota, and it's 100 degrees just like it is at home.

We have 12 witnesses joining us today. Our witnesses will be testifying in four panels. The first witness we will hear from today is Commissioner Gene Hugoson, the agriculture commissioner for the State of Minnesota. Gene, if you could come up.

Our second panel will be representing the second major commodity produced in Minnesota and the Dakotas.

Our third panel consists of producers who represent general farm interests.

And to complete our hearing this morning, we'll focus on crop insurance, and we'll hear from the respective companies and agents who sell (inaudible) contracts. We welcome all of today's witnesses, and we look forward to their testimony.

Commissioner Hugoson, please begin when you're ready. Welcome to our subcommittee.

STATEMENT OF GENE HUGOSON, AGRICULTURE COMMISSIONER, STATE OF MINNESOTA

Mr. HUGOSON. Thank you, Mr. Chairman, members of the subcommittee. It is a pleasure to be here today, and on behalf of Governor Tim Pawlenty and the people of Minnesota, we want to welcome you that are from out of Minnesota to our State. Appreciate your being here.

Chairman Moran, this isn't, to paraphrase Dorothy, this isn't Kansas, but on the other hand, there's a lot of similarities between us besides the heat. We've had a good working relationship with my counterparts in Kansas, Allie Devine, Jamie Clover-Adams, on Karnal bunt, and issues like that. Certainly the weak economy that is typical of your State and in this part of northern Minnesota has resulted in us working together on a number of occasions on issues that are certainly important, but we do appreciate your being here to look at what's going on. And in fact, it's appropriate, I guess, that you be in Ada, as you've mentioned, because I was here in '97 as well, and then you had to either come by boat or come by air. This time at least you can drive, so that part is good.

This area has suffered a lot because of what's gone on in the weather, so the crop insurance issue is extremely important. Agriculture certainly is the lifeblood of the rural economy here in Minnesota. If you look at what goes on in our area, if the agricultural economy is good, so is the economy of the whole area. 17 percent of this State's total economic activity comes from agriculture, and in the rural areas, one out of every three jobs really is directly tied to what goes on in agriculture.

And some of the challenges that we've had in weather, particularly in this area, with rising production costs, low commodity prices, the extremes in the weather, the crop diseases that have resulted from that, have certainly presented some challenges that have tested people's perseverance and their ability to survive in this kind of situation.

We have seen a lot of benefits coming from the Federal Government, and certainly Congressman Peterson has been a champion in terms of what needs to be done in terms of making sure that our people are able to survive the situations that they've been through.

We look at 2003, what we've received from Federal payments because of the crop disasters from the previous years, and we've received $27.6 million into the State of Minnesota just from those disaster payments alone. And certainly the flooding, the excessive rainfall that's gone on, has resulted in a lot of hardships for people in this particular area.

The Federal Crop Insurance Program, as you've referenced, Mr. Chairman, has been important to this area, and participation has been high. In 2002, Minnesota farmers purchased 127,563 crop insurance policies from USDA's program. We've seen 16.3 million acres covered. We're looking at 85 percent of Minnesota's corn acreage covered, 90 percent of the soybeans and wheat acreage that's covered, and in sugarbeets that percentage rises to 99 percent, so it certainly is a program that we've utilized a lot, but certainly there's some problems that still remain.

And as has been referenced, the whole issue of multiple-year disasters creates some problems for our farmers as it relates to rates, availability, and the types of things that are important in terms of that program staying in place. As you address this issue, we would strongly encourage you to do whatever you can to make sure that this type of program can be still kept in place.

You look at the issue of the disaster payments that have been paid, and certainly the Federal Government has invested a lot of money into disaster programs, and really, I think we need to be looking at this idea, do we look at having both multiple disaster payments and crop insurance, or do we, in fact, put the effort into the crop insurance such that we put the emphasis there to encourage people to be using that, which they already are, but certainly to be able to take care of those areas such as we're in right now where the multiple-year problems certainly have created some problems.

It should be pointed out that the affordable Crop Insurance Program, with adequate coverage and high participation rates, could reduce that need for emergency disaster payments, and one of the options that we would encourage you to look at would be the idea of a whole-farm policy that gives producers options in addition to the commodity-specific Crop Insurance Program.

We have been involved with the Department of Agriculture to help in this area, too. One of the things that we've been involved with is what can we do to provide risk managers training throughout this State? And at this point we've trained 85 risk managers that—sort of after the Certified Financial Planner Program, to be able to be certified and provide that kind of counseling to people throughout the State. It's been a very successful program, we're planning on continuing it, but certainly that's something that we can be doing at the State level.

Beyond that, though, certainly as it relates to some of the specialty crops, some of the livestock areas, we would like to see some coverage developed in those areas as well. Let me use an example from the dairy industry. It's probably the oldest and most important overall economic benefit to the whole State, and the agricultural area, and the economy as a whole. It's an $11 billion economic engine to this State when you look at not only the production, but also the processing, the manufacturing, all of that goes along with the whole industry, but because of the financial problems that dairy farmers have gone through with the fluctuating prices, many of them have been forced out of business.

If, in fact, we can use some of the effective tools that are potentially available through some kind of a risk management effort, certainly that can help smooth out the price fluctuations and help them manage their risk.

We are aware of a couple programs, Adjusted Gross Revenue, the AGR Program, also the AGR-Lite, that has been tried in certain parts of the country. We believe that these offer some opportunities for some of the specialty crops, also for the livestock industry. We have talked with those people that are involved with this. RMA Administrator Ross Davidson was in the State earlier this summer. I visited with him, and as a result of some of our discussions, Minnesota and Wisconsin have jointly put together an application asking to be included in their program. We're awaiting a decision on that. We hope to be in a position to see that program offered in the State for the 2004 crop year, and we see that as a possibility that certainly should be used.

One other thing I would just touch on that Congress has done that has been an enormous help for our producers in this State has to do with the growing of specialty crops, and that was the Block Grant Program that was put together last year. And these became an effective delivery vehicle that have allowed each State to tailor some of our efforts because of some of the specialty crops that exist, and Washington was a big participant in this program, and was able to utilize it a lot, but we were able to fund 23 various projects in marketing, research and education, many of which took place right here in the valley, in helping people do some things that they wouldn't have been able to do otherwise. And as a result, we really strongly encourage Congress to consider repeating that program, or continuing that program, because it's not always an easy thing to do when budgets are tight, but it's been an opportunity for us to address some of the specialty crop needs that certainly do exist.

Mr. Chairman, I just made some general comments. You're going to hear more specifics from some of the groups that are represented on your panels here today.

Again, we strongly thank you for your interest and your willingness to be here; Congressman Peterson for his leadership in encouraging the hearing in this area; and I'm happy to answer any questions you might have, or certainly as we look forward to hearing from the other participants as well.

[The prepared statement of Mr. Hugoson appears at the conclusion of the hearing.]

Mr. MORAN. Commissioner, thank you very much for your testimony.

Let me pose this question, and it may become a theme of mine: Is there a way to make crop insurance work well, be an effective tool for farmers under the circumstances of multiyear disasters, or is ad hoc disaster the only real route to addressing the financial needs of farmers in those circumstances? Is there a way to make crop insurance work?

Mr. HUGOSON. Mr. Chairman, members of the subcommittee, I think there is, but to be very frank, it may mean investing additional funds for that to happen. But I would also submit that using funds for disaster payments is very costly as well; and perhaps even more difficult, it's unpredictable. I think if in fact the Federal Government and certainly Congress needs to be applauded for what you did in 2000 in terms of the changes that were made to the Federal Crop Insurance Program to help in some of the subsidies that were provided for farmers to purchase the program. Those sorts of things may be needed to extend to some of the multiple-year disaster ideas as well, so that in fact the program does remain affordable to those folks that have suffered multiple-year problems, and that have seen their rates increase. I think it makes a lot more sense to put money into that portion than it does not have that uncertainty, and people have to wonder if in fact there's going to be a disaster payment.

When you look at what goes on in this area, many of the lending institutions are very nervous in terms of what's going to be a farmer's situation because of the risk that has been involved. I think it would make it much more doable and beneficial for everyone.

Mr. MORAN. I think that's a good point.

Predictability certainly is awfully important, and if you look at our accomplishment this year on disaster assistance, it came way late and less money than what one may have anticipated based upon past experience.

I want to give you just a moment to expand upon your concept of whole-farm policies. Do you want to tell us a little bit about what you envision there, how that would work?

Mr. HUGOSON. Mr. Chairman, members, as Mr. Lewis mentioned about the diversity that goes on in his district, this particular part of the State has seen a lot of that as well, so we have a lot of farmers that are very diverse in the crops that they're growing.

When you look at what's going on in areas of some of these specialty crops, it's very difficult to structure a Crop Insurance Program for a small number of people that might be growing a particular specialty crop. By having a whole-farm approach, and in the sense that farmers are, in a sense, lumping all of their commodities together, sharing the risk, a program developed around the idea that a whole-farm income is being looked at as opposed to just specialty crop by specialty crop, would, in fact, I think, be more feasible. It would enable some of the people that are very small in terms of the numbers that are in the specialty crops to have some coverage, and in that way offer some certainty for them as well. So it's, in essence, lumping everything together from a particular farm operation, as opposed to doing it crop by crop.

Mr. MORAN. Commissioner, thank you very much.

Mr. Peterson?

Mr. PETERSON. Thank you, Mr. Chairman.

I'll try to not ask too many questions, the people here hear me all the time, and give you guys more of a chance, and I forgot during my opening, we have State Representative Kennedy who represents this area, with us today, and I'd like to recognize him. He's a new member of the State legislature; doing a good job.

And commissioner, we welcome you. The commissioner has been an outstanding advocate for agriculture, and he's, I think, survived three administrations in this job now, so he's obviously doing a good job.

I'm just kind of following up on your question. I think the thing that's a problem here is that, we put in a 75 percent flood for the disaster years when we overhauled crop insurance in 2000, but it just is not adequate, and I know it's going to cost more money, but if we're going to get away from ad hoc disaster payments, I think we're going to have to look at that provision, and try to figure out how to improve that. If we could get enough money to up that, I think a lot of the pressure for the ad hoc disaster would go away. I don't know if we'll ever get away from it.

In the 2000 conference committee, I was on the conference committee, we did the crop insurance, and everybody in there said we're not going to have any more disaster payments, and I think we've had two since then. That's been the case since I've been in Congress, people have been talking about improving crop insurance and not having ad hoc disasters, but it seems like we always end up having to do something, and obviously it's been a big benefit to this area, so I hope that we can figure out some way to try to get at that. I think you hit the nail on the head, that that's the big problem that we have.

And try to develop products with specialty crops. Since 1991 I think I authored the first amendment to one of the agriculture bills that went through to try to get the Risk Management Agency to offer whole-farm policies, I think three different times I put language in the bills, and we just haven't really been able to get them to move ahead on that, but I think it makes the most sense, because you spread the risk around, but the folks in the industry seem to want to keep going back to individual crops, and I don't know how we can get by that, but I think it would be a good thing if we could get whole-farm policies.

So commissioner, again, thank you for your leadership and being here today.

Mr. MORAN. Mr. Peterson, thank you.

Mr. Larsen?

Mr. LARSEN. Commissioner, thanks for your comments. I have a question about the whole-farm policy, because we're, in Washington State, looking at that, too, and we want to hear what your experience so far has been with RMA and trying to demonstrate the value of that, so that's sort of the first question.

The second is: In your opinion, or perhaps you have some data on this, what does moving to whole-farm policies for some farms do to the entire Crop Insurance Program? Does it help alleviate the risk throughout the entire program, or is it just going to be for those farmers that are participating in a whole-farm policy?

Mr. HUGOSON. Mr. Chairman, Mr. Lewis, I can't answer you specifically as to that question that you've raised. Dr. David Bullock is here from the Department, and he's a risk management specialist, and he perhaps could give some information on that.

My observation would be, though, is that it's really going to make a difference whether a program is offered or not, because I think if we're going to wait for the program to be developed for each specialty crop, it may never happen, or certainly it's going to be many, many years down the road. We may have a situation where we have only 25 to 50 producers producing a specialty crop in the whole country, and in Minnesota there's the turf grass industry, not a real large industry, but for certainly the northern part of Minnesota, it's a very important industry. Now, for a program to be developed specifically for turf grass, it's probably going to be a long ways down the road in order for that to happen, and certainly as it relates to spreading the risk out, it's very difficult to do. I think it's just a matter of the whole-farm approach offers the difference between having it or not having it, and that alone, for me, makes it something that needs to be considered.

Mr. LARSEN. The first part of the question was your experience so far with RMA and the reception to your proposal.

Mr. HUGOSON. Mr. Chairman, Mr. Lewis, we have had some very good experience with RMA in the last couple years. We've had, I think, some new receptivability from us in terms of the types of things that we've had numerous meetings with our office and the folks in St. Paul. Mr. Gleason has been out here, as well as other folks from RMA, so I think there's a new awareness of the need on behalf of RMA to be involved with what's going on in the local areas.

I'll withhold my final answer until I see what happens on AGR and AGR-Lite this fall, but certainly they've been very cooperative and very responsive in terms of the questions we've had so far.

Mr. MORAN. Mr. Larsen, thank you very much.

Mr. Kennedy?

Mr. KENNEDY. Yes. Thank you, Commissioner Hugoson, for your long service, and for your testimony here today, and all that you've done for agriculture. And I really appreciate you bringing up AGR, and talking about the need to really extend the benefits of crop insurance also to livestock, because you've been a strong advocate at keeping livestock strong here in Minnesota, it's ultimately the first forum of value-added agriculture; consumes a lot of the corn and beans and other commodities that we produce, and risk insurance really hasn't been extended to the same degree.

As you mentioned, AGR, the Adjusted Gross Revenue, policies have been experimented with in several States, and you're applying for Minnesota to be one of those that can use those policies. Has there been anything that you've learned from talking with your fellow commissioners in other States about AGR policies that would require them to be modified to make them useful to livestock, like the strong dairy industry, which I lost a lot of my corn and my beans in my new district, but I have certainly as many cows. Is there anything that you've learned that should be modified, or that the chairman and committee should consider to be modified, to make it even stronger?

Mr. HUGOSON. Mr. Chairman, Mr. Kennedy. Mr. Kennedy was my Congressman, too, until redistricting, and now he's moved, but Mr. Kennedy, I think the one notable exception that we would have to the current provision that Pennsylvania has been using is the cap level, and it's perhaps too low for the provision for most of our farmers to benefit the way they should. I would think in what we've looked at is that the cap level probably should be increased to a higher amount for more people to be able to utilize it and benefit from that particular program. If I remember correctly, I think it's something like $200,000 I believe is the maximum right now as it relates to gross income, and that should probably be looked at having the opportunity to raise that for more of our people's benefit.

Mr. KENNEDY. Well, I would certainly appreciate that, because my guess is that our scale, even on dairy we're much smaller than California and other States, and we're probably more comparable to Pennsylvania in that scale, so if it's a pinch in Pennsylvania, I would guess it would probably be pinching many of our producers here in Minnesota as well. And I also appreciate your focus on diversification, because certainly I know in our family's experience, economic (inaudible), having the diversification in agricultural commodities, it really helps, so I applaud your focus on that, as well as having whole-farm policies to try to encourage diversification, as well as to get rid of some of the administrative expenses from having to juggle so many different policies that may or may not be there, so thanks for your testimony, and I'll yield.

Mr. MORAN. Mr. Kennedy, thank you.

Commissioner, thank you. It's very evident you're very knowledgeable and dedicated to agriculture in Minnesota and the country, and we very much appreciate your testimony today.

I will tell you that the precedence for leadership, your predecessor, Jon Wefald, came to Kansas, where he's the president of Kansas State University, and I don't know whether you can turn a football program around like he did or not, but there's some great qualities from Minnesota's commissioner of agriculture. Glad to have you with us.

Mr. HUGOSON. Thank you, Mr. Chairman. Our loss in that case was Kansas's gain.

Mr. MORAN. We very much appreciate Dr. Wefald. Thank you.

We'll call the next panel, which consists of Mr. Mark Beedy, who is the vice president of the Minnesota Soybean Growers Association. He is from Moorhead; Mr. Steve Williams, vice president of Red River Valley Sugarbeet Growers Association, of Fisher, MN; Mr. Bruce Freitag, president of North Dakota Grain Growers Association, Scranton, North Dakota; Mr. Nathan Johnson, producer, Minnesota Corn Growers Association, of Lowry, MN; and Mr. Robert Rynning, president, National Barley Growers Association, of Kennedy, MN. Gentlemen, welcome.

I think the easy way to start, although I don't know whether you have a plan, is perhaps Mr. Freitag, since you're on the end, we'll begin with your testimony, and work our way toward the committee. Thank you very much, and welcome.

STATEMENT OF BRUCE FREITAG, PRESIDENT, NORTH DAKOTA GRAIN GROWERS ASSOCIATION

Mr. FREITAG. My name is Bruce Freitag, and I'm a small grain and row crop producer from Scranton, North Dakota, which is in the far southwestern corner of the State. I'm currently serving as president of the North Dakota Grain Growers, and also serve on the board of directors of the National Association of Wheat Growers, and on the Domestic Policy Committee of that organization, which has crop insurance reform as a major priority.

Congressman Moran, first of all I'd like to thank you and the members of your committee for coming to the upper Midwest to listen to producers' concerns, especially on this important issue.

During the last farm bill debate, there were many good ideas that were brought forward. Congress listened and worked through these ideas, and came up with a farm bill that we believe is a well-balanced approach to farm programs. It was always our goal at the North Dakota Grain Growers and National Association of Wheat Growers that the farm bill have a three-legged approach, and as we learned in southwest North Dakota and much of the Wheat Belt last year, fixed payments were an important part of that. They gave us some security in times of complete crop failure due to drought. Of course to go along with that, a loan rate that supports the price on the production that we do produce. And the third leg, that the counter-cyclical payment that supports prices when there's worldwide surpluses, and assists us in our financial endeavors.

This farm bill has done a good job of letting us as growers make decisions based on world markets, but yet providing us with a certain amount of financial stability to maintain the cheapest, safest, and most environmentally-friendly food supply in the world. For that, Mr. Chairman, we commend you and your colleagues for bringing the last farm bill forward.

We believe a major accomplishment of this legislation was to replace the need for ad hoc market loss assistance payments with a mechanism for counter-cyclical payments in times of low market prices. We believe the same approach is needed when addressing natural disasters. Crop insurance should be improved to provide more complete coverage for producers, thereby making emergency disaster legislation unnecessary. We all know how difficult it was to achieve disaster legislation this past year, and our concern is that any future weather-related disasters will face the same fiscal climate and resistance to emergency spending. We believe it is now time to address this problem, before we face the next natural disaster.

Crop insurance has been a valuable tool for our producers in North Dakota, with a participation rate of 97 percent in the past few years, yet even at these levels of participation, there has been a need for supplemental disaster payments because the current crop insurance system is inadequate. The coverage levels that are higher than 75 percent are impractical to purchase unless you plan on having a disaster. Premium rates for coverage beyond the 75 percent level in many cases approach 50 percent. In other words, it takes $1 in premium to buy $2 worth of additional coverage. This results in a large gap in coverage for producers. Typical crop production margins are narrow, and it takes 90 to 95 percent of an average crop to cover costs. With the most affordable and justifiable coverage levels of the current Crop Insurance Program at the 65 to 70 percent level, a substantial shortfall occurs whenever there are crop problems. In other words, a farmer had better plan on having 5 or 6 good years before having a bad one in order to stay in business.

The North Dakota Grain Growers, along with the North Dakota Barley Council, have begun this process by starting to do an economic analysis of what it would be like to develop a crop insurance plan that combines crop insurance coverage along with a farm savings account. We believe there are ways to make crop insurance more efficient and less vulnerable to fraud and misuse than the current program. Certainly these savings could be used to reduce premiums on higher levels of coverage, making for a more complete coverage. This, coupled with the farm savings account, would provide a more complete risk management package, and be responsible to both the taxpayer and producer.

There are several possibilities for finding efficiencies in the crop insurance system, again, all of which require more economic research to develop. Some current ideas include multiyear discounts, no-loss discounts, and more affordable premiums for whole-farm or enterprise units. At any rate, a solution needs to be created to make the 80 to 85 percent levels of coverage more affordable. multiyear losses which lead to declining APHs also are a problem in some areas, and should be corrected to provide producers with adequate coverage. Indexing yields may be a way to solve this problem.

The farm savings account could be a tax-deferred, government-matched account, similar to an IRA, that producers could tap in times of crop failure to fill the 15 to 20 percent gap between crop insurance coverage and expected revenue from the crop.

When it comes to making the system more efficient, we as growers have to be willing to help in developing this plan. That is why the North Dakota Grain Growers, along with the North Dakota Barley Council, have begun this process, to research these ideas, to see if they are actually sound and make economic sense.

Mr. Chairman, members of the committee, we here at the North Dakota Grain Growers again look forward to working with you in solving this most difficult problem facing American agriculture today. Once again, thank you for coming to the upper Midwest.

[The prepared statement of Mr. Freitag appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Freitag, thank you very much.

We now ask Mr. Johnson for his testimony.

STATEMENT OF NATHAN JOHNSON, PRODUCER, MINNESOTA CORN GROWERS ASSOCIATION

Mr. JOHNSON. Mr. Chairman, members of the subcommittee, I'd like to thank you for giving me the opportunity to express my views and share some of the information about crop insurance.

My name is Nathan Johnson. I farm in Polk County. It's in west central Minnesota. I grow corn and soybeans, and I serve on the board of directors for the Minnesota Corn Growers, and I'm also on their legislative committee.

As you heard earlier from Commissioner Hugoson, Minnesota farmers have been active customers of Federal crop insurance. I have purchased crop insurance since 1993, but many others have only began using crop insurance in the last few or recent years. This is in large part due to the welcome changes that you as committee members have helped bring about.

In the last 5 or 6 years, crop insurance has greatly improved for farmers in central Minnesota. Because of high premiums 5 years ago, I could not afford to take out a 60-percent coverage level on my crops, but today I currently have my crops covered at the 80-percent level. The increased premium assistance has made this possible.

I would also encourage you to continue the trend toward a more revenue-oriented insurance program. Ultimately, revenue shortfalls are the events that we are trying to cover or carry insurance against anyway.

The new premium formulas have been a real advantage for farmers. In the past, we were not given credit for all the improvements in crop production that we have made in the last 20 years. With the new formulas, these improvements are now taken into consideration. Again, this represents a philosophical shift in that it is revenue that is being protected, not bushels.

Another big advantage for farmers is the increased flexibility in combining fields in several different sections. One area of concern that has not been addressed is the crop insurance companies do not accumulate interest on pending claims. Producers, on the other hand, are charged interest once a premium is due and has not been paid. This is unfair, as producers involved in the claims dispute receive neither the insurance payment that they are expecting, nor the interest on that claim once it is settled. Simply requiring interest to be added to a claim at the time of resolution, at the same rate the company charges in the premiums owed, would even the playing field. Your help in this area would be greatly appreciated.

I think it is essential for Minnesota farmers to be able to rely on crop insurance that provides good coverage at affordable prices, and I think it is very important that there are programs in place to make sure farmers know about all the options that are available in crop insurance. I would encourage greater education efforts to help make farmers aware of the changes and how they can best protect themselves. I've talked to many different farmers who are not aware of any of the recent changes to crop insurance programs. This puts them at a great disadvantage. While they must accept some of the responsibility for educating themselves, it seems that the highly-complicated nature of the programs would require a significant level of educational efforts, especially with numerous changes.

Again, I would like to thank you for giving me the opportunity to testify today, and I'd sure try to answer any questions that you might have.

[The prepared statement of Mr. Johnson appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Johnson, thank you very much. Mr. Williams.

STATEMENT OF STEVE WILLIAMS, VICE PRESIDENT, RED RIVER VALLEY SUGARBEET GROWERS ASSOCIATION

Mr. WILLIAMS. Thank you for allowing me to address the hearing this morning. I'm Steve Williams, vice president of the Red River Valley Sugarbeet Growers Association, and a sugarbeet, wheat and soybean producer from Fisher, Minnesota.

I would like to thank the committee for the improvements that have been made to the Crop Insurance Program, and I would also like to commend RMA employees for the hard work they do to make the program work.

Crop insurance has helped many growers stay in business. Nearly 100 percent of the sugarbeet growers in the Red River Valley use Federal crop insurance as a risk management tool.

Today I'd like to mention four key issues that are of concern to our growers in this area. First of all, revenue coverage. Approximately 90 percent of all sugarbeets grown in the United States are processed by grower-owned cooperatives. The grower is not only responsible for his expenses, but he is also financially responsible for the processing and marketing expenses. Under some circumstances, the current yield policy has gaps that surface with the cooperative's throughput reduced, and expenses are spread over fewer tons.

We would like to have a revenue policy that allows growers to purchase a specific dollar amount of coverage per acre. This policy can be developed under the existing RMA legislation.

Another option that we'd like to explore is the revenue product that provides coverage for sugarbeet storage and factory throughput. This policy cannot be developed without a legislative change that would allow producers to cover their extended financial risk.

The American Sugarbeet Growers Association has requested that RMA explore both of these options. If the full value coverage option is feasible, we will request your committee's support for legislative change to make the policy available.

multiyear losses have been discussed quite a bit already this morning. The amount of coverage a grower can purchase on their sugarbeet crop is based on a 10-year average of the production of each unit.

Severe weather-related losses that are out of the producer's control, such as flooding caused by excessive rainfall, that occurs over multiple years, can have a devastating effect on the grower's production history, and it can affect the grower for up to 10 years. This can make the level of coverage available so low that it's not worth the cost of carrying the insurance, and he loses a risk management tool.

The current policy has a minimum yield of 60 percent of the county average for losses in any year. The solution to this problem may be to use the county average yield as a minimum yield in loss years. If this is not actuarially sound, a higher percent of the county yield should be considered as a minimum yield in any given year.

Thirdly, rhizomania. Sugarbeet growers in the Red River Valley are confronting a new challenge in the form of rhizomania. Rhizomania is a disease that has only recently been detected in the Red River Valley, and it can have serious negative effects on both sugarbeet yield and sugar content. American Crystal Sugar Company growers and staff are actively working to minimize effects of the disease. However, existing policies related to rhizomania and crop insurance may have the unintended effect of undermining efforts to slow the advance of the disease. Producers may be reluctant to adopt best management practices to combat the effects of the disease if potential for crop insurance implications are perceived as severe. There is a written agreement in the current policy, but there seems to be a lot of confusion on how this should be handled, and the detection and deciding whether the disease is present has become a very large problem between producers and insurers.

The fourth item I just want to touch on is stage I elimination. Currently the sugarbeet coverage pays farmers at 60 percent of their guarantee if the damage to their crop occurred before July 1, and 100 percent after after July 1. This July 1 cutoff does not represent the timing of the expenses of raising sugarbeets, as most growers have committed over 80 percent of their annual crop by June 30th.

RMA has agreed to do a pilot project in an irrigated and nonirrigated area of the U.S., and the Red River Valley Sugarbeet Growers requested that we would be included in that pilot project.

I'd like to thank the committee for taking the time and effort to come to our area. We look forward to working with you and RMA to provide the best possible risk management tool. Thank you.

Mr. MORAN. Mr. Williams, thank you very much. Mr. Beedy.

STATEMENT OF MARK BEEDY, VICE PRESIDENT, MINNESOTA SOYBEAN GROWERS ASSOCIATION

Mr. BEEDY. I'm Mark Beedy. I farm near Fargo/Moorhead, and this year I'm serving as vice president of the Minnesota Soybean Growers Association.

I, too, would like to welcome the Chairman Moran and Congressman Peterson and members of the subcommittee and guest, Mr. Kennedy, for visiting our region and giving the opportunity to present the testimony.

We here in the valley have the advantage to try to increase profits by utilizing different crops through diversity, and one of the crops that's really grown in the last few years up here is soybeans, and I'd just like to put a little perspective. A lot of people think northwestern Minnesota, and they think, "You grow what?" So I'd like to pass along that soybeans have really taken hold the last few years from here to the Canadian border. Polk County, just to the north of us, is the largest soybean acreage-producing county, or one of, in the State of Minnesota. Cass County, North Dakota, just to the west of us, is one of the largest soybean-producing acreage counties in the Nation. So they've really became a large part of our crop rotation, and if you've driven across or driven there, you've noticed that.

I recognize this subcommittee's most interested in the Crop Insurance Program, particularly how it's working in this region. Addressing the multiple-year losses when it comes to disaster and crop insurance programs remains one of our top concerns.

Loss years are not just the large-scale drought or floods that you see on TV and in the media. Over the last decade, we've experienced planting delays due to spring floods and just wet springs. Grain-growing months, have had areas of excessive rains, hail, wet conditions during harvest, and whenever things like this occur, you have more weed and disease pressure, more quality problems, which mean more expense, yield losses, and your debt load increases, you're financing your losses from prior years, and you've used up your operating capital.

Previous disaster programs were merely another AMTA payment to all producers. They were very well received, but they were made to all producers whether they had a loss or not. And I commend the work of the most recent, not the last, disaster program to try and remedy this. It worked fine, except for those of us with multiple disaster years. We had to decide which loss year we wanted to keep, or which was the worst.

I think to have an insurance program so that the ad hoc disaster programs aren't necessary except in times of the large-scale or broad disaster regions would be the option. To have coverage that would reflect actual costs of production and input would be vital.

If you look in my testimony, I've put down from my own farm, some of the costs, some of the insurance, the percentages, and what we have to work with and what we're working with, and it shows that there's a large gap between actual production costs and what's insured.

Some of the negative comments you hear in the media is when it comes to crop insurance, is that we're trying to guarantee a profit. If you look at these numbers, it's far from that.

And I realize I'm but one individual of a national program, but I would be willing to assist any way I can, or provide any more details that you would need for any decision making or for the process, and I want to thank you for your time.

[The prepared statement of Mr. Beedy appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Beedy, thank you for that offer.

We look forward now to hearing from Mr. Rynning.

STATEMENT OF ROBERT RYNNING, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION

Mr. RYNNING. Thank you very much. Thank you, Mr. Chairman, for bringing the subcommittee here today. Thank you, Congressman Peterson, for hosting this testimony.

My name is Rob Rynning. I'm from Kennedy, MN, which is actually 90 miles north of here, towards the top end of Minnesota. I farm growing barley, wheat, canola and soybeans. I am presently the president of the National Barley Growers Association and the Minnesota Barley Growers Association.

Before I get into my more barley-specific points, I think I want to reemphasize the thing about the production history and the multiyear disasters. That has hit more producers in this region than any other single issue in crop insurance, and we also know that many other parts of the country suffer the same way because of drought and flood, so I do think there's a strong emphasis there.

On more barley-related specific issues, what looks to be a bright spot in barley and relating to crop insurance. We have a lot of issues with quality in barley, because we have malting and feed barley. Malting barley is very quality concerned. It's highly quality concerned. GIPSA, the grain inspection service that governs over quality, dictates the quality to RMA. We've had a big issue in sprout damages in many parts of the country, where if barley is sprouted, it is not worth as much to the malters. You get kicked into a feed quality, and you get paid much less, so there's a strong monetary issue there.

Crop insurance goes by GIPSA standards, which they call sprout damage. They look at the kernel and tell us if there's sprout damage or not. The industry, however, which does the malting and buys our barley, uses a pearling method, one much like pearled barley you put in a soup, and they feel they can tell better whether barley sprouted or not by looking at that sample. Because the two issues are different, and crop insurance goes by GIPSA standards, many times producers will fall through the cracks, and will get degraded on their barley for sprout damage, but yet RMA will not pay them. GIPSA has agreed to work with the American Society of Brewing Chemists to come up with a standardized process for grading sprout damage, and they have basically agreed to come up with a new category called "injured by sprout," and that will be on top of the sprout damage which they already have, using a visual inspection.

National Barley Growers would like to encourage GIPSA to adopt these standards as soon as possible, because we do have a lot of producers that fall through the cracks on this issue, and don't get compensation through crop insurance, but yet have had a severe loss.

My next issue is we have two options under crop insurance, two buy-up options for barley. One is option A. One is option B. They govern over malting barley. Option A allows you to take 4 years of malting barley production history, if you've planted a multi variety, they allow you to take this extra contract, but the problem is many producers do not have 4 years' history. If you do have a history, they only allow you to take 125 percent of the largest year of that production, so if you've grown 100 acres of barley over the last 4 years, let's say there's a good price out there and you want to go 500, the problem is you can't buy this extra buy-up coverage on any more than 125 acres because of your past history.

The other limitation on option A is they're only going to go a $1.25 value over the barley. Well, feed barley can many times have a much larger spread, so that limits the application of option A. So what we would like to see is a method to make option A more flexible.

Option B is the other option which many producers carry in this region, which allows you to take a contract with a malting company, bring that contract to RMA, they approve it, and you can take crop insurance coverage over that, over those bushels, at a higher rate than regular feed barley.

Option B is better in that it allows you to go up to $2 over feed values, and that covers you a little better. What the problem is, is that many producers do not have the ability to take option B, because they may not be close to a delivery point for a contract, they may be out of the range of where you can deliver this stuff. So we would like to see option A more available for those that want to deliver—just grow barley, open market, and deliver it to an elevator, and hope that they can get malting. One way to do that would be on top of using the history method, or in lieu of, to allow a producer to come in and show that he has made the expenditures to make malting grade.

There are certain things you have to do to make malting-grade barley. You have to grow a multi variety, which is already accepted under option A, but you also have to fertilize for it. There's other expenses added to it. Soil testing. You buy certified seed generally, and the big expense is you fungicide. In the six row growing region in the United States, we have gotten to the point where we have to fungicide for a fungus that comes in and wipes out our barley for use as a multi variety. We would like to see those in there.

The other thing would be protein contents in barley. Thirteen and a half percent is accepted by industry. RMA's is 14 percent. If you're in between, you can be in trouble.

Thank you very much, chairman and the members of the subcommittee. Thank you for hearing us out today.

[The prepared statement of Mr. Rynning appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Rynning, thank you very much for your testimony.

What percentage of barley is used for malting as compared to feed?

Mr. RYNNING. Roughly 50 percent.

Mr. MORAN. And the marketing differential, the price, is significant?

Mr. RYNNING. It can be anywhere from 20 cents to a $1.50, $2. It varies an awful lot, depending on what kind of quality is being raised out there in any given year.

Mr. MORAN. And do you have any sense that RMA is adequately addressing this issue of standardizing that you asked them to do? Are they progressing in that regard?

Mr. RYNNING. They seem to be listening. I think a good sign is this fact that they're working with GIPSA and the American Society of Brewing Chemists to come up with something, because they understand that this sprout damage issue is a very large issue, especially in western North Dakota, Montana, where they grow what's called a two-row variety. It's a slightly different variety, more prone to sprouting. It's a huge issue for those farmers. And so they seem to be looking at some of these; maybe not moving as fast as we'd like to see them move on them, but they seem to be open, and hear us out.

Mr. MORAN. We have with us in the audience, I believe, Mr. Duane Voy, who is with the regional office of RMA, so RMA is also listening to the testimony of our witnesses today.

And I was making a note to myself as you were testifying that when we return to Washington, I think I'll ask Mr. Davidson, the RMA Administrator, to come over and have just a sit-down discussion with members of our subcommittee about what we've heard, where they are, what progress is being made, what problems they see in trying to accomplish the things that a number of you are suggesting would make improvements in the Risk Management Program, so I intend to follow-up with yours and other's suggestions that I've heard this morning.

Mr. Beedy, I, too, would just only commiserate with you about having to choose between 2001 and 2002. It wasn't the outcome that we desired. I actually ended up being very surprised that the disaster assistance was accomplished at all, and choosing between 2001 and 2002 had no real basis in reality of what farmers faced. It was a monetary financial factor of trying to get something through Congress. So there's no defense on my part, or I would guess any other Member of Congress who worked on trying to get disaster assistance accomplished, that we can tell you why it makes sense to force you to choose between 2001 and 2002. It just was the financial circumstances we faced in trying to get a very urban and suburban Congress interested in disaster at a time in which many Members of Congress believed the farm bill had solved all the problems of agriculture, and that $180 billion number has floated around not only among Members of Congress, but the Wall Street Journal, the Washington Post, the New York Times, about how much money farmers got in the farm bill.

It's a real shame to me that we don't have someone out there as a spokesman talking about the reality of the farm bill, which is that 15, 16 percent of the money actually is in commodity payments, and the vast majority is in nutrition programs and food stamps, but we do have that perception, and once we got through explaining that the farm bill doesn't do all the things that people thought in Congress that it did, then the question was: "Why doesn't crop insurance solve this problem? We just put $80 billion into crop insurance. Why are you back now asking for ad hoc disaster assistance?"

So in part the answer to the question I raised with the commissioner about which is a necessity, the ad hoc or can we fix this with crop insurance, I think politically we've got to fix this with crop insurance, because our ability to ask Members of Congress for ad hoc disaster assistance is diminished, it diminishes every year, and the reapportionment that you saw in Minnesota and I saw in Kansas, even in States like ours that are rural, we rural folks, our territory gets bigger and bigger, and it becomes a more urban Congress even from States that are traditionally agriculturally-oriented.

Mr. Williams, RMA's interest in your revenue coverage and your full coverage option, any sense that they're paying attention to you and moving in the direction you want them to go?

Mr. WILLIAMS. Last fall, RMA did a review on the sugarbeet policy, and the first item they wanted to do is look at how it was physically working, and what the opportunities for fraud were, and they came up with a clean bill of health on the sugarbeet program. And we worked with them on this study, and one of the items we wanted them to look at was these two, the revenue and the basically storage coverage, and they are looking at those items at this time.

But they can request a revenue policy be developed up until harvest, but the legislators will not allow them to go beyond that, and the risk is still to the farmer, because as we've said, 90 percent of the processors are farmers, so the grower, whatever is left, is what he gets, and if it's lost in storage, which is usually a weather problem, too, so we are looking at that, and I think they are looking at that.

Mr. MORAN. Any sense that you're in line for the pilot project you're requesting?

Mr. WILLIAMS. Well, the problem, the only problem I see with it is that we have more acres than they'd like to put in the pilot project, but we have made that request.

Mr. MORAN. One of the things we've heard in hearings in Washington with pilot projects is that when they last very long, then there becomes a differential in land values, lending; you've got counties that are in the pilot project and counties that are not, and it becomes a differential just within your own State or region as to the consequences, so one might reach the conclusion there is a reason to have a rather broad area covered by a pilot project so that one farmer in one county is not qualifying and his next-door neighbor across the county line is not. Again, this is something we can raise with RMA and discussions in Washington.

Mr. Johnson, you talked about educational efforts. I was interested to see what more needs to be done? What really is transpiring in Minnesota and North Dakota?

Mr. JOHNSON. Well, I guess one thing that I just became aware of this year myself, in my own operation, I've got land in 10 different sections, and because of that, if I combine all the sections together I can get a 40 percent discount, or I figured out to be roughly about 40 percent discount in the premiums. I talked to several of my neighbors that farm similar amounts, and none of them were really aware that that program was out there.

And like he'd said earlier, sometimes the buy-up coverage, it costs you $1 to buy $2 worth of coverage, and basically going to the 80 to 85 percent level, that's about where we're at, but when you take the 40 percent discount, it allowed me to step up and take 80 percent coverage when I combined everything, where otherwise I probably would have been at 70 percent, and I guess I would like to see that the majority of the farmers out there could realize there were some of these programs. They are very complicated right now. I'm not sure what a guy can set up, but there needs to be some seminars or something out there so that we can educate the farmers on these programs.

Mr. MORAN. I've heard that same story in Kansas about unaware of being able to get additional coverage by combining your acres and covering one farm. That's a good point. If the program's not utilized, I would guess we have some ways to go in information, and perhaps you've accomplished that, in part, this morning by talking about the issue.

And, Mr. Freitag, did the farm bill, from your perspective, find the right balance between fixed payments and payments based upon production?

Mr. FREITAG. I think the original proposals from our organization, International Association of Wheat Growers, had a higher overall target price, slightly higher loan rates, but overall, not a lot of difference. I guess you always like to have a little more, but I think it's a fair balance. And it depends on just what your situation is. If you don't raise a crop, a fixed payment is pretty nice. A high loan rate doesn't do you a whole lot of good in that case.

Mr. MORAN. The House's position, in fact the House passed a bill that had a higher portion of the money going toward fixed payments and less for payments based upon production, and there was a compromise between the House and the Senate, and certainly from a Kansas perspective, with another year of drought, we would have fared better with more fixed payments, and that balance I'm sure is not perfect, but a number of political decisions were made to get a farm bill passed. I think it's an area we need to work more on to try to figure out economically what makes the most sense.

I don't think you can draft a farm bill based upon the assumption that there's going to be a disaster or a drought, but on the other hand, it seems pretty common anymore, and so we do need to, I think, in my opinion, we're not going to readdress the farm bill in any significant way, but after we're 2 years into the farm bill now, and already we're thinking about what the next farm bill will look like, so I'm interested in what the wheat growers think. Thank you for that.

Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

Nathan, why, on this education issue, aren't the insurance agents making this information available, or isn't that part of their job? Is there some economic reason why they want to just what is your perception of that?

Mr. JOHNSON. Well, some of the insurance agents probably are going out there with a lot of the programs, but I think there's a fair amount of insurance agents tha they're basically insurance agents for everything, not just crop insurance, and they probably get spread too thin. I know several agents in our county that they aren't up to date on the rules for crop insurance.

Mr. PETERSON. It's complicated.

Mr. JOHNSON. Yes. It kind of surprises me, probably because of my work with the Corn Growers that I've gotten involved with crop insurance more, and I'll ask them questions which I kind of know the answer, but they aren't even aware of some of the questions.

Mr. PETERSON. So we need to maybe do some more education with the agents themselves?

Mr. JOHNSON. It could be both the agents and the farmers.

Mr. PETERSON. Steve, the only legislation you need is on the storage issue; is that true? If you're not able to——

Mr. WILLIAMS. Yes. If it works, that's the only piece.

Mr. PETERSON. I would assume that this issue is what happened in southern Minnesota, right, where they had the problem after the——

Mr. WILLIAMS. Yes, American Crystal was——

Mr. PETERSON. You had a problem a few years ago, didn't you?

Mr. WILLIAMS. But the risk is so much more extended than it used to be.

Mr. PETERSON. All right.

Mr. WILLIAMS. And American Crystal has been grower-owned for 30 years. I mean it's nothing new. We've got many in the same situation, especially the new western cooperative, with the drought. When the [inaudible]—if there's less tons, you can grow a crop that does not have a Federal crop loss, and then throughput's way down in the factory, and your payment is way less than you——

Mr. PETERSON. Right. So you're not asking that from the legislation yet?

Mr. WILLIAMS. The RMA is going to study it. RMA's going to study the program, and it has to be feasible.

Mr. PETERSON. OK. Let us know when you——

Mr. WILLIAMS. Yes, definitely.

Mr. PETERSON. Mark, on the soybeans, I was down yesterday in Marshall and Willmar and Hutchinson, and they've got every spray plane in America down there spraying. How far north is that problem, do you know?

Mr. BEEDY. Well, it sounds like you go north of here, I believe up in the Warren area——

Mr. PETERSON. They're having problems up there, too?

Mr. BEEDY [continuing]. And there's quite a bit of spraying up in that area, also.

Mr. PETERSON. And one of the farmers yesterday was saying that they think there might be some crop insurance claims and so forth. The crop insurance will cover this loss if there is a loss?

Mr. BEEDY. They should, from a yield loss perspective.

Mr. PETERSON. And Mr. Chairman, I think your offer to take these objections back to Washington is very important. I think if this committee weighs in, I think it will help put a push behind what is trying to be done here.

One thing I want you to be aware of, in the barley area we continue to lose production, and we used to grow oats, I mean we grew oats on our farm over south here a little bit, and there's almost no oats left in the United States now. And barley is headed the same way. A lot of this malting barley is coming in from Canada, and we really need to improve the situation so we can keep barley as a crop, and it's important here in northern Minnesota and North Dakota. We don't have all the options, because we're so far north, than what they have down in the southern part of my district, so I think it would be very helpful for the committee to weigh in and try and resolve some of these issues. I think I'm right, we're still losing production, aren't we?

Mr. RYNNING. Yes, Mr. Chairman. We've kind of leveled off, but it's at a very low level, and we've had a lot of problems, and part of it is this relationship in risk between growing barley and trying to get malting grade, which is very quality specific, and not attaining that, and then getting feed barley, which is at a much lower price, and farmers have steered away from that risk. They did not want to take that risk.

And these options for buy-up for covering barley for malting help take away some of that risk. They certainly don't guarantee you a profit, but they do help take away some of that risk, but we do need to make them just a little bit more farmer friendly.

Mr. PETERSON. Besides all of the weather problems, we've had disease problems in barley that made it so it wasn't malting quality. They had this——

Mr. RYNNING. Fusarium.

Mr. PETERSON. Fusarium situation. It's not as bad now as it was, but that caused some problems.

And then the malting companies, some of them took their varieties up to Canada and created competition with us because they didn't have these disease problems, and so it's been a real tough situation for the barley industry, so whatever help you could give us in that area would be appreciated.

Mr. MORAN. Mr. Peterson and Mr. Rynning, I'd be glad to become better acquainted with the issue of barley. That is a topic that is relatively new to me. We used to grow sugarbeets in Kansas, but we've seen the demise of that. And soybeans and wheat are pretty darn common, but barley is not, and I tell Mr. Peterson, I'd be glad to go with you, as the national president, to make sure that we'll advocate for the barley growers.

Mr. Larsen?

Mr. LARSEN. No questions.

Mr. MORAN. Mr. Kennedy?

Mr. KENNEDY. I'd like to thank everybody for their testimony. I thought it was very thorough; covered a lot of issues.

And Mr. Beedy, I think that you said it well when you said that with disaster assistance, it's really hard to target those who really have the need, and that really highlights the need for us to strengthen and keep strong the insurance program, because that really helps us to target that in a much better way.

Mr. Freitag, I appreciate you bringing up farm accounts as well as a way to supplement and support what we do, because those two things, I agree with you, are a strong step in the right direction. And I think what we're saying here in many ways is that the devil's in the details, that although the broad concept of crop insurance has done good things for American farmers, that when it gets to the details of combining fields, as Nathan mentioned, or by the specifics of barley, as Mr. Rynning has said, we have to pay attention to those, and that's, Mr. Chairman, why it's so important that you're here and hearing those. I have had some specific experience having southern Minnesota in my former district with some of the sugarbeet issues, and part of my concern is, Mr. Williams, is that when you talk about the revenue coverage, if it only goes up to the time of harvest, and a lot of these crops that are grown together with cooperatives, which is something we ought to be encouraging, we ought to be encouraging farmers to come together in a cooperative way, you don't really know the value of it until it's processed, and a lot of times, when you have sort of this idea, when your crop insurance ends when you've harvested it, you discourage people from taking a risk and trying to get the value out of it for processing, and maybe crop insurance costs more because you're getting the suboptimal solution.

Do you really think that the proposals on the table on the beet side are really going to address some of the peculiarities of having a crop that's value really isn't known until it's processed, or is there other options we need to be able to consider?

Mr. WILLIAMS. I think there's ways it can be done. We're in the preliminary stages of it now, but I think there's definitely ways a program can be worked out. The question is when it's going to have to follow under the area of Federal crop to probably make it affordable.

Mr. KENNEDY. Well, again, I'll go along with Congressman Peterson and say if there's other specific things we need to look at there, let us know.

I would also say, Nathan, thanks for bringing up the higher usage, and that has been part of the benefit. Insurance really works best when everybody's using it, and part of that is the core issue that, chairman, you brought up, that we had in the farm bill debate on the fixed payments versus the variable payments, which is the same tension that we have between high usage and low usage. Those farmers that are in parts of Illinois or Indiana where you can throw nails in the ground and they'll give you 200 bushels, don't really worry so much about crop insurance, and maybe don't participate in it and don't put their premium in the pool to really make it more affordable for everyone, and would push more to have everything in the farm bill on the price side of it, because they're not worried about yield, but clearly, when we're in areas where we're hearing about today where we have multiple-year losses, having protection for yield as well, whether through the Farm Program or through the Crop Insurance Program, is so vitally important, so I would just encourage us to consider that as we look at adjustments of crop insurance, but also consider that tension and that need to balance both yield and price protection as we look forward to our other future programs as well. I yield back.

Mr. MORAN. Mr. Kennedy, thank you. It does remind me of a conversation that occurred in the Agriculture Committee several years ago in which a Member of Congress from one of the corn-growing States indicated that maybe we just ought not have agriculture in the Dakotas and Minnesota. And I will tell you that the Congressman from the area rose to the defense of agriculture in this part of the country. It was a very interesting moment in which those who thought that production came easy made clear that there were places that they believed agriculture and farming should not be a way of life, where it is much more difficult to raise a crop, and those of us who come from places in which it's often difficult to raise a crop very much appreciate the challenges that you all face in trying not only to put food on your own family's table, but to feed the world, and we're very grateful for what you do, and we're grateful for your testimony here this morning.

We're going to take a 15-minute recess. The committee will stand in recess. There's coffee and cookies for all of you, and we want to make certain that you sign in on the sign-in sheets.

[Recess.]

Mr. MORAN. The hearing will resume.

We thought it might be useful, so that in case we get cornered by farmers after this hearing, to introduce to you the staff that is here, and that way they can share the joy of learning from farmers in Minnesota with Members of Congress. This was Mr. Peterson's idea.

And I have with me Kelli Ludlum, who is the staff director for this subcommittee. She is a Kansas farm girl, and you're welcome to visit with me, but Kelli is perhaps more knowledgeable than I am, so as we visit throughout the morning, if you'd like to catch Kelli or me, I'd be glad to talk to you individually when our hearing is over.

And, Mr. Peterson, do you want to introduce your staff?

Mr. PETERSON. Well, yes. I have Sharon Josephson from my office in Detroit Lakes. A lot of folks know her. She's worked a lot up here. And Wally Sparby, who does agriculture issues, former FSA director in Minnesota, and works for us on agriculture issues.

And Allison Myhre over here from my office in Detroit Lakes. And Chandler Goule, who is my agriculture person in Washington. A lot of you knew Rob Larew. We lost him to the USDA. We hated to see him go, but Chandler's doing a great job, and Rob's doing a good job over at the USDA. And Gary Wertish, who is a representative for Senator Mark Dayton, has also joined us, and we appreciate, Gary, you being here. And we have Anne Simmons from the committee. She's Democratic staff person for this subcommittee, and has been working on the committee for many years, very knowledgeable, so we appreciate Anne being here.

Mark, do you have any staff here?

Mr. KENNEDY. Yes. I have Chris Swedenski (phonetic) with me here. He's from Porter, MN, outside of Marshall. Good farmer. Just spent the weekend helping his father farming. So it's good to have his help as well on agricultural issues.

Mr. LARSEN. My staff didn't make the trip down, but I'll encourage them to do so.

Mr. MORAN. OK. All right. We're delighted to have our third panel. We welcome Mr. Allebach. Rodney is the district manager of Farmers Union Insurance; Mr. John Brainard, district 7 director of Minnesota Farm Bureau Federation, from here in Ada; and Mr. Dave Haugo is a producer in Waubun, former State chairman of FSA, and we're delighted to have you three experts join us.

Mr. Allebach, let's begin with you.

STATEMENT OF RODNEY ALLEBACH, DISTRICT MANAGER, FARMERS UNION INSURANCE

Mr. ALLEBACH. Well, thank you, Chairman Moran, for allowing us to speak, and other members of the subcommittee. It's my pleasure to be here today. I serve northwestern Minnesota down to central, south central Minnesota, and have been involved in insurance for 22 years as an agent and as a district manager.

I'd like to thank the farm producers who are here today who took time out of their busy schedules, and many of you are trying to wrap-up your week, so without the producers there would be no need to have this meeting, but they have taken time to be here.

And also the agents that are attending today, I notice a lot of agents in this group, we appreciate your attendance and being here today, and especially my agent right here from Ada, MN, Rodney Mathsen, he's also attending this hearing today, so thank you for taking time out to be here.

First we'd like to address multi-peril crop insurance. We feel it's imperative that the Government continue to subsidize multi-peril crop insurance at its current levels so producers can continue to afford coverage at acceptable levels and affordable levels.

Secondly, one change agents I think would like to see, and producers would like to see, is that the MPCI reporting dates for acreage for MPCI are different than those for the FSA. The FSA office, you have to report your acreage by July 15. For multi-peril crop insurance, you have to report those by June 30th. Sometimes they like to come to an agent office and report their acreage first, and then they go to FSA. By doing that, sometimes their acreage is not the same and can be hurt in a claim situation, so we'd like to see those dates changed to correspond either to the FSA of July 15, or the multi-peril of 6/30 at the FSA office; so get those dates, if you could, get those dates to correspond.

We would also like the possibility—some producers don't know what they're going to plant, what crops they're going to plant by March 15, which is the sales closing date, and when they decide to plant a crop, it can't be covered if they haven't reported it. There are options that are available such as all-county, all-crops, that type of situation, which has helped greatly. Some farmers choose not to do that. One suggestion would be that the producer be allowed to at least obtain CAT level coverage at production reporting date, which is April 30, that's when they have to report the production, by April 30, so if they could at least obtain CAT coverage; if they did put it on the March 15 date, that they could update CAT coverage at the April 30 date.

Fourth, this has been addressed, but we're going to also emphasize it. Sugarbeets currently have 60 percent coverage in the first stage until July 1. Many times producers have a majority of their production costs in the crop prior to July 1. The possible solution to this would be to have the coverage increased by 10 percent weekly in the month of June, to have it at 70, 80, 90, and then 100 percent by July 1, or as suggested, I think the Sugarbeet Association suggested maybe an 80 percent level right up front by before the July 1 date, because a lot of the inputs are there, and at this point we've only got 60 percent up to July 1, and this area has seen that adversely affect producers in this area in the last few years with the losses they've sustained.

And then finally, we'd like to comment on the farm program and the disaster program. With all the disasters this area has experienced, until crop insurance or other types of revenue programs can be put in place, it is imperative that disaster programs still be part of a Farm Program, be it ad hoc or whatever. It's imperative. It's kept farmers in this area on the farms. It's been really critical that disaster payments have came through. They haven't been perfect, but it's also been very critical.

The other part of that is our producers are more than just producing the farm commodities. They also belong to many civic organizations, church organizations, city councils, serve on their township and county boards; it's also imperative that disaster programs are in place for our counties, our townships, and our cities. Without disaster for our cities and townships in this area, it would have been very difficult, already in a difficult situation, so we thank you for those disaster programs, and until something else can be put in place, we felt it's imperative that they be available to our producers and to our Government agencies. Thank you for your time.

[The prepared statement of Mr. Allebach appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much, Mr. Allebach. Mr. Brainard.

STATEMENT OF JOHN BRAINARD, DISTRICT VII DIRECTOR, MINNESOTA FARM BUREAU FEDERATION

Mr. BRAINARD. Thank you, Mr. Chairman. Good morning. members of the committee, welcome to northwestern Minnesota. I'd especially like to thank Collin for arranging this, and getting this here in Ada.

My name is John Brainard. I'm a farmer here in Norman County. We raise sugarbeets, soybeans and wheat, and I also serve as a District VII board member for the Minnesota Farm Bureau Federation. Again, I appreciate the opportunity to speak with you this morning concerning crop insurance and the possible improvements in it.

The Red River Valley, and especially here in Norman County, is an appropriate place to hold this hearing on crop insurance, as we have suffered from many weather-related crop losses. As you noted or noticed, Chairman Moran, the Red River Valley has heavy, black soil, and with the efficient, hard-working farmers that we have here, they combine to make the Red River Valley one of the most productive farming areas in the world.

In the last 10, 12 years, we have been experiencing a wet cycle that has created crop diseases, prevented plantings, and floods that have significantly reduced our production. We as farmers know that farming's a risky business, with many variables that are out of our control. Crop insurance provides farmers with an important tool to manage our production risks, and gives us an opportunity to market crops before we harvest. In Norman County alone, we have received nearly $29 million in crop loss payments since 1999. Without crop insurance and the generous help from Congress in the form of disaster assistance—and again, Chairman Moran, thank you for your help in getting us disaster assistance, it is going to have a significant and positive impact in northwestern Minnesota. Many farmers would no longer be involved in agriculture. The participation level, according to my local agent, in crop insurance in our county is nearly 100 percent. We appreciate the 2000 ARPA legislation that made crop insurance more affordable.

Crop insurance has been available to farmers for over 50 years, and it has not been perfect in the past, and probably will not be perfect in the future. Nonetheless, I appreciate the opportunity to tell you our concerns to improve crop insurance in our region.

In the Red River Valley, especially in one of our main crops, spring wheat, we have seen declining actual production histories, and therefore decreased coverage due to crop losses. One solution that the committee may want to investigate is—or to look at is how the 10-year APHs are calculated when farmers experience multiyear losses. Currently in a loss year, a farmer receives a plug yield of 60 percent of the county T-yield, and as Congressman Peterson said, it is also, in disaster years, a 75 percent of the county T-yield for the plug. In Norman County, with a T-yield of 37 bushels, a farmer would use a 22-bushel plug yield for that year for APH calculations. This is far below our normal expected yields of 55 to 60 bushels.

I would like to propose to the committee that a plug yield of 100 percent of a county T-yield be used in all loss years, so we do not reduce APHs and penalize farmers for losses that occur due to weather events.

The bottom line is this: Lower coverage levels due to lower APHs, along with higher input costs, have created an increasing gap between the crop insurance coverage that farmers can purchase and our costs of production.

I would also like the committee to look at what is called reverse incentive, which means that the higher levels of coverages are subsidized by lower levels. Higher buy-up levels of coverage, for most farmers, are simply too costly, and equalizing subsidies to all levels of coverage could make the higher levels more affordable.

Again, thank you, Chairman Moran, for being here, coming to Ada, and listening to our concerns. I'm willing to answer any questions if you have any.

[The prepared statement of Mr. Brainard appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Brainard, thank you. Mr. Haugo.

STATEMENT OF DAVE HAUGO, PRODUCER

Mr. HAUGO. Welcome to Ada today, chairman, Mr. Peterson, Mr. Larsen, Mr. Kennedy. Just a little information, there was a comment made about Minnesota and North Dakota producers, and maybe we shouldn't be producing. One of the things we found out in serving in the State FSA committee in 1993, disaster program payments in the State of Minnesota exceeded $500 million. The recipients of the majority of those payments were not northwestern Minnesota, but what is called the best part of Minnesota by some people.

There's this ongoing battle, I'm sure you have it in eastern and western Kansas, we have it in north and south Minnesota. That saved an awful lot of farmers. And if you went to the States of Iowa and Nebraska and South Dakota, it also saved a lot. Ada, Minnesota at one time and probably still is known as the heart of the valley. Red River Valley is known by some people as the Nile of the North because of its fine soils.

I don't live right in the valley proper. When my grandfather came up here from Iowa, he drove around, and he immigrated from Norway, he did pick a spot, but we're out of the valley, he picked a spot that's been very good to us. If I'd been doing the picking, I'd have been over here, and probably would have had more trouble, but——

And I could tell you an Ole and Lena story today, but we won't take that time, unless you wanted to.

My name is David Haugo, lifelong farmer from Mahnomen County, which is the western part of the county that Mr. Larsen has been vacationing in. Looks quite different than it does around Bass Lake, let me assure you. I have farmed the last 18 years with two sons. The numbers that I give you today are from my part of the operation, not their part.

We raise wheat, barley, sugarbeets, navy beans, soybeans, corn and alfalfa. All of those crops are insured now, except alfalfa. We have insurance varying from 65 to 75 percent, depending upon the crop that we're raising and the cost of that coverage.

Two really big concerns I have. One is the cost of that buyout. When we go from 65 to 85 percent in most cases, it's not a very good choice, but we need the coverage of 85 percent provided us.

We have suffered some ordeals, and I've got some numbers down here, and I'll bore you with some numbers, and this is about the average of our crop protection in our farm. Wheat, 45 bushels an acre. Under the revenue insurance, we're guaranteed about $106 an acre. That costs us $4.83. When we go to the 85 percent coverage, we get $139 an acre, but it costs us $15.46 an acre.

Under soybeans, we have a 36-bushel yield, $123 of coverage at 65. We can buy up to 85. It's $160, but it costs us $15 an acre more, just less than a $3 return for one if you have that kind of a crop. Like somebody said earlier, you almost have to plan on a failure in order to make that kind of an investment. And these numbers do not cover, even at the 85 percent, we're getting close to covering what it costs to raise these crops.

Another major concern that I've had for quite some time, and that's the producer that goes through a year with a poor crop might have a claim at 65 percent, and might not have a claim. He still has this insurance, he's always under cost, it's the harvesting cost, and he's losing money. There's very few guys that can tell you that they're going to make money getting 65 percent of their insurance coverage. Along comes the ad hoc disaster program. He doesn't fit, because the payments are based on insurance indemnity that he's collected, and he's sitting out there really in no man's land. The guy with zero crop, and getting his payment based on that payment, is going to come out way ahead. The guy with 30 percent crop comes out way ahead. And I think, personally, the way to solve some of this is take some of that money that we spend on ad hoc, and provide a means so that we can carry 85 percent.

If you read my written testimony, you'll find I've had crop insurance for almost 50 years on wheat. When I started farming, that was the only crop we could insure, that and flax. It was an area of coverage. There was no APHs. We were in area one. We had a nice, fairly decent coverage, and I will tell you that some of the things we worked for were unit protection, APHs. We've gotten those.

Where I live, the first 3 years of that quarter I got hailed—or 3 of the first 5 years we got hailed out. I didn't collect any Federal crop insurance, because that was one of the five quarters I farmed. It was all one unit. The rest of them didn't get hailed out; that one did. If I hadn't had hail insurance, it would have been at zero on those acres.

I see my friend the red light has come on, too. And I will read this last statement here. Over the years I've collected very few dollars from multi-peril insurance. It would be a very poor return on the premium dollars that I've spent. So the question should be: Why insure? The answer, as I see it, is the amount of investment in each crop. It is necessary to cover some of the risk.

Again, I'd like to thank you gentlemen for being here today, and I will try to answer any questions you have. Thank you.

[The prepared statement of Mr. Haugo appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, gentlemen, very much.

Mr. Allebach, is there any logical explanation of why July 15 and June 30?

Mr. ALLEBACH. I guess those dates have been set in the past and they've just stayed there, and nobody's taken the initiative to get those changed, but I think it would be very helpful. That way we could have the same dates, and they'd go to the FSA first and bring those same numbers to us, those same acres, and there's no question about the acres planted, so it would make it more convenient for both sides.

Mr. MORAN. Not a problem everywhere, but it's a Minnesota and North Dakota issue. And I met yesterday with your State FSA director, who indicated a real willingness to address this issue and solve the problem. I assume that we can get RMA on the same kind of pattern.

Mr. ALLEBACH. Right.

Mr. MORAN. Is there any abuse of the crop insurance system that we ought to be aware of?

Mr. ALLEBACH. Like any other program, there's always abuse. I think companies have become more aware of the abuse, and have made agents at our training meetings very aware of abuse and are reporting abuse, not only by agents, by producers, also. It's like any program, Government program. Again, I'd say there's going to be some people who are going to try to abuse it.

I would tend to say the abuse is being stopped because people are being reported. We have seen cases, be it elevators and producers working together, of those people being convicted of that crime of fraud, but there is, and we need to continue to work on it, that we stop the abuse, continue to make that an emphasis, because it does hurt all producers, and it will hurt that good agent who is willing not to help a producer try to find a way to defraud the crop insurance.

It's important to use crop insurance for what it's there for, not to abuse it, so we need be aware of it in training to make sure there is not abuse, to make sure that the program can stay strong, and continue levels of support.

Mr. MORAN. And generally, that training is occurring?

Mr. ALLEBACH. That training is occurring. Fraud is part of our training every year. Most agents, all agents have to attend at least one session, if not two, a year on crop insurance, and part of fraud is in our training, yes, it is.

Mr. MORAN. Do you have any response to the previous witness who talked about lack of information? Is there something more that needs to be taking place with agents and farmers?

Mr. ALLEBACH. Well, I do have a comment to that. I see a lot of good multi-peril crop and crop insurance agents here today who are very good about informing their producers of what's available to them. I know they hold meetings to inform them of what's out there. Maybe we could work closer with the FSA office on doing this. That's one possibility. We're going to hit pockets wherever you go, probably, of people that aren't being informed, but in general, I would say my agents are very good. They come in, the company we use has a very wonderful program that we can show them all their options that are available to them. It becomes overwhelming at points because of all all the programs that are available and possibilities that are available with multi-peril. You can have many proposals out there. You probably could have 50 proposals for one crop, if you put it all on there. So it can get a little confusing because of all the options available. But I believe agents, in general, have been good about educating the producers of what's out there and what's available to their farmers.

Mr. MORAN. Mr. Brainard, you mentioned preventive planting, which is certainly a Kansas phrase. It's generally, in our State, it's because it's too dry to plant, as compared to too wet. Does preventive planting work well here?

Mr. BRAINARD. I think it has, yes. When we've had wet springs, and we get past the planting dates where we can no longer get our crops planted on a timely basis, yes, it does work. Again, it's not perfect, but it provides farmers with some degree of income on those acres that are not able to be planted. It's not as good as having a crop, obviously, but yes, it does provide us with some coverage, some risk coverage.

Mr. MORAN. You were kind enough to thank Congress, and really it ought to be the American taxpayers, for disaster payments. Have they been received in this area? The check's in the mail?

Mr. BRAINARD. That's what we've heard is the check is in the mail. Randy, [inaudible] has been wondering when the checks are going to get here, but no, we signed up for the regular commodity disaster program, and now they've announced the sugarbeet disaster program is going to be starting September 15, so I would expect that the regular disaster program checks will be here soon.

Mr. MORAN. And both you and Mr. Haugo really catch my attention with what you called, Mr. Brainard, reverse incentive, this idea of what levels of coverage we ought to most subsidize. Is there a justification for—is the only reason that a farmer chooses lower levels of coverage is the cost? Is there any other reason?

Mr. BRAINARD. No, I think cost is probably one of the—it's down on the list. I think the reason we buy higher coverage or buy-up coverage is to protect our risks, basically. The problem with the higher buy-up levels is that they get cost prohibitive. We can buy $7 worth of coverage, and it costs us $5. It just doesn't make economic sense. So we can't go to the 80, at least we can't on my farm. 80, 85 percent levels of coverage do not work here. The point I was making——

Mr. MORAN. I'm sorry. Would you say that last sentence again?

Mr. BRAINARD. On my farm, 80, 85 percent levels of coverage are too cost prohibitive. We can only get a marginal amount of coverage, say $7 or $8 worth of coverage, and it costs us $4 or $5, so those situations, it's too cost prohibitive to buy though those levels.

Mr. MORAN. And therefore, you choose lower levels of coverage?

Mr. BRAINARD. That's correct.

Mr. MORAN. But there's no farming operation justification for that, or rule and regulation within risk management, that lends itself to you making that choice. The only reason that you make that choice is because of its cost. Is that accurate?

Mr. BRAINARD. I guess you are accurate, yes.

Mr. MORAN. And so if a question for us as policymakers is, is how much money can you take out of the lower level coverage subsidies and extend it into the higher levels of coverage, how far does that money go?

Mr. BRAINARD. Right. The reason I brought that up is in our area, the Red River Valley, most farmers, and I think it's a very high majority, are buying 65, 70 or 75 percent levels, where in other areas of the country they buy a lot more CAT coverage, and so we obviously here would like to see more subsidies shifted toward the higher buy-up levels, and it would make it more affordable for us to buy the coverage if we had the subsidies maybe more equalled or slightly shifted.

Mr. MORAN. But what you're reminding me is there may be a geographic difference of opinion as to where the subsidy ought to go, because there are some areas in the country, due to their farming operations, climate, weather patterns, that that lower level of coverage is what makes economic sense.

Mr. BRAINARD. That's fair.

Mr. MORAN. OK. Mr. Haugo, anything further to add to that discussion?

Mr. HAUGO. No, that certainly is the main reason you don't buy up the higher coverage, and together with what's happened to our APHs. In our case, at one time we had an APH on our wheat of about 57 bushels an acre. Now we have some units down to 40, 41. And that's been 50, 57, and you put 65 against that, and you've got pretty decent coverage. When we're down to 40, 41 bushels, and you put 65 percent, you're in that 25-, 26-bushel-an-acre range.

And we farm, the way we farm, we're pretty intensified in our management. I think we would be one of the few producers who don't use fungicides for at least 20 years in our wheat and barley. That's an additional cost. So we've had some higher yields over the years, and also, Grandpa did a good job picking out a place to farm.

Mr. MORAN. I did want to make clear that the suggestion that there's someplace in the country that farmers are farming that they shouldn't be is not my suggestion at all. I was only relaying the story.

Mr. HAUGO. I've heard it before.

Mr. MORAN. Mr. Larsen?

Mr. LARSEN. Thank you, Mr. Chairman. And you got one of my questions, and that was the question of who wins, who loses, to Mr. Brainard's suggestion about shifting levels from lower levels to higher buy-up levels. Is it strictly a geographic winner and loser proposition that we're looking at if we went that route?

Mr. BRAINARD. I know we'd be winners. I'm not sure who would be the losers. I know I have a farmer friend in Indiana, and they buy strictly CAT coverage because they don't have losses there, I mean he hasn't had any losses, so they don't buy up coverage, so I'm not sure where the losers would be. I'm sure there would be some.

Mr. LARSEN. I've found that—in my short time in Congress, that in most—in most issues, but certainly in agriculture, the politics of agriculture don't fall around who is a Democrat and who is a Republican, but it comes down to who lives where, and I see it happening with this suggestion as well, but I think it's important for us to understand that as we move forward on that. Is it Mr. Allebach?

Mr. ALLEBACH. Yes.

Mr. LARSEN. We heard testimony earlier from the commissioner of agriculture about whole-farm insurance and the AGR-Lite, Adjusted Gross Revenue and Adjusted Gross Revenue Lite Program. The Lite Program's in Pennsylvania, and the AGR's—anyway, Lite's in Pennsylvania. Do you have some opinions on that, where it might be headed——

Mr. ALLEBACH. I'm not that familiar with those programs. I think Minnesota Farmers Union has a field rep here today from the farm organization. I represent the insurance side, so I'm not as familiar as he would be. Thom Peterson is here today with Minnesota Farmers Union.

But as far as the Whole-Farm Program, it depends if you're going to include livestock producers, dairy producers, that's important, that would be critical, but as many producers know, when you have one area that's destroyed by hail or some other type of peril, and not being paid for it, it's still difficult to—I guess we'd have to see more of the details before I'd make a comment on a Whole-Farm Program and if it would work or not at this point. Farmers are used to units in our area. We use a lot of units, and it's been beneficial in some ways and detrimental in others, but mostly it has been advantageous. Until I saw the full details of the plan, it would be hard to comment if it would work or not for this area.

Mr. LARSEN. So far I don't think I've heard anyone suggest that whole-farm would be a replacement for necessarily a replacement for what's in place, but another option, as an option, but I appreciate that. And who's the individual here?

Mr. ALLEBACH. Thom Peterson.

Mr. LARSEN. OK. Did you have a comment, Mr. Haugo?

Mr. HAUGO. On the whole-farm thing?

Mr. LARSEN. Yes.

Mr. HAUGO. I have some concern about how the—how the details would be. With the varying crops that we have, certainly the varied ranges of income from the different crops and how you arrive at something, I'd hate to ever say that wheat was a minor crop, but in the dollars per acre, until this year again it's been low, and I'm not sure I would stand up against folks who raise sugarbeets, a high-dollar crop, but just for your guys' information, you talked about (inaudible), and I have the worksheets here from our unit. It'll give you an idea of how one bad year can affect it.

Section 17 in our township, just a mile east of where I live, because in 1993 we had a 13-bushel wheat acreage, or wheaT-yield I mean, the average yield is—and it goes from 1986, we don't raise wheat on these units every year, and taking an average of the years we've raised, all the way back to 1984, that unit is 41 bushels an acre. And by the way, we had 1990, which was the best wheat crop we ever had, we had 82 bushels an acre on that unit. I go over to section 18 where I live, we didn't have wheat on that section in 1993, so we don't have that 13 bushels. We didn't have wheat in there in 1990, so we didn't have the 82 bushels. But the average, since 1987, of the years we've raised wheat, is 51 bushels.

So one lousy year more than wiped out the tremendous crop we had. And that's the way that happened. And when you get over here, there are people that have had zeroes put in those places for not 1 year, but 2 and 3 and 4 years, so those average yields do weigh heavily.

Mr. BRAINARD. Mr. Larsen, could I comment on the whole-farm?

Mr. LARSEN. Yes, you sure can.

Mr. BRAINARD. In our area, where the farms are larger and the acreage is spread out, we like the unit structure as we have it now. If we had to go to, and I'm glad you said that you're not looking for whole-farm to be a replacement to what we have now, because I think that would be detrimental to us here in northwestern Minnesota. We like the unit structure the way it is now. If we had all of our crops, all of our farm in one unit, you know, the good fields would offset the bad fields, and we would not be able to collect crop insurance, so we like it the way it is now. We appreciate that Congress has given us the unit structure that we have now, and we like it.

Mr. LARSEN. Thank you. I appreciate that.

Mr. MORAN. Mr. Larsen, thank you. Appreciate the specifics. That's very useful for us to picture the consequences of the bad years.

Mr. Peterson.

Mr. PETERSON. I'll be brief. Thank you for all your excellent testimony. Thank you for that.

If you could tell me, if you could name your highest priority, and what we ought to fix or try to address, would it be multiyear disaster yields, would it be higher premium subsidies, or other things? What would each of you say would be the highest priority that we ought to try to fix, from your perspective?

Mr. ALLEBACH. Number one would be multiyear disaster. Not only they saw some this year in this area again, in some of your area here, west of here.

And No. 2 would be higher subsidies for the 80 and 85 percent level. The spread is huge, I think Mr. Haugo has some examples that I see here, some documentation. He can do that to show you the big spread. So No. 2 would be to subsidize the 80 to 85 percent level higher.

Mr. BRAINARD. My priority, too, would be to increase coverage levels by fixing the APH problems for multiyear disasters, and what I suggested was using 100 percent of the county yield for these years where we've had disasters, rather than 60 or 75 percent that we're currently using.

And then number two would be to make the higher levels of coverage more affordable.

Mr. HAUGO. I guess I would actually pick the higher levels of coverage, and I know that won't sit well with some of my friends that have had really bad years. It's a tough choice, a real tough choice, but the higher level of coverage, and being an optimist, I don't think we're going to have any more bad crops.

Mr. MORAN. Thank you.

Mr. Kennedy.

Mr. KENNEDY. You've given some great testimony, and one of the things that caught my interest, Mr. Haugo, is when you were talking about if there was a disaster, that those that possibly were without the assistance of crop insurance, got more disaster payment. Do we have the right incentives with the ad hoc disaster payments that we have had in the past to encourage everybody to have crop insurance? Because if there's reverse incentive to have crop insurance because they think, "Well, I'll just get more from an ad hoc payment later on," it's going to drive up the cost of crop insurance for everyone, because we drive down the cost when everybody participates. Can anybody comment on how ad hoc assistance has either encouraged or discouraged the usage of crop insurance in the past?

Mr. HAUGO. I hope I didn't say that the person without insurance had more benefit out of the ad hoc disaster, because if I did, it was a mistake. What I was trying to point out was that those of us with insurance, until we hit 65 percent and trigger a loss, you don't get any ad hoc disaster. Neither does the person that's not insured. But the person that has the large loss has a larger base on which to base that ad hoc disaster on.

And when you've got the 65 percent level, you don't have an insurance claim, you're still going to have the cost of the premium, and you have the cost of harvest. As you move into it and you start to get insurance dollars, and from that point on it's pretty close to what the price of that commodity is going to bring, then you're going to get benefit out of ad hoc disaster.

And yes, by the way, thank you guys for the ad hoc disaster program. I think as time goes on it's going to be more difficult, if we look back to the example I gave of 1993, it was a tremendous amount of dollars, to get those kinds of issues passed in Congress. We know how few there are right now of agricultural Congressmen, and they're getting to be fewer. And you've done a good job, and I think if you could, take those dollars and either put them into lowering the premium costs on the higher coverage level, or some way or another go back to the Farm Program and have a permanent disaster program.

Mr. BRAINARD. Mr. Kennedy, I'd like to comment on that. I think the disaster program has given farmers incentive to buy crop insurance, because based on history, farmers know that unless you have crop insurance, you're not going to be eligible for crop disaster payments. I know this year now there is a change, there is disaster payments available for those that have non-insured or do not have insurance, but in the past it's always been, in order to receive disaster assistance, you've had to have crop insurance, so yes, there is an incentive.

Mr. KENNEDY. Well, we appreciate that, and I guess my next question would deal with this education that we've heard so much about, and obviously the insurance agent plays a critical role in educating the options that are available, and obviously this is primarily RMA's role, not FSA's role, but Mr. Haugo, having been a former board member of FSA, I just worry sometimes that we have too many silos within the various departments. Is there a way that the various different parts of the USDA offices, FSA being probably more broadly represented in our rural communities, can they also help play a part in helping farmers understand the risk management tools available to them, and does that make sense, or should we keep them separate?

Mr. HAUGO. I think, and I'll have to speak from my own experience, my crop insurance agent does a very good job of sitting down with us and laying all the options out. We do that in the wintertime. Very good job. We don't usually make that decision on the spot. We go home and look the options over, and we decide what's the best investment, what's the best way to cover risk, so I can't say that. In our case, that agent is the only thing she does is works for Farm Credit System. She handles Federal crop insurance. She's a specialist. And so I can't say that we need to be more educated.

On the other hand, certainly FSA and Risk Management have worked hand in hand. Part of the trouble with Risk Management, I was in the office of the director in the late 1980's, and his devout purpose in that job was to get rid of Federal crop insurance. That was kind of hard to take when you've got the director at the national level saying, "This is just a bunch of garbage, let's get rid of it," and we were trying to convince him otherwise.

They have come along, I think if anything, the 1993 disaster pointed out the need for some kind of coverage for risk in this country, all over the country, not just in northwestern Minnesota, but even some of the best growing corn and soybean areas in the world.

Another thing that drives people today to have Federal crop insurance or multi-peril insurance is the financial boys. The amount of exposure that they have, most of them are going to make sure that if they're exposed, that some of that risk is covered.

Mr. KENNEDY. Well, we appreciate that, we appreciate testimony, we appreciate all you do to help farmers and other users really understand the importance of risk management and tools that are available.

Mr. HAUGO. Since you brought up St. Patrick's Day and the Finlander thing and you are in Norman County, that at one time was the most Norwegian County in the United States, and——

Mr. KENNEDY. I wasn't smart enough to be in the region, but I was smart enough to marry one.

Mr. HAUGO. We were with some people last Saturday night, I was in the pickup, I guess, but I listened to him. He came up with this Ole and Lena story, and I thought it was really good, it really added a lot. And it was about poor Ole. He was really in tough shape. He was on his deathbed, and he could smell something just great, and it was lefse, so he struggled and he got down to the kitchen, and he was going to grab a piece of lefse, and Lena slapped his hand and said, "You can't have any."

"Well, why not?" .

"It's for the funeral."

Poor Ole felt so bad, he went upstairs and he got the shotgun and shot himself. So Lena calls the undertaker and she says, "Ole shot himself. You have to come pick him up."

And the undertaker said, "Well, I can't get there for an hour."

"Well, that's too bad," she said. "I have a meeting to go to, so I'll drag him out and leave him on the curb." She did that.

On the way to the meeting she stopped at the local newspaper. She wanted to put something in the paper that said, "Ole died."

The newspaper guy says, "You can get five words for the same price as two."

"OK. 'Ole died. Shotgun for sale.' "

Thank you, guys.

Mr. MORAN. Mr. Haugo, it was clear to me when you offered the joke earlier, that it was going to be told regardless.

Mr. HAUGO. We would have been happy if your grandfather had settled in Kansas.

Mr. MORAN. Our final panel consists of three witnesses, Mr. James R. Duininck of Prinsburg, MN; Mr. John Germolus, past president of the National Association of Crop Insurance Agents; and Mr. Howard J. Olson, vice president Insurance, AgCountry Farm Credit Services of Fargo, North Dakota.

Mr. Duininck, under past practices, I guess you may commence your testimony.

STATEMENT OF JAMES R. DUININCK, VICE PRESIDENT, SALES, PRINSBURG, INC.

Mr. DUININCK. Good morning. He kind of stole my thunder there. I was going to tell a joke, but I'll just forget it. That was pretty good.

Mr. Chairman, Mr. Peterson, members of the subcommittee, I appreciate the opportunity to be here today and to testify. Several of you from other regions around the country may not be aware that much of the cropland in the upper Mississippi drainage basin is tiled and drained from beneath the surface. Midwest farmers today simply could not be as productive without tiles and drains underneath their fertile cropland. Today I am representing my employer, Prinsco, Incorporated, and also many other companies that make and distribute water management products.

I am pleased to tell you that we are in the process of forming a coalition to support and promote landowners' use of more effective drainage technology through the USDA's conservation programs.

I'd like to explain what I mean when I use the word "drainage." In agricultural applications, we describe drainage as the excess, the removal of excess water from the soil surface and shallow subsurface. In agriculture applications, we define the word—excuse me. I wanted to make clear that when I defined drainage for agricultural production, we are not talking about the drainage of wetlands.

Farmers see a direct benefit from tiling their croplands. Iowa State University did a study that showed that corn yields increased by 45 bushels per acre, and bean yields by 15 bushels per acre, on ground that was drained compared to ground that was not drained. This, on an 80-acre field, would be an increase of about $8,500 on corn yields.

There is concerns in the Midwest to the amount of—excuse me, to the degree of which agricultural drainage contributes to flooding. The University of Minnesota, Dr. Gary Sands is an extension agent there, did some studying, and he says that drainage typically reduces both volume and peak of surface runoff from agricultural fields. Fields that have drainage tile act as a sponge, causing the water to soak up into the field rather than allowing it to run off. This suggests that tile drainage should decrease the incidence of flooding.

The Red River Valley poses unique challenges due to its lack of subsurface drainage. The primary focus of drainage in the valley has been through surface drainage. This allows the water to run across the surface, rather than allowing it to flow beneath the surface, and slows the water down. Subsurface drainage has long been recognized by the NRCS as best management practice, and has not been utilized in the valley.

Earlier in my testimony I spoke of a coalition being formed to support landowners' use of a more effective drainage technology through USDA programs. This form of drainage is known as controlled drainage. If you guys have the pamphlet I handed out, on page eight there's a diagram of the technology that we're talking about when we talk about controlled drainage. Controlled drainage controls the water table by holding back water during dry periods, and releasing water when necessary. Controlled drainage is a practice that will become more familiar and more common in the next few years because of its ability to reduce nitrate levels to the Gulf of Mexico.

Recognizing the problem that tiles and drainage pose to water quality, the Agricultural Research Service began researching controlled drainage technology, and recently revealed its findings, which I have attached for your review. Basically, ARS concluded that this system can help farmers increase their crop yields and substantially reduce nitrate loss by up to 40 to 50 percent. The ARS believes, as we do, that this system could revolutionize water management, and play a critical role in reducing nitrates that are now plaguing the upper Mississippi river basin.

Subsurface drainage is used to enhance the profitability of land that is already under agricultural production. The use of subsurface drainage in the Red River Valley would help with consistenT-yields year after year in the valley, and it would also help with water quality.

Mr. Chairman, thank you for the opportunity. I appreciate it. Thanks for being here today.

[The prepared statement of Mr. Duininck appears at the conclusion of the hearing.]

Mr. MORAN. You're welcome. Mr. Germolus.

STATEMENT OF JOHN GERMOLUS, PAST PRESIDENT, NATIONAL ASSOCIATION OF CROP INSURANCE AGENTS

Mr. GERMOLUS. Thank you, Mr. Chairman. Mr. Chairman, Mr. Peterson, Mr. Larsen and Mr. Kennedy, thank you for bringing this subcommittee hearing to Ada, and thank you for allowing us to testify today. We believe we have probably the best risk management tool working for us in the world today, but of course we've always got to strive to make improvements to that tool.

I think the first part of my discussion—well, first of all, I'm a farmer in the Red River Valley. I farm 8 miles south of here. Mr. Haugo is kind of a tough act to follow, but one thing I've learned is anyone older than I am, with more experience, I listen. So what he has to say makes a lot of sense.

I would like to first discuss the Agriculture Risk Protection Act of 2000. I think it had four key points that I would like to cover, the first point being the increase to the higher levels with the subsidy to the higher levels of coverage. I think it helped to sell a lot more insurance, it helped producers buy more insurance, and that's the important thing. I think there's still room for improvement to that. We've already discussed that here today, possibly moving more money to the higher levels.

I've provided a chart with my testimony that shows, probably more graphic than anything, in Norman County, if you move from the 80 to 85 percent level of coverage on spring wheat, you will buy \$7 of coverage for \$6 additional premium. Any time I present that to a farmer, I don't feel real good about showing him those figures. It's not something very comfortable to do. So I believe that's probably one of the things we can look at. And I don't know exactly how we can accomplish that. It would probably take more money.

The second thing would be the 60 percent T-yield plug-ins, part of ARPA. It helped our farmers. We certainly want to thank you for that. But there again, I think that's one of the key things that we can do to increase their coverage, and that's the two things that sell insurance, and two things that farmers look at when they buy insurance, is how much coverage can I get for what premium dollar do I have to spend? Those are the two main things.

One of the third things that ARPA brought to us was a change in the way the research and development is handled. Until that point, it was all done through the Risk Management Agency. That brought about a change, and we've seen it as an actual stumbling block to achieve some of the improvements we need to make in the program.

You've heard about the stage one, stage two problem of sugarbeets. I think it was in the fall of 2000, we met with some research and development people in Kansas City, and they informed us that due to ARPA, they would no longer be able to handle the problems or correct the problems. So I think this is one issue that really needs to be addressed in any further legislation.

Another thing that ARPA brought us was a premium discount plan. This allows companies to offer the farmer a discount, and from our standpoint, service is probably the only thing that can be taken away from to make this happen.

I do believe from Mr. Haugo's testimony that you understand that the farmer must spend probably two or three visits with his crop insurance agent before he actually buys a product. There's a whole host of products. They don't all work for the same area. It's up to that agent to make sure he offers what will work, but of course leave the decision up to the farmer. But it can be a long, complicated process, with a short period of decision making coming the last week, two weeks of February, first two weeks of March. I don't believe that the premium discount plan will work toward that end. I also believe that it will allow for discrimination between smaller and larger farms, and between high risk and low risk areas of the country.

The next part of my testimony, I would like to talk about the business climate that we are operating in. We have seen, in the last year, one bankruptcy, one merger, and one acquisition of crop insurance companies. I think this is critical to States such as North Dakota, possibly Kansas, for sure Texas. The fewer companies that operate in those States, the less options, the less service we'll see to the farmer, and we need to halt this problem, and we need to do it fairly soon.

The policies themselves are getting more complicated all the time. I don't know if the companies are making enough money to continue to develop the software that needs to be done. I know in the State of Washington they have a lot of specialty crops. Gets to be very, very time consuming and very costly for that. We just would like to see a change so that we have a more stable climate to work in.

I have to be very careful about the company I sell to my farmer, because I want to make sure that claim is paid when he files that claim, and it's worked timely, and we just don't want to see that part of the service disappear. The end result would be less service to the producer, and he's the one we're here to take care of.

I want to thank the committee for all the work they did on ARPA, and the continuation of the Crop Insurance Program. It's what's been working for us here in Norman County in this part of the country. We know there's improvements that need to be made, but that's why we're here today, so I appreciate the opportunity to answer any questions you might have.

[The prepared statement of Mr. Germolus appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Germolus, thank you very much. Mr. Olson, our final witness.

STATEMENT OF HOWARD J. OLSON, VICE PRESIDENT, INSURANCE, AGCOUNTRY FARM CREDIT SERVICES

Mr. OLSON. Mr. Chairman and members of the committee, my name is Howard Olson. I'm vice president of insurance at AgCountry Farm Credit Services based in Fargo, North Dakota. AgCountry serves farmers in southeast North Dakota, west central Minnesota, including the Norman and Mahnomen counties.

I appreciate the opportunity to testify before you concerning the effectiveness of the Crop Insurance Program. The Crop Insurance Program is a valued risk management tool, and a necessary safety net for agriculture producers in the northern Plains. In 1996, with the passage of the Freedom to farm bill, farmers were encouraged to use crop insurance and marketing tools as a safety net for farm income. Since 1996, farmers in North Dakota and Minnesota have done just that, spending $1.1 billion in premiums. In those same years, $2.3 billion has been paid out in claims. The Crop Insurance Program is working. It not only provides protection for production, but with the introduction of Crop Revenue Coverage and Revenue Assurance, it's become a valued marketing tool, providing protection for changes in commodity prices. This has given producers the opportunity to do a better job of marketing, and ultimately improving their gross income.

As an agricultural lender, AgCountry Farm Credit sees firsthand the value that crop insurance has brought to farmers in our area. It brings additional income security to a farm operation, and allows many farmers to get credit that otherwise could not. It's been estimated that 15 to 20 percent of the farmers in Norman and Mahnomen counties would be unable to get credit without the Crop Insurance Program.

Crop losses have a significant impact on even a farmer with a good balance sheet. A farmer with good working capital that suffers an uninsured loss will need 5 to 7 years of good crops to recover from that loss. The loss of working capital has an impact on the farmer's ability to replace machinery, stay current with technology, compete with other producers, and adds additional financial risk to that operation. That risk has an impact on all of the suppliers that the farmer purchases goods and services from throughout the crop year, and ultimately impacts the entire community.

AgCountry continues to see how the Crop Insurance Program is providing a stronger borrowing base for agriculture producers, and bringing better protection and a strong safety net for the producer and the community.

Now, as good as the Crop Insurance Program is, there's still room for improvement. The Agriculture Risk Protection Act of 2000 made tremendous contributions to improving the premium subsidy, and everyone is appreciative of that.

ARPA has brought affordability to coverage levels that provide true protection. However, it's still difficult for farmers to purchase as much coverage as they need to cover their input costs. You've heard many times today how repetitive years of losses will bring down an APH, and this is not characteristic of only Kansas or Norman County, but also all of North Dakota and northern Minnesota as well. Even at 75 percent coverage levels, it's common to find farmers in northern Minnesota with only $80 to $100 an acre of coverage, while their actual costs for raising wheat are close to $150 to $170 an acre. The coverage that is available is not enough to make them whole.

Now, the problem arises again, as people have said, when there's a disaster year in that APH. Two suggestions for improvement would be to use a yield adjustment equal to 100 percent of the county T-yield, or No. 2, remove years in the APH where the county has been declared a disaster.

Now, another common problem in this area is the discrepancy in the quality adjustments in the Crop Insurance Program and the quality discounts at the local elevators. You heard one of the witnesses talk about the issues with quality in barley. This is not only applicable to barley, but all of the crops that are graded on quality. Just recently a local producer told me that his local elevator discounted 53-pound test weight wheat by 75 cents a bushel. Now, 75 cents on $3.50 wheat is about a 21 percent discount. The Crop Insurance Program doesn't provide any coverage for that low test weight until the wheat is below 50 pounds per bushel.

In comparing crop insurance quality adjustments with the Commodity Credit Corp, the CCC's rating standards, we see a significant difference in how the two are applied. At the very least, the Crop Insurance Program should have the same standards as the CCC Program, and at the very best, reflect the exact discounts that are taken at the elevator.

In summary, crop insurance can be a better safety net with some improvements. Many of the things that you heard today, the bolstering of APHs when hit by disaster years, changes in quality adjustments, and the other issues that have been addressed, would be very valued improvements.

U.S. producers have a good safety net in the Crop Insurance Program. The program provides valuable risk management tools for farmers. It helps farmers eliminate the financial disaster of crop losses. Crop insurance also allows farmers to do a better job of marketing, reducing marketing risk and providing marketing opportunities. Crop insurance also provides the downstream effect of more financial stability to the rural communities and the rural economy. Farmers in North Dakota and Minnesota use crop insurance as their primary risk management tool, and a safety net to help them mitigate production and marketing risks. Let's work together to make it a better program for everyone.

Mr. MORAN. Mr. Olson, thank you.

[The prepared statement of Mr. Olson appears at the conclusion of the hearing.]

Mr. MORAN. I think we have a couple of suggestions of improvement, it's one of the things we can sit down with RMA and talk about the 100 T-yield, elimination of the year in which the county's declared a disaster, find out how that can and could work actuarily, so I appreciate those suggestions.

Mr. Germolus, the first hearing our subcommittee had in Washington was on the financial state of the crop insurance industry. You mentioned the merger, the bankruptcy. Can you give us a sense of the companies you're dealing with, the future of the companies? How serious is that concern?

Mr. GERMOLUS. Well, I think it's very serious, because it's hard to know exactly if a company is on firm financial grounds. There's a rating system, but I think that's one of the things that the RMA is probably taking more steps in that direction right now to account for their viability, and it's a huge concern for the farmer who puts his trust in someone, and gives him his money, and finds out later that his claim's going to be settled but it's not going to be settled until probably six months later. It's a huge concern for agents, because we don't want that to happen any more than the farmer does. So I think it's something that it needs steady maintenance by Congress to see that things are being done the right way. I do believe the RMA and Mr. Davidson is headed in the right direction. I think he's done a lot towards that since he came on board.

Mr. MORAN. Did you have Am Ag here?

Mr. GERMOLUS. I believe it was sold. I, myself, did not sell any multi-peril policies for American Agriculture Insurance.

Mr. MORAN. Mr. Larsen.

Mr. LARSEN. No questions.

Mr. MORAN. Mr. Peterson.

Mr. PETERSON. Jamie, we haven't tiled up here very much. When I grew up, we were told you couldn't tile the valley because the land was too heavy. As I understand it, that's not the case. My question is: Down in the southern part where most of the land is tiled, I assume that's had some effect on crop insurance claims. Is that documented at all, or——

Mr. DUININCK. Yes, I believe we have documentation on that. I could look that up. I'm sure it is. I think what I continue to hear today is spreading the risk, and I think what we can do through subsurface drainage is just another way to spread your risk.

I've heard comments on, it's too wet, getting in the fields early, that type of thing is what subsurface drainage helps with, is being able to get in earlier, which gives you a little longer growing season and much higher yields, so what tile does is helps spread the risk.

And I'm not totally answering your question, because I don't know at what levels they are down there, but I think that's something I could find out.

Mr. PETERSON. And as I understand it, the technology is coming on board now where you can actually store quite a bit of water underground?

Mr. GERMOLUS. Well, what subsurface drainage does, even without controlled drainage, is it lowers the water table, so as you're lowering the water table, you're taking the water out of a saturated soil, and you're allowing the new rains to soak into the soil rather than run off the soil, and the Red River Valley has some of the most efficient technology when it comes to surface drainage in the world, and the water can run so quickly to the tributaries and rivers because of how effective those surface drainages are, and that has helped with the current and past flooding problems that have happened here, for subsurface drainage will reduce that.

Mr. PETERSON. So but the tile drainage would compliment the above-ground drainage?

Mr. GERMOLUS. Correct.

Mr. PETERSON. Well, I think hopefully people will—as I understand it, there's quite a bit of tiling going on some places now?

Mr. GERMOLUS. Yes. In the last 36 months, the valley has started to accept it, and pockets of the valley are doing significant amounts.

Mr. PETERSON. I want to ask both Mr. Germolus and Mr. Olson, if you had your No. 1 and 2 priorities that we've addressed, if any, what would they be, multiyear losses, or additional premium subsidies, or something else?

Mr. GERMOLUS. Well, certainly the farmers in Norman County would probably have to be the multiyear losses. When you look back at these spring floods or pre-summer floods the last 5 years, you look back on the 5 years prior to that, with the incidents of scab, we have quite a number of APH databases that are half what they used to be, and when you start taking percentages like that, like Mr. Haugo indicated, you have no coverage left. You can't satisfy your lending institution with that type of coverage. So I would have to say that that would be the number one.

And number two would be increase subsidies to higher levels.

Mr. OLSON. In working with farmers throughout our 23-county area, I agree with Mr. Germolus in that the multiyear disasters, the multiyear losses, and specifically the disaster years, would be the No. 1 priority.

Mr. PETERSON. Thank you.

Mr. MORAN. Mr. Peterson, thank you.

That concludes the testimony we'll take this morning in Ada, MN. I appreciate very much the witnesses that we've heard from. I've participated, in the four terms I've been a Member of Congress, in hundreds of agricultural hearings, a number of them across the country, and Mr. Peterson was responsible in large part for the witnesses that testified today, and I would say this is among the best set of panelists in the four terms I've been listening to farmers and others. Your testimony was outstanding. You presented yourself very well, made compelling cases, and I very much appreciate the information that I and our subcommittee members have garnered this morning.

I don't know that Mr. Voy will appreciate this or not, but I wanted to at least let him be acknowledged. Duane Voy, who is at the regional office in St. Paul, RMA, is here. Mr. Voy, thank you very much for joining us. We look forward to working with you and the folks in Washington, DC, to try to address the issues that you and we heard this morning, and it's very good of you to have your representation here this morning. Thank you very much.

Mr. VOY. Thank you.

Mr. MORAN. Anything else, Mr. Peterson?

Mr. PETERSON. No. I think we're about out of time, so if anybody has any written comments that they would like to submit to the subcommittee, that will be accepted, as I understand it.

And so we were hoping today to have some open mic time, but there are a lot of things we've got to do here before noon, so we're going to have to wrap this up, but if you could get my staff or my office, if you have any additional comments that you want to make, we will make that part of the record, I assume, Mr. Chairman?

Mr. MORAN. The record will remain open for 10 days to receive additional material. Anything that our witnesses wish to supplement, you have the opportunity to take your words back if you so choose to tell us something different, as long as you do it within the next 10 days.

And I also want to acknowledge, I just learned that Jerry Carlson, who is an FSA district director, is present as well, so Mr. Carlson, I thank you for joining us as well.

What I'm trying to do is spread the opportunity for the audience to corner people among a large number of cornerees.

And also, again, the school here, the school system and the hospitality in Ada, we are just delighted to be with you, and very grateful for the hospitality that you've shown an Irishman from Kansas. It's great to be in Minnesota.

And so without anything further, the hearing of this subcommittee on General Farm Commodities and Risk Management is now adjourned. Thank you very much.

[Whereupon, at 11:40 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF JOHN GERMOLUS

Mr. Chairman and members of the subcommittee, thank you for allowing me to testify today on behalf of the National Association of Crop Insurance Agents (NACIA). I am a crop insurance agent for the Ada and Moorhead areas and a farmer. So my recommendations and observations are based not only my customers' experiences, but my own.

Multi-peril crop insurance is working for the farmers of this region but we should always be looking for ways to improve our product and our service to producers. We need to keep striving for very good MPCI products that offer producers sufficient coverage and obviate the need for providing disaster assistance. In the end, this will save taxpayers money as well as keep farmers farming.

AGRICULTURE RISK PROTECTION ACT OF 2000

The Agriculture Risk Protection Act of 2000 (ARPA) improved the program in many ways, especially the increases in premium subsidies at the higher levels of buy-up coverage. These increases provided the single greatest incentive for our producers to increase their protection and I commend everyone that helped to achieve this part of ARPA. This has brought many of our farmers from the lower levels of buy up to the 70 and 75 percent levels. We still do not see many purchasing at 80 or 85 percent because premiums are still too prohibitive. Please see attached coverage and premium comparison in Exhibit A. Shifting more subsidy from lower levels to these higher levels would stimulate further buy up. If Congress wants to consider providing more incentives for farmers to buy-up, Congress should consider raising the administration fee for the catastrophic (CAT) policies. We believe that it will lead to even more producers, especially those who operate smaller farms, buying higher levels of coverage mainly because doing so gives them more protection for virtually the same dollars they would have spent on CAT coverage. Another avenue that our Federal Government might consider is entering into contractual agreements with each State government. These contracts could be structured to allow

State subsidies for the higher levels with some money being returned to the states in low loss years, somewhat like our standard reinsurance agreement with companies.

ARPA also brought us some relief to poor yields in the Actual Production History (APH) database with the 60 percent T-yield option. We have seen that this option offers some help but does not go far enough. If this could be improved substantially it could be the biggest step towards eliminating disaster payments in the future. Prior to the introduction of the Actual Production History (APH) program, a producer could choose between using the county yield, proving his own yield or the Individual Yield Certification (IYC). We are not advocating a return to the past, but if we could use a larger percentage, such as 100 percent of the county T-yield when the county is declared a disaster, producers could actually insure within 85 percent of a normal yield. This would help any area of the country that has suffered multiple years of adverse weather. No one can predict which area of the country will suffer the next disaster or series of disasters. In the early 1980's we were producing wheaT-yields as high as 90 bushels per acre, but with excessive rainfall and wheat scab disease in the 1990's and early 2000's, our yields have never returned to more than 40 to 60 bushels per acre. We hope that our series of disaster years are over, but we can be sure that someone somewhere will have our bad luck.

ARPA also brought with it some provisions that, in our view, have negatively impacted it. The first is the way research and development (R & D) is handled. We believe the RMA should be allowed to continue to make minor policy changes or simple policy maintenance changes, independent of the FCIC board.

We understand the importance of including the private sector in the development of new programs or policies, but to remove RMA's ability to change existing policies should be revisited. We do not think that this was the original intention of this provision, but it has created a roadblock to improving policies.

For example, we have worked for 3 years to make a change in the sugarbeet policy and it appears that it could take another 3 years before it could be implemented. We have been told that the change is acceptable to RMA and would not cost producers additional dollars, but because of the new R & D provision in ARPA, an outside entity must study and present its findings to RMA before its adoption. Please consider making a change to this provision to permit flexibility in expediting the process.

ARPA has also allowed a premium discount plan (PDP) that permits companies to reduce premiums based on efficiencies in delivering crop policies. We believe that most producers rely heavily on their agent to keep them abreast of all that they need to know about the products and coverage that they have purchased or can purchase. Each year we meet at least three times with our producers individually. We collect APH data and crop planning information, we analyze products that are available and explain the various ways that they work for or against a producer. We then help them make their decision on which product will work best for them in the current crop year. This process takes time and knowledge, but with PDP, some of this service will be eliminated. This puts our producers at more risk of not having the right policy in place that will give them the protection they need. And, without the proper protection, lenders could end up rejecting the policies for use as collateral, leaving producers without operating capital.

We also see this provision as discriminatory between large and small producers and also between high risk and low risk areas of the county. We believe that not only premium discounts, but also premium surcharges will result from this provision. We should be constantly striving towards more service to our producers. However, PDP will promote less service and will result in less acres covered by the Crop Insurance Program.

Product or Policy Duplication

We currently have some policies that actually offer identical coverage if certain options are used. These policies have different rating methods, which results in a difference in premiums. We believe that some confusion and expense could be eliminated by not allowing policy duplication.

The example I would use is Crop Revenue Coverage (CRC) and Revenue Assurance (RA) with the fall harvest option. The differences between these two policies are very minor except for their premiums. In any given year one might be cheaper at the 65 percent level and just the opposite at the 70 percent level.

Elimination of one or the other will certainly reduce expenses and also make the wide array of choices less confusing for the producer.

Future programs need closer scrutiny to prevent policy duplication.Company Viability and Expense Reimbursement

In the last year, we have seen huge changes in our industry, from a company going bankrupt to large mergers of others. As more products are being offered on more crops, expenses and business risk becomes greater and greater. We don't believe that fewer companies will lead to better service and more efficiencies. We think that producers will start slipping through the cracks.

As an agent and a farmer, I would like to know that the company I am insured with will be there tomorrow to service the policy that has been purchased.

We think that RMA should have greater access to every company's financial data to keep an eye on their ability to service customers over the long-term. We understand RMA is taking steps in this direction and look forward to learning what additional types of information they will gather.

We must also ask the question as to whether the government is giving a fair expense reimbursement rate. Each year more products on more commodities are required to be offered to our producers and yet the expense reimbursement does not adjust accordingly. In addition, the loss adjustment reimbursement levels are simply inadequate to cover high loss policies, such as CRC and Revenue Assurance. We know that this is becoming a major strain on companies' ability to stay in business. The new Standard Reinsurance provides the government with the opportunity to provide more money for loss adjustment. NACIA encourages you to support the government in doing so by writing Secretary Veneman a letter on this topic. It's very important to help the agents and the remaining companies stay in business.

In closing, NACIA and I appreciate and thank you for the opportunity to testify and look forward to answering your questions.

STATEMENT OF RANDY MCMILLIN

Congressman Peterson, distinguished guests. As the chairman of the Minnesota Canola Council, I'd like to thank you for being here today and appreciate your interest in trying to work with us to find ways we can improve crop insurance. I don't plan on taking much of your time, but I would like to share a few thoughts with you about this issue.

Canola, in the grand scheme of things, is still a relatively young crop. Its popularity grew in the mid-nineties as an alternative to traditional small grain crops which, at the time, were dealing with serious disease issues. To help producers manage risk, a canola pilot insurance program was established in 1995 and became permanent in 1997 and served to significantly boost canola acreage in Minnesota. Since that time, the program has been expanded to 29 counties and has shortened its rotation requirements to two years. Furthermore, beginning with the 2004 crop year, canola growers in Minnesota will be able to purchase the popular Revenue Assurance plan of crop insurance. As you know, this form of crop insurance helps protect growers against declines in price, yield or a combination of both factors. All of these factors have contributed to the popularity of canola in Minnesota.

Farming has always been a risky enterprise. It is unique, however, in that although every business faces risk, few face the degree of risk farmers do considering we are at the mercy of both market fluctuations and weather related events such as droughts, floods, and other natural disasters.

This has been well demonstrated over the past few years in northwestern Minnesota. Excess rain and flooding have served to a reduce canola acreage in Minnesota from a high of 197,000 acres in 1998, to a low of just 44,100 last year.

And although crop insurance has, for many, served as a life preserver during this time, allowing producers to keep their heads above water during troubled times, improvements to the program can and should be made.

A simple example of this, as it relates to canola, is the difference in premiums between Marshall and Roseau Counties in Minnesota. As a rule, crop insurance premiums increase as you move north. For example, in Marshall County, coverage for a 1,500lb/acre yield at the 65 percent level costs $4.40/acre. In Roseau County, north of Marshall County, that same level of coverage is 5 percent more expensive, when in fact, from a risk standpoint, coverage should actually be less expensive because, unlike traditional small grains, canola is a cool season crop which thrives in cooler temperatures. Additionally, Roseau tends to be the largest and highesT-yielding canola producing county in Minnesota.

Granted, a 5 percent increase in premiums from Marshall to Roseau Counties isn't going to be the difference in whether or not a producer can afford crop insurance coverage, but I think it clearly demonstrates how the program can be improved. Data show canola production in Roseau County is no greater risk, frankly less, in fact, than Marshall County. Yet, producers in our largest producing county are being squeezed for an extra 5 percent on their premiums. In the world of evershrinking margins we live in, any unnecessary, added expense is a burden and should be addressed.

Another issue that potentially stands as an impediment to increasing canola acreage is the fact that in counties not currently covered by the program, producers are required to provide their agent with a 3-year canola cropping history before they can enter into a written agreement for insurance coverage. This is a classic Catch–22 situation. Few, if any, producers will risk growing canola without the protection of crop insurance, but if growers don't establish a canola cropping history they are unable to receive coverage. We believe this problem could be addressed relatively easily in a number of ways, such as reduced coverage or higher premiums until sufficient history is established, or a review of the producer's production practices or past claims. This is another example of small fixes we believe could improve the current program.

Now on the other hand, we also want to make sure we give credit where credit is due as well. In 2002, the Minnesota Canola Council applied for and subsequently received a grant from RMA's Targeted Commodity Partnerships for Risk Management Education Program. These grants were awarded to universities, private agribusiness organizations and grower groups to help defray the costs of Risk Management education efforts. It enabled the Council to give growers face-to-face exposure to risk management professionals who were able to better educate them about the coverage options which may be most useful to them. These types of programs are useful to producers in general, but particularly in our area where our exposure to Risk Management professionals tends to be limited.

Furthermore, we'd like to add that the Canola Council has had a good working relationship with the St. Paul office of RMA. They have been responsive to our needs and have always been willing to discuss issues we feel are important to the long-term health of our industry.

And finally, although RMA must remain actuarially sound, one thing we must continue to do is strive to make higher levels of crop insurance more affordable. This will not only help to preserve and strengthen the safety net on which producers rely, but is critical to the economic health of our region in bad years as well. Thank you.

STATEMENT OF JOCIE ISZLER

The North Dakota Corn Growers Association and the North Dakota Corn Utilization Council would like to thank the committee for the improvements that have been made in the Crop Insurance Program. Coverage for non-irrigated corn was expanded into several additional counties this past year. However, there are certain aspects of the Crop Insurance Program that need attention in order for the program to function as a risk management tool for producers.

Currently, with the exception of Cass, Richland, Sargent and Ransom counties, the final plant date for corn in North Dakota is May 20th. For the above mentioned counties the date is May 25. The North Dakota Corn Growers Association, representing 1,500 corn grower members in North Dakota is requesting a 10 day extension on the preventive planting dates. These are the reasons for these requests.

First of all, improved varieties provide more choice for today's corn grower. In the past the assumption was that 100 day corn was necessary for adequate yields. However, as grower experience and test plot data indicate, varieties in the 85 day range yield as well as 100 day varieties. If the proper maturity is selected, late planted, early maturing corn has the potential to yield very well. According to the experience of Duane Dows, Page, ND producer and Chairman of the ND Corn Utilization Council, in certain seasons, late planted, early maturing corn can yield equal to early planted corn. Early planted, late maturing corn can have the added risk of poor emergence due to cold soils. Producers report that losses from frost damage are of far less concern than losses resulting from poor emergence due to cold soil temperatures.

Secondly, production practices have changed. More producers are using minimum tillage practices. This especially true in the counties to the west and north where there is a trend toward increasing corn production. No till or minimum tilled soils take longer to warm up and dry out for planting in the spring. Producers who try to plant in these soils too early in order to meet preventive planting deadlines increase their risk of loss due to poor emergence.

Another aspect of crop insurance for corn that needs to be updated is the requirement that producers submit 10 years of actual production history. A time period of this length is excessive due to the significant and rapid improvements in varieties over a 10 year period of time. The ND Corn Growers Association supports multiyear APH reform that would use 100 percent of the county T-yield. The current 65 percent level results in a very negative impact on the grower's APH in the event of a crop failure.

In addition, the ND Corn Growers Association supports increasing government subsidiy of the 85 percent coverage level. The current 65 percent coverage level often leaves producers in a situation where they would have been better off with no insurance in the event of a crop failure.

In summary, current final planting dates restrict planting options for producers. Current crop production history requirements and lack of cost effective coverage reduce the incentive for North Dakota producers to use crop insurance as a risk management tool with corn for grain. ND corn producers support the concept of Freedom to Farm. The crop insurance industry plays an important role in making the concept of Freedom to Farm workable.

The ND Corn Growers Association and the ND Corn Utilization Council thank the committee for this opportunity to submit testimony and appreciate their efforts in improving risk management tools for our producers.

STATEMENT OF HOWARD OLSON

Mr. Chairman and members of the committee, my name is Howard Olson. I am vice-president of insurance at AgCountry Farm Credit Services, based in Fargo, ND. I appreciate the opportunity to testify before you concerning the effectiveness of the Crop Insurance Program.

The Crop Insurance Program is a valued risk management tool and necessary safety net for agriculture producers in the northern Plains. In 1996, with the passage of the Freedom to farm bill, farmers were encouraged to use crop insurance and marketing tools as a safety net for farm income. Since 1996, in the states of Minnesota and North Dakota, $1,153,000,000 in premiums has been paid by farmers. In those same years $2,270,000,000 was paid in claims.1 The Crop Insurance Program not only provides protection for production, but with the introduction of Crop Revenue Coverage and Revenue Assurance in the last eight years it has become a valued marketing tool, providing protection for changes in commodity prices. This has given producers the opportunity to do a better job of marketing and ultimately improving their gross income.

As an agricultural lender, AgCountry Farm Credit Services sees firsthand the value that crop insurance has brought to the farmers in our area. It brings additional income security to a farm operation and allows many farmers to get credit that otherwise could not. It has been estimated that 15–20 percent of the farmers in Norman and Mahnomen counties would be unable to obtain credit without the Crop Insurance Program.

Crop losses have a significant impact on even a farmer with a strong balance sheet. A farmer with good working capital that suffers an uninsured loss will need five to seven years of good crops to recover from that loss. The loss of working capital has an impact on the farmer's ability to replace equipment, stay current with technology, compete with other producers and increases the risk of financial failure. That risk also has an impact on all of the suppliers that the farmer purchases goods and services from throughout the crop year, ultimately impacting the entire community. AgCountry continues to see how the Crop Insurance Program is providing a stronger borrowing base for agriculture customers bringing better protection and a strong safety net for the producer and the community.

As good as the Crop Insurance Program is, there is still room for improvement. The Agriculture Risk Protection Act of 2000 made tremendous contributions to improving the premium subsidy, and everyone is very appreciative of that. ARPA brought affordability to coverage levels that provide true protection.

However, it is still difficult for farmers to purchase as much coverage as they need to protect their input costs. Repetitive years of losses have caused Actual Production History (APH) to fall. Even at 75 percent coverage levels, it is common to find farmers in Northern Minnesota with only $80-$100 an acre of coverage on their wheat, while their actual costs for raising wheat are close to $150 to $170 an acre. The coverage that is available is not enough to make them whole.

The problem arises when there is a disaster year included in the APH. The current rules allow replacing the bad year in the APH with a yield equal to 60 percent of the county Transition Yield (T-yield). Some suggestions for improvement would be to use a yield adjustment equal to 100 percent of the county T-yield, or remove years in the APH were the county has been declared a disaster.

T-yields should be examined and reviewed for accuracy. T-yields are supposed to be based on the National Agriculture Statistical Service (NASS) yields. However there is a discrepancy between the T-yields and the NASS yields. Another situation that arises is that current technology and product developments have provided for an increasing trend line yield of all crops, especially corn and soybeans. The NASS yields and the T-yields lag the trend line yield because they are a long-term average and are not responsive enough to the change in the trend line yield.

Another solution is to have the yield floor at 100 percent of T-yield instead of the current 80 percent of T-yield. New producers of a crop are eligible to receive 100 percent of the county T-yield so experienced producers of a crop should be able to do the same.

Another common problem in this area is a discrepancy between quality adjustments in the Crop Insurance Program and the quality discounts at the local elevators. Just recently a local producer stated that the local elevator discounted 53-pound test weight wheat by 75 cents. 75 cents on $3.50 wheat is a 21 percent discount. The Crop Insurance Program doesn't provide coverage for low test weight until the wheat is below 50 pounds. In the past few years, discounts for falling numbers have become common in wheat and durum. The Crop Insurance Program does not provide any quality adjustments for falling numbers. The Commodity Credit Corporation's (CCC) grading standards have been recently modified to include discounts for falling numbers. In comparing crop insurance quality adjustments with CCC grading standards we see a significant difference in how the two are applied. In the very least the Crop Insurance Program should have the same standards as the CCC program and at best reflect the exact discounts that are taken at the elevator.

New producers of a crop receive 100 percent of the county T-yield as their APH yield. But if the producer raised the crop twenty years ago they are required to use that production or they will receive a percentage of the county T-yield. This procedure penalizes a producer for having raised a crop many years ago because today's yield potential is much greater than it was twenty years ago.

Crop insurance coverage on sugarbeets and adjusting procedures on sugarbeets should be reviewed for the effectiveness or lack of effectiveness of having two stage guarantees. While it is true that sugarbeets occur significant costs throughout the growing season, the majority of the cost has gone into the beets by planting. Having a different guarantee before July 1 and after July 1 causes errors and frustration in the program and differences in procedures by growers, adjusters and companies. sugarbeets could be covered in a very similar fashion as potatoes. If potatoes are destroyed before harvest, they are covered at 80 percent of the guarantee.

In working in both North Dakota and Minnesota there is often a disparity in coverage on crops that are only a stone's throw across the Red River from each other. One example of this is the sugar index factor used for adjusting sugarbeeT-yields. The factors in North Dakota were recently raised while the factors in Minnesota stayed at the current levels. The result is a difference in APHs on either side of the river. There are other differences between states in how Added Land is reviewed and approved, documentation required for Written Agreements and approval of Written Agreements. The reason for the differences is the different RMA Regional Offices. The process should be the same for the same crops in similar growing areas for all RMA Regional Offices.

In summary crop insurance can be a better safety net with some improvements. Bolstering of APHs when hit by disaster years, improvements in the quality adjustments, T-yields tracking closer to trend line yields, better yields for new producers of a crop, one sugarbeet guarantee for the crop year and common practices and procedures between RMA Regional Offices would all be valued improvements.

U.S producers have a good safety net in the Crop Insurance Program. The program provides valuable risk management tools for farmers. It helps farmers eliminate the financial disaster of crop losses. Crop insurance also allows farmers to do a better job of marketing, reducing marketing risk and providing marketing opportunities. Crop insurance gives agriculture lenders additional security for operating loans, allowing them to extend credit to customers who may not otherwise be able to get credit while improving the financial stability of the agriculture credit system. The Crop Insurance Program provides a downstream affect of more financial stability to the rural communities and economy. Farmers in North Dakota and Minnesota use crop insurance as their primary risk management tool to mitigate production and marketing risks. Let's work together to make it a better program for everyone.

Statement of Glen Brandt

Chairman Moran, Distinguished members of the subcommittee:

I have farmed here in Norman County for 34 years and am here to tell you my views on the General Farm Commodities and Crop Insurance as it pertains to my farming operation.

The first topic I would like to address is the Farm program as it pertains to the sugarbeet industry. This industry is vital to the economy of this region of Minnesota and our neighbors in North Dakota. From the seed and fertilizer businesses to the implement dealers to the processing factory workers to the part time truck driver in the fall, this area is heavily dependent on this crop. Every dollar earned by the farmer is turned over 7 times and this fact is very important to the economy of this area.

The farm program also allows the sugar prices to remain stable for the highest quality sugar for the consumer. We are very regulated as to the chemicals that we can use on sugarbeets, whereas other countries are not, allowing those countries to produce sugar at a lower price and a lower quality.

The capital expenditure for planting, spraying, cultivating and then harvesting this crop is huge. The ability to purchase crop insurance decreases this risk. For an example, in 2002 Norman County farmers were flooded 3 or 4 times. The crop insurance programs saved many farmers from having to sell out. We were able to get enough money to at least start over in 2003. The program is not perfect, such as the proven yields rules, but it is still a good system for us for insuring our risk.

STATEMENT OF JAMES R. DUININCK

Mr. Chairman, Mr. Peterson, and the rest of the subcommittee Members, I thank you for holding this hearing and allowing me to testify today.

Several of you from other regions around the country may not be aware that much of the cropland in the Upper Mississippi drainage basin is tiled and drained from beneath the surface. Minnesota, Iowa, Illinois, Ohio, and Indiana farmers simply could not be as productive today without tiles and drains under their fertile cropland. Today, in addition to representing my employer, Prinsco Incorporated, I'm representing a number of other companies that specialize in making and installing water drainage products. I am pleased to tell you that we are in the process of forming a coalition to support and promote landowners' use of more effective drainage management technology through USDA's conservation programs.

I would like to explain what I mean when I use the word drainage. In agricultural applications we define the word drainage as removal of excess water from the soil surface and the shallow subsurface. I want to make clear that modern water management for agricultural production focuses on the management and enhancement of existing drainage systems to benefit water quality and the profitability of agriculture not the drainage of wetlands.

Historically, drainage in the United States has occurred in two primary developmental stages, 1870–1920 and 1945–1960. By 1920, more than 53 million acres out of a total of 956 million acres of U.S. farmland had received some form of drainage. This figure rose to 109.7 million acres by 1985. A survey conducted by Ohio State in 1985 showed that 20 percent or 5,515,000 acres of Minnesota's cropland had been drained.

Farmers see a direct benefit to tiling their cropland. A study done by Paul Brown from Iowa State University showed thaT-yield loss per acre due to very poor to poorly drained soil cost a farmer 45 bushels per acre for corn and 15 bushels per acre for soybeans. On an 80 acres field of corn this could cause a farmer to lose approximately $8,500. John Nieber, Professor of Biosystems & Agricultural Engineering from the University of Minnesota shows that the benefits of drainage are extensive. So extensive that 20 to 50 percent of all cropland in the corn/soybean belt has some form on drainage.

There is concern in areas of the Midwest of the degree in which agricultural drainage contributes to flooding. Presentations suggest that precipitation is the factor responsible for most of the variation in large-river flows including flows associated with Minnesota's most extreme flooding. Dr. Gary Sands, Extension Engineer in the Biosystems & Agricultural Engineering Department at the University of Minnesota says that tile drainage typically reduces both volume and peak of surface runoff from agricultural fields. Fields that have drainage tile act as a sponge, causing the water to soak into the field rather than allowing it to runoff. Because tile drainage tends to decrease peak runoff rates, this suggests that tile drainage should decrease the incident of flooding.

The Red River Valley poses unique challenges due to its lack of subsurface drainage. The primary focus of drainage in the Red River Valley has been through surface drains; these shallow ditches can contribute to flooding problems. Subsurface drainage provides water storage and decreases the incidence of flooding. Subsurface drainage has long been recognized by the NRCS and has not been utilized in the Red River Valley.

Earlier in my testimony I spoke of a coalition being formed to support and inform landowners of a more effective drainage technology through the USDA conservation programs. This form of drainage is referred to as controlled drainage, which allows the farmer to control the water table by holding water back during dry periods and releasing water when necessary. Controlled drainage is a practice that will become more common in the upcoming years, because of its ability to reduce the nitrate flow to the Gulf of Mexico. Recognizing the problem that tiles and drains pose to water quality, the Agricultural Research Service (ARS) began researching control drainage technology and recently revealed its findings in an article that I have attached for your review. Basically, ARS has concluded that this system can help farmers increase their crop yields while substantially reducing nitrate leaching by up to 40 to 50 percent. The ARS believes, as we do that this system could revolutionize water management as well as play a critical and necessary part in reducing nitrates and possibly other agricultural pollutants now plaguing the Upper Mississippi drainage basin. I have attached for your review, a copy of the ARS article on this technology and its research results in certain areas.

Over the next month, NRCS and ARS will finish rewriting the EQIP practice standard to incorporate the new managed drainage research and the control drainage. We will be discussing with NRCS the cost-sharing arrangements that farmers would expect when they sign-up for this system.

Subsurface drainage is used to enhance the profitability of land that is already under agricultural production. Subsurface drainage does not violate Swapbusters. Instead, drainage systems help make agriculture more environmentally sound and sustainable. Modern water management for agricultural production focuses on the management and enhancement of existing drainage systems to benefit water quality and the profitability of agriculture.

Mr. Chairman, thank you for this opportunity to testify today and I look forward to our continued discussion about agricultural drainage. I would be pleased to answer any questions you or others may have.

Statement of Nathan Johnson

Mr. Chairman and members of the committee:

Thank you for allowing me the opportunity to give you my views about crop insurance.

My name is Nathan Johnson and I raise corn and soybeans in central Minnesota. I have purchased crop insurance since 1993. I am a past president of the Minnesota Corn Growers Association, and currently serve on the organization's board of directors and legislative committee.

In the last five or six years, crop insurance has greatly improved for farmers in central Minnesota. Because of high premiums, five years ago I could not afford to take out 60 percent coverage on my crops, but today I have both my corn and soybeans insured at an 80 percent coverage level.

In my operation, I have to borrow money to plant the crops, so I have to take out crop insurance to cover my risk, which is normal for the majority of farmers in my area. When the new formulas to calculate premiums were introduced, it was a real advantage for farmers in central Minnesota. In the past, we were not given credit for all the improvements in crop production that we have made in the last 20 years. With the new formulas, those improvements are now taken into consideration.

Another big advantage for farmers under the new rules is that we can now save substantially on our premiums by combining fields in several different sections.

I think it is essential for Minnesota farmers to be able to rely on crop insurance that provides good coverage at affordable prices. And I think it's very important there are programs in place to make sure farmers know about all the options that are available in crop insurance. One example would be the price break that I can receive for combining corn and soybeans in different sections. I've talked to many different farmers that are not aware of this discount. Another example is that many farmers are not aware they have an option to buy out a year of history on their Actual Production History. This is a very important option for many farmers, including myself.

Again, thank you for the opportunity to give testimony on crop insurance. I would be happy to try to answer any questions you may have.

STATEMENT OF DUANE W. MAATZ

We are requesting the opportunity for industry experts to review the northern potato policy including price election, with time to comment, prior to policy training and implementation. (Example, errors have been made in calculating price and have been uncorrectable by the time the policy is issued.)

Policy changes and reinterpretations have been made at or very near the signup deadline. RMA has the ability to make changes whenever they determine it is necessary, while it takes 18 to 36 months for us to modify the policy. (Example, reinterpretation of the certified seed option, made known to us on March 13, 2002, and then denying indemnity payments on the 2001 crop. Some indemnities were paid while others were not. The compounded problem is that farmers had already signed up for their 2002 coverage which was sold to them with the same understanding of the policy coverage since 1986.

Seed Recertification Option. In the advent of the reinterpretation of the certified seed option, we are requesting consideration of a creating an endorsement for recertification of seed potatoes.

Degradation of APH. Very little has been done to repair APH damaged by multiple year disasters. Farmers are unable to purchase cost effective coverage that adequately manages their risk.

Frost / Freeze Date: Historically October 15; Changed to September 30; Pilot Program October 7. We have requested a frost freeze date of October 15—like other northern states potato growing regions.

Storage Endorsement. Currently December 15. This was a good change compared to the prior rules.

In the advent of improved storage equipment and capabilities, and more acres of late season varieties being produced, we need an option to purchase a longer period of time in 30 and / or 60 day increments.

Insurance by Type and Variety

Today growers need to grow different types and varieties of potatoes in different farm units to manage risk. Each variety reacts differently to adverse conditions at various stages of growth. Example: growers could have a loss on red norland while their shepody crop may produce enough to keep a unit out of a loss situation if both varieties are planted in the same unit. When farmers are planting for specific markets it makes land use choices difficult and production in regard to risk management becomes impractical.

Twenty Percent Loss of Indemnity for Un-harvested Acres. The current policy indicates a 20 percent loss of indemnity for un-harvested acres. This loss of indemnity is too high. Our data indicates it should reasonably be 8 to 10 percent. Our organization does not support cost of production or guaranteed income insurance policies. We are cautions of products that may cause overproduction.

We do support the construction of new products that reduce the incidence of waste, fraud and abuse of the system.

STATEMENT OF DARRIN IHNEN

Mr. Chairman and members of the subcommittee, the South Dakota Corn Growers Association (SDCGA), a non-partisan association committed to promoting the profitability of South Dakota corn producers is pleased to provided a written statement for the record regarding the review of crop insurance and commodity programs. Our organization works to promote corn and improve corn profitability; influence public policy and legislative efforts; and increase corn usage through livestock feeding and new domestic products to improve the quality of life in a changing world.

SDCGA recognizes the Federal Crop Insurance Program as the primary risk management tool for producers and urges continued efforts to increase producer participation in the program. South Dakota growers look forward to working with the Risk Management Agency to continue to improve the methods by which growers manage their crop risks.

On average, producers are good managers of things they control. In farming however, there are an infinite number of items beyond control as producers are exposed to both production risks and price risks. Production levels vary depending upon cycles of demand as well as balancing those demands with adverse weather conditions such as droughts or floods.

As you know, severe drought conditions have taken an adverse affect on farmers and ranchers nationally during the past few years. The drought in South Dakota alone last year has cost an estimated $1.4 billion according to the AgBio Communications Unit at South Dakota State University (SDSU). Drought assistance made available through the Federal Farm Service Agency (FSA) has helped offset financial losses. Although conditions have been better compared to last year's drought, overall conditions in western South Dakota continue to be drier than average.

Historically, to combat the adverse impact of crop and livestock production caused by the drought, Congress has supplemented regular funded disaster assistance programs with additional emergency aid, which has generally been provided in emergency supplemental appropriations bills. Such was the case with the Agricultural Assistant Act of 2003, which provides assistance to producers who have suffered losses due to weather-related disasters or other emergency conditions.

As part of the Act, the Crop Disaster Program provides payment to producers for qualifying losses to agricultural commodities due to damaging weather or related conditions. The damage must be in excess of 35 percent for either the 2001 or 2002 crop, but not both years. From a short-term historical perspective (1988–2000), Congress has authorized emergency crop disaster payments to eligible producers affected by any type of natural disaster that caused a significant reduction to that year's crop yields. SDCGA strongly believes that limiting qualifying losses or damages to a single year does not adequately address producers' needs as was provided under the current Act. SDCGA would recommend the need for multiyear losses. Such inclusion for producers would allow producers to receive the additional assistance and protection that would allow producers to rebuild their operations during multiyears of drought.

Beyond the need for multiyear crop losses, SDCGA believes it is crucial to maintain a voluntary Crop Insurance Program that provides equitable aid for crop insurance participants. Under the current Crop Insurance Program, a producer who grows an insurable crop selects a level of crop yield and price coverage and pays a premium that increases as the levels of yield and price coverage rises. However, all eligible producers can receive catastrophic (CAT) coverage without paying a premium. The premium for this portion of coverage is completely subsidized by the Federal Government. Under CAT coverage, participating producers can receive a payment equal to 55 percent of the estimated market price of the commodity, on crop losses in excess of 50 percent of normal yield, or 50/55 coverage. Such a program should remain voluntary and incorporate involvement from private insurance companies.

SDCGA believes premiums should be affordable and provide adequate coverage. Affordability of coverage and adequate coverage would forestall political pressure for expensive ad hoc disaster assistance payments each year. In addition, modifications should be made for greater availability in light of current low commodity prices. Producers in the Plains states and other regions that are prone to drought and other recurring disasters will most likely make the strongest support for support of crop insurance enhancements. The Federal Government should continue efforts so subsidize premiums to make insurance affordable to farmers.

SDCGA also believes crop insurance fraud and abuse is not a victimless crime. For every honest prouder who buys crop insurance, there will be fraud and abuse that increases the cost of the overall program. SDCGA encourages penalties for those individuals who defraud, waste, and abuse the system through enforced penalties against producers, agents, loss adjusters and companies for failure to comply with the law or for providing false information, including stiff fines. Enforcement of penalties for those individuals or non-individuals would yield increased saving to the Federal program and provide direct assistance to the producers who need them the most. We applaud the efforts of the program to discourage fraud, waste, and abuse.

Overall, SDCGA believes the following principles should govern the design and delivery of the Crop Insurance Program that include the following key components:

• multiyear losses. Producers who suffer back-to-back years encountered by unavoidable risks associated with adverse weather, plant disease, and insect infestations. SDCGA strongly believes producers with multiyear crop losses should have eligibility for crop assistance provided in the same manner as the 2000 crop year disaster payment program.

• The program should remain voluntary. Crop insurance should remain voluntary available for producers and allow flexibility for producers to participate in accordance with supplemental coverage from private insurance companies.

• Premiums should be affordable. Policies should provide producers with increased governmental assistance on their premiums while lowering the percentage cost paid by producers for greater improvement to the level of coverage protection purchased.

• Improving against fraud. Producers, agents, loss adjusters, insurance providers, or anyone willfully and intentionally providing false or inaccurate policy information should be held highly accountable for any illegal gain or benefit.

SDCGA express our support for the insight and commitment that originated with Title V of the Agriculture Adjustment Act of 1938 which authorized the Federal Crop Insurance Act which establish a Federal insurance program to protect farmers from crop losses due to natural hazards. Because of the insight to the original act, the U.S. Department of Agriculture (USDA) offers several permanently authorized programs to help farmers recover financially from a natural disaster, including Federal crop insurance, the noninsured assistance program and emergency disaster loans.

Mr. Chairman and members of the subcommittee, our organization is committed to working toward a policy that allows a more effective and equitable crop disaster assistance program. SDCGA appreciates the work the subcommittee has undertaken and the reforms that have been made by Congress over the years on behalf of U.S. agricultural interests. Our organization's members appreciate the opportunity to offer our support for legislation that assists producers during time of distress and the financial losses that occur.

Thank you for this opportunity and your time and attention to this issue.

Statement of Bruce Freitag

My name is Bruce Freitag and I'm a small grain and row crop producer from Scranton, North Dakota, which is in the far southwest corner of the state. I'm currently serving as the president of the North Dakota Grain Growers Association. Our association consists of wheat and barley producer of all sizes from across the State of North Dakota.

Congressman Moran, first of all I would like to thank you and your committee for coming to the upper Midwest to listen to our producers concerns about agriculture and more specifically crop insurance.

During the last farm bill debate there were many good ideas that came forward. Congress listened and worked through these ideas and came up with a farm bill that we believe is a well-balanced approach to farm programs. It was always our goal at the North Dakota Grain Growers and the National Association of Wheat Growers to support a bill that had a 3-legged approach. As we learned in Southwest North Dakota last year, the fixed payments provided us with a certain amount of security, even when we produce no crop at all due to a catastrophic disaster. The second leg, a loan rate that is now based more accurately on a percentage of cost of production for each commodity, provides support on the crop we do produce.. The third leg, which is the counter-cyclical payment, assists us when we, or our competitors around the world produce a large crop that drives the prices down.

This farm bill has done a good job in letting us as growers make decisions based on world markets but yet providing us with a certain amount of financial stability to maintain the cheapest, safest and most environmentally friendly food supply in the world. For that, Mr. Chairman, we commend you and your colleagues for bring the last farm bill forward.

We believe a major accomplishment of this legislation was to replace the need for ad hoc market loss assistance payments, with a mechanism for countercyclical payments in times of low market prices. We believe the same approach is needed when addressing natural disasters. Crop insurance should be improved to provide more complete coverage for producers, thereby making emergency disaster legislation unnecessary. We all know how difficult it was to achieve disaster legislation this past year, and our concern is that any future weather related disasters will face the same fiscal climate and resistance to emergency spending. We believe it is now time to address this problem, before we face the next natural disaster.

Crop insurance has been a valuable tool for our producers in North Dakota, with a participation rate of 97 percent in recent years. Yet, even at these levels of participation there has been a need for supplemental disaster payments because the current crop insurance system is inadequate. Coverage levels that are higher than 75 percent are impractical to purchase unless you plan on having a disaster. Premium rates for coverage beyond the 75 percent level in many cases approach the 50 percent level. In other words it takes one dollar in premium to buy two dollars worth of additional coverage. This results in a large gap in coverage for producers. Typical crop production margins are narrow and it takes 90 to 95 percent of an average crop to cover costs. With the most affordable and justifiable coverage levels of the current Crop Insurance Program at the 65 to 70 percent level, a substantial shortfall occurs whenever there are crop problems. In other words a farmer had better plan on having 5 or 6 good years before having a bad one in order to stay in business.

The North Dakota Grain Growers along with the North Dakota Barley Council have begun this process by starting to do an economic analysis of what it would be like to develop a crop insurance plan that combines crop insurance coverage along with a farm savings account. How would this be done? We believe there are ways to make crop insurance more efficient, and less vulnerable to fraud and misuse than the current program. Certainly these savings could be used to reduce premiums on higher levels of coverage, making for a more complete coverage. This, coupled with a farm savings account, would provide more complete risk management package, and be responsible to both the taxpayer and the producer.

There are several possibilities for finding efficiencies in the crop insurance system, all of which require more economic research to develop. Some current ideas include multi year discounts, no loss discounts, and more affordable premiums for whole farm or enterprise units. A way needs to be found to make the 80–85 percent levels of coverage more affordable. Multiyear losses which lead to declining APH's also are a problem in some areas and should be corrected to provide producers with adequate coverage. Indexing yields may be a solution for this problem.

The farm savings account could be a tax deferred, government matched account, similar to and IRA, that producers could tap in times of crop failure to fill the 15–20 percent gap between crop insurance coverage and expected revenue from the crop.

When it comes to making the system more efficient we as growers have to be willing to help in developing this plan. That is why the North Dakota Grain Growers and the North Dakota Barley Council have begun the process of researching these ideas to see if they are actuarially sound and make economic sense.

Mr. Chairman and members of the committee we here at the North Dakota Grain Growers again look forward to working with you in solving this most difficult problem facing American agriculture today.

Once again thank-you for coming to the upper Midwest.

Statement of Mark Beedy

I wish to welcome and thank Congressman Peterson and members of the subcommittee for visiting our region and for the opportunity to present this testimony.

My name is Mark Beedy and I operate approximately 1000 acres in the Moorhead/Fargo area. This year, I planted approximately 500 acres of wheat and 500 acres of soybeans, of which 200 acres are for the food grade market. The core of my operation has been in my family for over a century. I am also the vice president of the Minnesota Soybean Growers Association. Although my comments are known and supported by ASA and MSGA, they are just that, my comments, and are not meant to create a position for ASA or MSGA at this time.

I realize the enormous task of putting together a national farm program or risk management program. There will be areas or situations affected differently than intended.

The process in making soybeans a program crop, I believe, is one such occurrence. We saw our local loan rate go from $4.97 down to $4.72. The intent was to recoup the difference in the form of a program payment. In actuality, we, for the most part, just lost that amount. Our LDPs, if applicable, will be $0.25 less on all our bushels. Keeping old bases and yields and adding soybeans seemed to be the popular choice, but do not reflect current farming practices.

We have the advantage in this area to try to increase profits by producing different crops, thanks in a large part to the flexibility provision of the farm bill. However, if you raised sunflowers, hay, edible beans or sugarbeets during the years used for calculation, you are penalized on your soybean base. Another common practice in this area is renting "free acres" out for sugarbeet production, which also causes you to be penalized.

I recognize that this subcommittee is most interested in the Crop Insurance Program and particularly how it is working in this region. Addressing multiple year losses when it comes to disaster and crop insurance programs remains one of our top concerns.

Loss years are not just the large-scale drought or floods covered by the media. Over the last decade I have experienced planting delays due to spring floods, and wet springs. During the growing months I have had areas of excessive rains, hail, and wet conditions in the fall. Whenever things like this occur, you have more weed and disease pressure, more quality problems, yield loss and increased expenses.

Previous disaster programs were merely another AMTA payment to all producers. They were very well received, but were made to all producers whether they had a loss or not. I commend the work on the most recent disaster program to try and remedy this. It worked fine, except again for those of us with multiple years of loss.

In 2001 there was a need for another disaster program! With farm bill negotiations underway, we were told to wait until passage of the new farm bill, as not to jeopardize it. After adoption of the new farm bill and another loss year, we got to decide which disaster we liked most, 2001 or 2002. In my case I opted for 2001 and received payment in 2003. 2002 was well, just another loss to swallow. One can only operate with losses so long. Debt load increases, due to financing losses and lack of operating cash.

A change in the Crop Insurance Program would certainly help. With the multiyear losses in our area, APH yields have decreased and premium rates have increased.

We do have the option, if selected, to use 60 percent of T-yield for loss years in APH calculations. In my case, 60 percent of 29 equals 17 bushels (still a loss). Plus we pay extra for this option. (See attachment) While this was the fix included in the crop insurance reform legislation, it is not enough. I need to be able to guarantee enough bushels or revenue to cover my costs and 17 bushels isn't enough.

Seed, fertilizer and chemical can easily cost $60 per acre, think about paying the landlord and your costs increase to $125-$140, to cover all overheads I'd easily be looking at $180-$185. To achieve profitability, I need to reach my goal of $200 or more per acre. Some of the negative comments I hear, when it comes to crop insurance, is we are able to guarantee a profit. As you can see, my coverage is far from that.

I have attached a worksheet showing my insurance premium quotes. I currently have APH coverage at the 75 percent level. I must lose 25 percent of my cash outlay before the premium even gets covered! And the 75 percent is calculated on reduced yields that won't even be considered at the bank for cash flow purposes.

Please note the 85 percent level; it is cost prohibitive at more than $14(approximately 3 bushels or 10 percent of my guarantee) an acre for revenue coverage. This is not a viable option.

Finally, when you have a pending loss and premiums are not paid timely, the crop insurance company assesses late fees, which are also deducted from your indemnity. This is a problem that has been identified by producers across the country. ASA has taken the formal position that the program should be modified so that once a farmer has filed a claim, while that claim is outstanding, the insurance company cannot charge late fees or interest to the farmer's account for any outstanding premium due for the crop the claim has been filed on.

I realize I am but one individual in a national program, but I again want to thank you for the opportunity to address the subcommittee.

STATEMENT OF RODNEY ALLEBACH

Good Morning. My name is Rodney Allebach. I am a District Manager for Farmers Union Insurance covering Northwest Minnesota to South Central Minnesota.

I would like to address MPCI first. It is imperative that we continue to subsidize MPCI at its current levels so that producers can continue to buy coverage at affordable levels.

Second, it would be beneficial to agents and producers to have the acreage reporting dates the same for MPCI as those dates for reporting to the FSA office. Currently MPCI acreage reporting is June 30, and FSA dates for acreage reporting is July 15. This would help producers to first have the FSA acres to bring to the agents so the acres correspond the same for FSA and MPCI.

Thirdly, producers should be allowed to add a crop at the CAT level at acreage reporting time. Sales closing is March 15. At this date producer don't know all the crops they are going to plant, and in which county they might be planting. This would enable the producer to at least have some coverage on the crop at the CAT level.

Fourth, sugarbeets have 60 percent coverage in the first stage until July 1. Many times producers have the majority of the production costs in the crop prior to July 1. A possible solution to this would be to have the coverage increase by 10 percent weekly in the month of June to 70 percent, 80 percent, 90 percent, and 100 percent by July 1.

Finally I would like to comment on the Farm Program. With all the disaster this area has experienced it is imperative that Disaster Payments continue to be paid to producers in counties that have been declared a disaster county.

Thank you for allowing me to testify today.

STATEMENT OF GENE HUGOSON

Good morning. On behalf of Governor Tim Pawlenty and the people of Minnesota, I want to thank Chairman Moran and Ranking Member Peterson for holding this hearing in northwestern Minnesota. I also want to thank the committee members for the opportunity to share my thoughts on how farm programs and crop insurance coverage affect Minnesota's farmers.

Agriculture is the lifeblood of rural Minnesota's economy. When our agriculture sector is strong, our rural economy thrives. According to economists, agriculture accounts for nearly 17 percent of the state's total economic activity and generates jobs for one of every three rural Minnesota workers.

Unfortunately, Minnesota's agriculture sector has struggled with a number of challenges in recent years. That is particularly true here in the northwest corner of the state, where in addition to low commodity prices and rising production costs, producers have battled weather extremes, devastating floods and crop disease.

Minnesota farmers have made their way through these challenges thanks to hard work and perseverance. They've also benefited from some strong assistance from the Federal Government and the state. Through July 24, 2003, Minnesota had received nearly $27.6 million in Federal payments as a part of the 2001–02 crop disaster program. This aid has helped farmers deal with the economic repercussions of events such as the flooding that occurred after numerous heavy rains in the summer of 2002. This flooding affected millions of acres of cropland and pasture land. Unfortunately, this pattern of excessive rainfall and flooding is an experience farmers have had to face in this region for much of the last decade.

Considering the harsh blows Mother Nature has landed in this region, it should be no surprise that many Minnesota farmers have chosen to participate in Federal Crop Insurance Programs. According to information from the U.S. Department of Agriculture's Risk Management Agency (RMA), Minnesota producers in 2002 bought a total of 127,563 crop insurance policies under USDA's Federal Crop Insurance Program. The policies covered a total of 16.3 million acres, including more than 85 percent of Minnesota's corn acreage, 90 percent of the state's soybean and wheat acreage, and 99 percent of our sugarbeet acreage.

Despite the boost the Federal Crop Insurance Program has provided, there remain challenges for producers who want to use these risk-management tools. Specifically, there are concerns about how the program will address regions that suffer losses in multiple years. Recurring disasters are bad enough, but the economic problems can be exacerbated when insurance premiums rise out of the range of affordability for farmers and coverage becomes harder and harder to find.

As this committee reviews crop insurance and commodity programs, I encourage you to look for new ways to ensure the continued availability of affordable crop insurance in regions with disasters in multiple years. After all, farmers recovering from a series of disasters need continued access to important risk-management tools such as crop insurance. It should also be pointed out that an affordable Crop Insurance Program with adequate coverage and high participation rates could help reduce the need for emergency assistance payments in times of disaster. One option may be to develop whole-farm policies to give producers options in addition to commodity-specific Crop Insurance Programs.

A second point I ask the committee to consider is to look for ways to expand the reach of crop insurance and other risk-management tools. While producers of major program crops generally have a solid set of risk-management options, the tool box is much smaller for those who raise livestock or specialty crops.

To help fill this gap, the Minnesota Department of Agriculture has trained a team of certified risk managers around the state. We work with these people to provide education to farmers about how to identify and implement risk-management tools that might work for them. This program is modeled after the Certified Financial Planner (CFP) program. To date, we have trained 85 risk managers. Our goal is to reach 100 in the coming months.

But there is more that we can and should do to help make risk-management tools available to all farmers. To illustrate my point, let me use the example of dairy producers. The dairy industry ranks among the oldest and most important economic sectors in Minnesota. A recent economic analysis showed Minnesota's dairy industry (including production and processing) generates $11 billion in economic activity. It also supports 76,000 jobs—many in economically fragile rural communities. Unfortunately, Minnesota's dairy sector is going through a financial crisis due to persistently low milk prices. I believe part of the solution to what ails our dairy sector is to provide farmers with new and more effective tools for smoothing out price fluctuations and managing their risk.

I am aware of some promising pilot programs in this area, particularly two programs called Adjusted Gross Revenue (AGR) and Adjusted Gross Revenue Lite (AGR-Lite). These programs provide protection against revenue loss due to unavoidable natural disasters or market fluctuations for farmers who meet the eligibility criteria. The programs are designed to provide coverage for highly diversified operations and livestock and dairy operations.

Whole-farm revenue insurance products such as AGR-Lite offer long-term benefits that can help stimulate our region's dairy industry. In addition, such products would also help provide coverage for several of Minnesota's uninsured and underinsured specialty crops. For example, AGR and AGR-Lite may provide badly needed coverage to specialty enterprise farmers like those in this part of the State who produce turf grass seed and now have only limited access to risk-management tools through the Non-Insured Assistance Program (NAP).

There are currently no plans to make AGR and AGR-Lite available to farmers in Minnesota and other non-pilot states until after an evaluation is completed in 2004. However, earlier this summer, I submitted a request to RMA Administrator Ross Davidson asking him to consider allowing these programs to be made available in Minnesota for the 2004 crop year. Like the areas included in the pilot programs, Minnesota has a highly diversified agriculture sector with many small and mid-sized livestock operations—many of which would stand to benefit under AGR and AGR-Lite.

Aside from livestock producers, we face another challenge in delivering risk-management tools to growers of specialty crops. Minnesota producers an amazing array of specialty crops, from peas to sweet corn to grass seed. There are currently limited farm program tools available to farmers growing these crops. However, Congress did provide support for these farmers in the form of the specialty crop block grants disbursed to states in 2002. These block grants delivered to farmers through states are effective delivery vehicles because they allow each State to tailor the aid to fit its unique circumstances.

In Minnesota, we used the specialty crops grant to fund 23 projects involving marketing, research and education. This included:

- Developing markets for potato growers in the Red River Valley;
- Researching pest and disease prevention options for growers of sweet corn, peas and snap beans;
- Helping dry bean producers research an effective crop desiccant; and producers.

To get a better idea of how each State used its portion of the specialty crops grants, I refer you to a report prepared for lawmakers by the National Association of State Departments of Agriculture.

Block grants are not always an easy sell when budgets are tight. However, given the flexibility of such aid packages, I would encourage members to consider this option in delivering future aid to specialty crops producers around the country.

Thank you again for coming to Minnesota and giving us all an opportunity to share our thoughts on these important topics. I will be happy to respond to any questions or comments you may have on the points raised in my testimony.

STATEMENT OF ROBERT RYNNING

Thank you Congressman Peterson, for this opportunity to appear and testify before the subcommittee regarding crop insurance issues. My name is Robert Rynning. I operate with my brother a small grains farm near Kennedy, MN where we grow barley, canola, wheat, soybeans' I am also the president of the National Barley Growers Association (NBGA).

First of all, I want to inform the subcommittee about promising trials being conducted by the Grain Inspection, Packers & Stockyards Administration (GIPSA) that, if adopted, will improve how pre-harvest sprouting is determined in malting barley.

Pre-harvest sprouting is a serious quality concern for malting barley producers as well as a significant problem with regard to crop insurance coverage due to different evaluation methods used by the malt industry and the Risk Management Agency (RMA).— Industry widely uses a pearling test to determine sprout damage. However, RMA determines sprout damage under the standards used by GIPSA, including visual inspection. Sprout damage that is not apparent under a visual test is often found when the barley is pearled.

GIPSA, by law, must use uniform evaluation methods when grading grain, and is working with the American Society of Brewing Chemists (ASBC) to conduct a study that will collaboratively test the accuracy of various methods used to determine sprout damage. As a result of this study, GIPSA may adopt a new quality factor—"Injured by Sprout"—that would join Sprout Damage in their grain standards. The difference between the two would be that Injured by Sprout would be determined by a standardized pearling test and Sprout Damage would be determined through the current visual inspection.

The NBGA supports these efforts and urges GIPSA to adopt these standards for determining pre-harvest spout damage as soon as possible so that the RMA will be able to provide more adequate protection to malting barley producers.

NBGA is also concerned about the disparities of coverage for malting barley producers with regard to Option A and Option B.

Under Option A, coverage is available only if the producer can document at least 4 years of malting barley production history—including years in which an approved malting variety was grown but was sold for feed. The malting barley yield under Option A is determined by taking total malting barley production for that four year period divided by the total acres planted to a malting variety—even if production on some of those acres did not make malting grade. This obviously reduces the level of protection. In addition, coverage can be bought for no more than 125 percent of the acreage that was certified for malting barley production in any crop year of the previous four years. Finally, the additional price election is limited to $1.25 per bushel. These requirements combine to limit the usefulness of Option A.

Option B coverage requires a contract with a brewery or malting company. The amount of coverage available is the lesser of: (1) the APH yield times the percentage of elected coverage, or; (2) bushels per acre contracted times the percentage of the elected coverage. The additional price election is limited to $2.00 per bushel. While Option B provides good coverage, not all producers have access to contracts from a brewery. Left with only Option A for protection, producers are less inclined to grow barley.

The NBGA supports modifying the requirements to obtain Option A coverage for malting barley. Not all producers are able to obtain the contracts required by Option B because their farms are too far from the available delivery points. However, they do pay for the added expense that is required to produce malting barley, including the cost of certified seed, soil testing to ensure proper nitrogen levels, and fungicide applications to combat fusarium head blight, the cause of high Deoxynivalenol (DON or vomitoxin) levels. Producers often produce malting barley that is contracted or sold to local elevators, even when they do not have Option B coverage. Therefore, the NBGA supports as an alternative within Option A, a procedure that would allow a producer to validate expenditures to verify the intent to grow malting barley as a means of obtaining adequate malting barley coverage when brewing or malt company contracts are not available.

NBGA is also concerned with the disparity between the maximum protein percentage allowed by RMA's malting barley crop insurance quality tables and industry's maximum allowed percentage. RMA tables currently allow 14 percent protein, while in most instances; the maximum allowed by industry is 13.5 percent. NBGA urges RMA to harmonize the maximum protein percentage allowed, as well as all other quality factors, with industry standards for malting barley.

In closing, I want to thank you again for allowing me to testify before the subcommittee on these matters. Thank you.

STATEMENT OF DONALD ANDRINGA

As a West Polk County, MN farmer and purchaser of Crop I's and RMA's pilot project of Premium Discount Program crop insurance I feel compelled to comment.

Although they may not say, the insurance industry is against Crop I and PDP because it lowers their commission income, without much regard for the savings that their farmer customers would receive; $1,000 in my case.

Crop I has been a very good company to work with to this point. On my policy they spent a fair amount of time redoing mistakes made over the last 10 years by my previous agent. This has raised some of my yields in some instances and given me better coverage. A friend 100 miles away had many previous mistakes also, so it's not just my previous agent.

As a pilot project I know Crop I has been looked at quite closely by RMA. Hopefully it's doing good from that perspective. Please continue to support Crop I and others to lessen our cost. Thank you.

WRITTEN STATEMENT

MINNESOTA FARM BUREAU FEDERATION

HOUSE AGRICULTURAL COMMITTEE FIELD HEARING

Ada, Minn.

Presented by

John Brainard

District VII Director

August 19, 2003

Mr. Chairman and members of the Committee, my name is John Brainard, a sugarbeet, soybean, and wheat producer from Ada, Minnesota in Norman County. I am also a board member of the Minnesota Farm Bureau Federation and my testimony is on behalf of that organization. I appreciate the opportunity to speak with you today regarding issues surrounding the federal crop insurance program.

I would like to thank you for being here, and say that you are holding this hearing in an appropriate location. Northwest Minnesota has experienced several weather-related crop disasters over the last ten years. I am thankful that we have had a working crop insurance program in this part of the country, as I fear how many farm families would have been no longer involved in agriculture if we did not have crop insurance, along with the generous help from Congress in disaster assistance programs.

Crop insurance is an important tool for farmers to manage risk, and in general, I believe the crop insurance program is working in Northwestern Minnesota. Furthermore, I believe the Agriculture Risk Protection Act of

2000 (ARPA) has achieved one of its primary goals—that is, more producers are purchasing crop insurance at higher levels of coverage. I estimate that over 90 percent of producers in Northwest Minnesota participate in the crop insurance program, and I think that is a result of the premium subsidies that Congress provided in making crop insurance more affordable.

Notwithstanding the success of ARPA, there are some refinements that need to be made to crop insurance to address some very important issues affecting producers in this region of country. The most important issue has to deal with how actual production history (APHs) is calculated, which determines the amount of crop insurance coverage a farmer is eligible to purchase.

As I stated before, this part of the country has experienced severe weather anomalies over the last 10 years and, as a result of reduced yields, we have seen declining APHs and therefore decreased coverage levels. I recommend that the Committee look at changing how a producer's APH is calculated, so producers are not penalized when they experience multiple year weather-related disasters.

One solution could be to, instead of using up to the current level of 60 percent of county T-yields, use up to 100 percent of county T-yields in APH calculations for years when a disaster declaration is made for a particular county.

Increasing levels of technology has yields trending higher, and is also contributing to increasing costs of production. The bottom line is that farmers are experiencing gaps in crop insurance coverage due to these factors.

The dollars that Congress has invested in the crop insurance program are definitely needed and appreciated. We understand the constraints on the federal budget in requesting additional funding for the federal crop insurance program. It seems to me that we need to look at doing more with the resources we currently have.

Bearing that thought in mind, I would encourage the Committee to look at what some call the "reverse incentive" in the crop insurance program. For example, the federal government currently pays for 67 percent of the premium for 50/100 CAT coverage, while at the 85/100 level, the government subsidy is only 38%.

Purchasing higher levels of coverage is simply cost prohibitive for many farmers. The committee may wish to explore the option of shifting levels of funding from lower levels of coverage to higher buy-up levels, thus making the entire program more equitable.

Thank you Chairman Moran and other members of Committee for traveling here to Ada to hear our comments. I would be willing to field questions any of you may have. Thank you.

August 19, 2003

Testimony Before the House
General Farm Commodities and Risk Management Subcommittee on Agriculture

David Haugo, Producer
Waubun, MN

Congressman Peterson, Congressman Moran, Congressman Pomeroy, thank you for being here today to listen to our concerns about the Multi-Peril Insurance that is currently available for the crops that are grown in this area.

My name is David Haugo, a life-long farmer from Mahnomen County. I have farmed the last 18 years with 2 sons. I am the former Chairperson of the MN State FSA Committee, past President of the MN Association of Wheat Growers, and am currently serving on the Board of the MN Barley Growers Association.

This year on our farm we produce wheat, barley, navybeans, sugar beets, soybeans, corn and alfalfa. We have insurance on all of these crops except alfalfa, with coverage varying from 65% to 75%, depending on the crop.

From the perspective of nearly 50 years of insuring crops with Federal Crop Insurance, we have seen some things change and improve, but not always improve. We started with wheat being the only crop we could insure at an assigned yield designated by areas, until today when we have insurance avabilable for practially every crop that we grow at yields determined by annual production history. That is quite an improvement.

The first area of concern that I have at this time is the impact that several poor crops can have on the APH yield. My second concern is the cost of buying coverage at above the 65% level. We should be insuring crops at the 85% level because of the high cost of production in todays farming, as an example:

Crop	Bushels		65%		85%	
Wheat	45	RA	106.65	4.83	139.41	15.46
Soybeans	36	RA	123.08	5.01	160.96	19.99
Corn	95	RA	149.56	11.20	75%-172.55	17.83

Another major concern I have is for the producer having a poor crop and ending up in what I call "no man's land", either not qualifing at 35% loss or near there, or with a small loss, still having the cost of the premium and harvest costs. Then if a disaster program is enacted, the producer gets very little or no disaster payment based on little or no insurance payment.

Over the years I have collected very few dollars from Multi-Peril Insurance, it would be a very poor return on the premium dollars that I have spent. So the question should be, "Why insure"?. The answer as I see it, is the amount of investment in each crop. It is necessary to cover some of the risk.

Again, I would like to thank you as a Committee for taking time to be here today to listen to us and our concerns about Multi-Peril Insurance. I would be willing to answer any questions that you have at this time.

David Haugo, Producer

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August 18, 2003

The Honorable Jerry Moran
Chairman, Subcommittee on General Farm
Commodities and Risk Management
Committee on Agriculture
United States House of Representatives
Washington, DC 20515

Dear Representative Moran,

Please accept this written testimony on behalf of NASCOE the National Association of Farm Service Agency County Employees, for your hearing regarding Crop Insurance Implementation. As an organization, we share your concern for effective efficient service for American farmers and ranchers. We feel that data collected from producers utilizing the GIS technology that is currently being implemented in the Farm Service Agency should be shared with the Risk Management Agency to maximize the accuracy and efficiency of data collection from producers who chose to obtain crop insurance. It makes good business sense as it provides savings and accuracy for all those concerned. It is an available solution requiring only modest changes to implement.

Thank you for allowing our comments to be considered.

Thank you,

Steve Morrison
NASCOE President

Testimony of Steve Morrison, National President, NASCOE
On behalf of the National Association of Farm Service Agency County Office Employees
For the purpose of the Crop Insurance Implementation for the Subcommittee on General Farm Commodities and Risk Management of the Committee on Agriculture
Chairman Jerry Moran
August 19, 2003

Thank you for the opportunity to provide testimony concerning Crop Insurance Implementation. As an Employee Association of the Farm Service Agency (FSA) our members have first hand experience in dealing with crop insurance providers, adjusters and recipients. This program provides a safety net to help farmers maintain viable operations in times of disaster.

Currently, FSA delivers farm programs through approximately 2,250 USDA Service Centers and 51 State Offices, including Puerto Rico. This network enables FSA to maintain close relationships with Agency customers, who include RMA, Crop Insurance Providers and Crop Insurance Recipients and has allowed FSA to successfully address customer needs in an effort to continually improve the delivery of FSA programs.

The U. S. Department of Agriculture (USDA) Service Center concept was and is a cornerstone of the reorganization efforts begun under the Reorganization Act of 1994. USDA Service Centers offer "one-stop" service to customers and stakeholders.

In this regard FSA is continuing efforts to modernize its information gathering and sharing in many areas, one of them being in acreage reporting capabilities. This is being done through the Geographic Information System (GIS) and geospatial information that has been developed for Service Center agencies as one integrated system. This system will provide all agencies common access to consistent data and geospatial business processes among Service Center locations and Service Center agencies.

Extensive documentation is available supporting the concept of GIS improving Service Center operations by elimination of duplicate sets of information and business processes, and providing easy online access to geospatial information. GIS enables development of reengineered business processes that improve customer service and reduce agency costs.

Progress is being made in the full realization of this effort through the continued efforts of the Common Computing Environment (CCE) initiative and the Common Land Unit (CLU) development process.

NASCOE believes the concept of sharing geospatial information can be expanded to include the Risk Management Agency (RMA) and the Federal Crop Insurance Corporation (FCIC). ***NASCOE has a vision for the use of this technology which will met the Presidents Management Agenda, improves customer service, and met the statutory requirements of the Agriculture Risk Protection Act of 2000 (ARPA). This can be accomplished with little or no additional cost to the taxpayer.***

CURRENT SITUATION AND BACKGROUND INFORMATION

Since its inception, FSA has annually compiled acreage and production data on producers who either report annually planted acreages to comply with program provisions; or, to provide a history of plantings on the land. This process is accomplished through a producer certification of the data submitted.

Federal regulations require that all acreage and/or production data submitted with this certification method be subject to random quality control review by FSA. In addition, the local county office farmer elected FSA committees have authority to select for quality control review any and all parties whose certification is believed to be either questionable or suspect for any reason. It should also be noted that all county office personnel who have any interest in any farming operation are also subject to quality control review. This method of randomly reviewing data submitted has given the data collected by FSA credibility and makes it a valuable database for other program delivery.

The Farm Security and Rural Investment Act of 2002 (Farm Bill) requires producers to file complete acreage reports to meet program requirements. This same producer must file a similar acreage report with FCIC Reinsurance Companies to meet crop insurance requirements. The customer, to meet current regulations, must duplicate information. This places an unnecessary burden on the customer.

Because the sharing of geospatial data is not being utilized at this time, this necessary duplication is resulting in:

- Loss of time by our customers
- Inconsistent data since the same photo database is not being used
- Inconsistent data since the same tabular database is not being used

Consequently, this duplication resulted in a need to establish a reconciliation process between the two agencies. The passage of the Agriculture Risk Protection Act of 2000 (ARPA) created a new relationship between the Federal Crop Insurance Corporation and the Farm Service Agency. The law directed that "*the Secretary shall develop and implement a coordinated plan for the Corporation and the Farm Service Agency to reconcile all relevant information received by the Corporation or the Farm Service Agency from a producer who obtains crop insurance under this title. Beginning with the 2001 crop year, the Secretary shall require that the Corporation and the Farm Service Agency reconcile such producer-derived information on at least an annual basis in order to identify and address any discrepancies.*"

This duplicated process is in direct conflict with the President's Management Agenda and also comes at a greater cost of the taxpayer and to the customer it was intended to serve.

FSA has made great strides with the business uses for GIS. This software and databases, along with Global Positioning Systems (GPS) are currently under development and being implemented into FSA's business uses. The capability of tying together spatial data (a specific location on the earth) with tabular data (farm numbers, field numbers, crop plantings, etc.) can be easily shared with other government agencies, state and local governments, and private industry. GIS is rapidly being integrated into all parts of the private and government sectors. Various applications are in either the development or testing phase of this new technology at USDA.

FSA's GIS database is developed around the Common Land Unit (CLU). The target date for completion of the Common Land Unit for the country is FY 2004. USDA established Digitizing Centers in eleven (11) states to accomplish this task, in addition to utilizing private contractors in some states. The digitizing effort is now completed in several states.

By FY 2004, FSA will be using the technology and the Common Land Unit to process the yearly acreage reports required by program procedure. This application is currently being used in several counties across the country. Those states that have completed the guidelines outlined by USDA to utilize GIS in program delivery will be using this technology exclusively for processing acreage reports.

This data can be easily shared with FCIC Reinsurance Companies and RMA. The customer would report the crop plantings, planting dates, irrigation practices, and all other required information to FSA. This information will also undergo a quality control as mandated by FSA. This data could then be transferred to RMA. The method of this sharing could be accomplished in several ways, depending on technology available in various areas.

If the sharing of this important data were to occur, then the following could be achieved:

- Require the customer to provide the necessary information only one time
- The same photo database would be used by both agencies
- The same tabular database would be used by both agencies

An important part of this sharing with RMA is the sharing of data which, would greatly reduce, if not potentially eliminate altogether, the manual reconciliation process between the two agencies, which the ARPA Law requires, resulting in a tremendous savings of valuable resources and tax dollars.

This reconciliation process in 2001 resulted in prevention of $15 million in improper payments and recovery of approximately $29 million in fraudulent payments. These figures clearly illustrate the necessity of both agencies using the same data.

While this proposal does not suggest the reconciliation process be eliminated, NASCOE believes that the sharing of this GIS developed database will reduce the time required for a manual reconciliation if needed.

CONCLUSION

USDA has invested millions of dollars in resources to create a Common Computing Environment (CCE) to improve communications and data sharing between government agencies, state and local governments, private industry, and customers and stakeholders. Many improvements have been made and many more can be expected as we move forward with technology enhancements.

NASCOE has a vision for the use of this technology, which will meet the President's Management Agenda, improve customer services (USDA's number one goal), and meet the statutory requirements of the ARPA Law.

NASCOE welcomes the opportunity, and would endorse any endeavor, to share this database with RMA and looks forward to maintaining the database for the use of both agencies. Clearly, federal crop insurance delivery will be enhanced by both agencies joining together in this effort.

Under current regulations and software availability, this proposal faces two challenges:

- Final reporting dates for each agency are now different. This proposal only identifies the need for this problem to be resolved and offers no resolution.
- Identification of crop shares with the tools currently available to FSA. This problem is only short term. New software will soon be implemented and the method of addressing shares has already been developed and is ready for testing.

Any proposed change in the method of delivering program services to the consumer is best analyzed after pilot testing the new method. NASCOE supports pilot testing the new method of Risk Protection Program delivery by using GIS technology. USDA has already made the investment. Now is the time to further test this investment and identify the monetary savings this new process offers.

EXECUTIVE SUMMARY

Beginning in 1994, under the Reorganization Act of 1994, the United States Department of Agriculture (USDA) has made strides in:

- Establishing USDA Service Centers, providing more "one-stop shopping" for it's customers and stakeholders;
- Implementing a Common Computing Environment (CCE), providing uniformity in Information Technology and improved communications between USDA Agencies; and,
- Introducing Geographic Information Systems (GIS) into the day-to-day business processes of USDA Service Centers.

These endeavors (and others not addressed in this document) have resulted in improved customer service and better use of resources available, in addition to less cost for the taxpayer.

The passage of the Agriculture Risk Protection Act of 2000 (ARPA) created a new relationship between the Federal Crop Insurance Corporation (FCIC) and the Farm Service Agency (FSA). The law directed that "*the Secretary shall develop and implement a coordinated plan for the Corporation and the Farm Service Agency to reconcile all relevant information received by the Corporation or the Farm Service Agency from a producer who obtains crop insurance under this title. Beginning with the 2001 crop year, the Secretary shall require that the Corporation and the Farm Service Agency reconcile such producer-derived information on at least an annual basis in order to identify and address any discrepancies.*"

- This mandated reconciliation required countless man-hours for both FSA and FCIC. In many instances, customer input is required to resolve discrepancy issues.
- This creates duplicate processes for Risk Management Agency, Federal Crop Insurance Corporation Reinsured Companies, Farm Service Agency, and the customer.
- This is in direct conflict with the Presidents Management Agenda and also comes at a greater cost to the taxpayer and consumer.

The National Association of State and County Office Employees (NASCOE) proposes the following:

Utilize the GIS technology that is currently being implemented in the Farm Service Agency to share data with the Risk Management Agency.

Use of this technology will met the Presidents Management Agenda, improve customer service, and meet the statutory requirements of the ARPA Law. This can be achieved with little or no additional cost to the taxpayer.

REVIEW OF CROP INSURANCE FOR PROGRAM CROPS

WEDNESDAY, SEPTEMBER 24, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM
COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 1300, Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Lucas, Rehberg, Burns, Musgrave, Neugebauer, Goodlatte (ex officio), Peterson, Alexander, Pomeroy, Boswell, Etheridge, Larsen, and Stenholm (ex officio).

Staff present: Kelli Ludlum, subcommittee staff director; Dave Ebersole, Craig Jagger, Callista Gingrich, clerk; Teresa Thompson, John Riley, and Anne Simmons.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. The Subcommittee on General Farm Commodities and Risk Management will now come to order.

We are here today to review crop insurance for program crops

I am delighted to be joined by my colleague from Minnesota and I appreciate the witnesses appearing before our subcommittee this morning. I know it takes a lot of time to prepare and effort to be here, but we very much appreciate and welcome the opportunity here from producers as this subcommittee continues to review Crop Insurance Programs.

Crop insurance, as we know, is an increasingly important risk management tool for many farmers throughout the country. And following the passage of the Agricultural Risk Protection act of 2000, insurance products were expanded, higher levels of coverage were supported, and many substantial changes were made to this program administered by the USDA through insurance companies and local agents.

Crop insurance was particularly important in 2002 as producers in many areas dealt with weather-related difficulties. Over $4.7 billion in insurance indemnities were paid out nationwide, and crop losses in my State of Kansas alone were $1.4 billion.

Most of the challenges last year were drought related, and in some regions drought conditions are even worse this year. In addition, producers have faced a variety of regional disasters over the past few years, including flooding, hail, and, most recently, wind damage from Hurricane Isabel.

Due partially to 2 consecutive years of severe weather conditions and partially to improvements that have been made to make the program work better for a large number of producers, crop insurance participation coverage levels have risen substantially. During this subcommittee's three previous hearings related to crop insurance, two here in Washington and one field hearing in Minnesota, we have heard that crop insurance is critical to farming operations, whether they be in the wheat farms of North Dakota or the citrus groves of Florida or the mid-Atlantic nurseries.

This committee, working with my predecessor Senator Pat Roberts, made dramatic changes to crop insurance just 3 years ago. We are here today to examine how those changes have improved Crop Insurance Programs throughout the country and to learn what other changes could be made to continue the progress toward making crop insurance a better risk management tool for producers.

I think all in this room understand that enhancements to crop insurance will be difficult to achieve. Improvements can certainly be made but we recognize we are operating under tight fiscal constraints, so as we examine options to protect producers from natural disasters without ad hoc emergency spending, we will seek to address issues that will make crop insurance more effective for farmers and ranchers nationwide with the least possible expense to the Federal Treasury.

After today's hearing, we will hold additional hearings to focus on how crop insurance serves farmers, both program crop producers and specialty crop growers, as well as livestock producers. They will look at product availability, delivery of the program, and other issues that may be discovered through the testimony of our witnesses here and during our future hearings.

I will again welcome our participants of the panel and look forward to their testimony and I would recognize the gentleman from Minnesota.

OPENING STATEMENT OF HON. COLLIN PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and I want to thank you for calling today's hearing and setting up this series of hearings. I think it is important.

I am pleased to add that Chairman Moran and I and others, Messrs. Larsen and Kennedy, had a hearing in my district in August in regard to crop insurance, and the issue of the impact of the multiyear losses that we have had up in my part of the world and in North Dakota, other places, were brought up; and I know that many of our distinguished guests today will address this issue in their testimony.

I would like to extend a special welcome to Mr. Bob Metz, not to exclude the rest of you, but he is from my district and he is here on behalf of the American Soybean Association. The seventh district of Minnesota is one of the largest soybean producing districts in the country and we appreciate your being here today. We look forward to your testimony and others, and it is clear that even though we have made tremendous progress in terms of the number of bankers insured, we still have people asking for disaster. We had a disaster program last year.

Now, I have signed a letter with my colleagues in Minnesota. The Governor has asked to declare, I think, some 50-some counties in Minnesota a disaster, under the ag disaster declaration, and the Senators have introduced a bill, I think, to have an ad hoc disaster program like we had last year or like we have had in the past. So it is obvious that even though we have made some progress with the crop insurance, we still haven't been able to get past this hurdle of people asking for disaster relief when something happens, and I think that makes a case that we have to improve this a little bit more to try to get around that, and when we do have these disaster programs, I think we ought to have a little more penalty than we have had for people who don't have crop insurance.

Last year I think was only a 5 percent penalty, and folks got used to somehow or another we are going to bail them out. And during the farm bill debate, some of us talked about having a permanent disaster program as part of the farm bill, where the Secretary could go in and designate certain counties. That didn't fly. I still think if we are going to keep doing these ad hoc disasters, it might be cheaper if we had that kind of a program as opposed to what we have been doing.

But having said all that, I appreciate again your calling these hearings and focusing on this, and hopefully we can figure out some way to improve the program, especially in this multiyear loss situation, so we won't have so many calls for disasters in the future.

Thank you Mr. Chairman.

Mr. MORAN. Mr. Peterson, thank you.

You note that you have a Minnesotan present. I have two Kansans on the panel today. I think there are more Kansans in the Agriculture Committee room today since Congressman Roberts and Congressman Glickman were members of this committee.

We have not exceeded our quota, and I will tell the associations and producer groups that it is not necessary to bring a Kansan to testify in front of this subcommittee. In fact, knowing the multiplier effect of the farmers' desire and the State's economic conditions at home, I would just assume our farmers were in Kansas spending their money there rather than in our Nation's Capital.

I am interested in what you have to say, but it is not necessary that Kansans testify before this subcommittee.

Mr. Stenholm, we are delighted to have you here, the distinguished ranking member of the full committee.

Any opening comments?

OPENING STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you Mr. Chairman. I am tempted, but having been around long enough, I would not make the comment that 1 Texan would equal 2 Kansans.

I would not say that and strike that from the record, Mr. Chairman, because I do recognize the title in front of your name, Mr. Chairman. But I do have the privilege of welcoming Woody Anderson, a VIP from the 17th district of Texas, also testifying today, longtime friend and producer.

But I thank you, Mr. Chairman, for holding these hearings and for the diligence in which you continue to do your part, you and the ranking member, regarding the question of oversight of crop insurance and how we can take an extremely important program—Federal crop insurance is a crucial tool that has become an essential tool for the management of risk for many in production agriculture.

The Agriculture Risk Protection Act of 2000 has been effective in encouraging producers to purchase higher levels of coverage. While this accomplishment is significant, we still hear, as Mr. Peterson mentioned, we still hear from our constituents for ad hoc disaster assistance, assistance that was supposed to have been made unnecessary by the additional taxpayer funds committed to the program by ARPA.

Mr. Chairman, ARPA had also provided the Government with new tools designed to improve the integrity of the Crop Insurance Program. These include the use of FSA field office forces, innovative data mining technologies.

RMA has released figures quantifying the significant benefits in the form of cost avoidance and claims recovery that have resulted from the use of these tools. While the progress to date is commendable, greater employment of the available resources is vitally needed to crack down on program fraud and abuse all over the country.

Mr. Chairman, as the subcommittee continues its review of the Crop Insurance Program, our Government's fiscal situation continues to deteriorate. CBO projected last month that the deficit for fiscal year 2004 will be a record $480 billion. Now, that is already up by a proposed $87 billion. As the review continues, we need to keep in mind the likelihood that this committee will be called on to contribute to deficit reduction.

In addition to commenting on our current program, I know that our witnesses today can help us with the important task of setting priorities for the Crop Insurance Program as well as other programs that impact the budget. In plain English, we have got to figure out a way to take the available resources and do a better job for our producers than the current program is accomplishing.

Thank you Mr. Chairman.

Mr. MORAN. Thank you, Mr. Stenholm, and we appreciate you joining us this morning.

We welcome again our witnesses to the table. The first witness we will hear from today is Mr. Woody Anderson, a Texas cotton grower.

Mr. BOSWELL. Mr. Chairman?

Mr. MORAN. Yes, sir. Mr. Boswell, the gentleman from Iowa.

Mr. BOSWELL. I just have to point out, first, I associate myself with other remarks by all of you, but Mr. Litterer is from Iowa. I wouldn't want you to miss out on that.

Mr. MORAN. Mr. Boswell, you are recognized for making comments about the gentleman from Iowa at the desk.

Mr. BOSWELL. Thank you very much, and I won't borrow the theme from Texas but it probably applies.

Mr. MORAN. So nice of the members of the subcommittee to demonstrate great respect for the chairman in front of my two constituents present here this morning.

Again, I think now everyone has already been introduced in this panel. Is there anyone who has not got a member here today?

Mr. MORAN. Mr. Anderson, let's start with you.

STATEMENT OF WOODY ANDERSON, VICE CHAIRMAN, NATIONAL COTTON COUNCIL, COLORADO CITY, TX

Mr. ANDERSON. Thank you Mr. Chairman. I am Woody Anderson, and I am a dryland cotton and grain producer from Colorado City, TX. And as Congressman Stenholm alluded earlier, I am a proud constituent of the 17th district Representative. I am here today representing the National Cotton Council and currently serve as its vice chairman.

Mr. Chairman, as an aside—and you and I have already talked about this—we are indeed pleased to welcome Kansas as the newest Cotton Belt State, with 125,000 acres planted to cotton this year, and we know that most of that is located in your "Big First" district.

Thank you, Mr. Chairman, for holding this hearing on the implementation of the Agriculture Risk Protection Act of 2000. The House Agriculture Committee worked diligently to craft this complex piece of legislation. The National Cotton Council strongly supported its passage and is pleased to offer its comments regarding its implementation.

I have been farming for over 29 years and consider crop insurance as important as any other production input. West Texas producers are particularly vulnerable to Mother Nature, but all cotton producers need a crop insurance product that provides effective coverage at affordable prices.

One of the main attributes of ARPA was to make higher levels of coverage more affordable. This year, 97 percent of the U.S. Cotton crop has some form of crop insurance coverage and buy-up coverage has increased significantly, largely due to ARPA.

Accurately rating coverage is critical to an affordable insurance product. USDA's Risk Management Agency should continually look for ways to move toward individual experience rating. RMA should develop a program that rewards good loss experience through lower premiums and/or higher levels of coverage.

Four years ago, at the urging of the cotton industry and with support from Congress, RMA commissioned and implemented a major rate review in a number of Cotton Belt regions. Adjustments were made to the county figures and rates, which improved the coverage available to producers. RMA should continue to evaluate and improve its rating methodology. Private companies and RMA should continue to develop innovative types of coverage to reflect regional needs.

We suggest that more emphasis be placed on the development and delivery of group risk protection as a viable alternative to CAT coverage. For example, some regions of the country believe that the additional subsidized health coverage to GRP would produce a specific coverage, as well as more meaningful catastrophic loss protection than the current CAT coverage.

NCC has consistently supported the development of another product, a cost of production insurance product. We have been disappointed by the slow development of this product by RMA. We recommend that the pilot be conducted on a wide geographic basis for the 2004 crop so it can accurately be evaluated.

Current multiyear droughts are seriously impacting water supplies available to producers in Federal and State water districts in the irrigated West, so there is a need for continued preventive planning coverage. We urge RMA to provide timely guidance to agents, producers, and water districts about the availability of preventive planning coverage.

Crop insurance fraud and abuse adds cost to the Government and insurance companies and reduced effective coverage to all producers. We strongly urge support and the provision of ARPA that calls for additional monitoring and enforcement of good farming practices.

It is our understanding that RMA possesses new methodology to better track and differentiate losses. We urge them to fully utilize the new tools at their disposal to reduce fraud and abuse.

In addition, we urge maintaining a close working relationship between RMA and the Farm Service Agency. It is also critical that the two agencies continue to use the common database for sharing information.

A new quality adjustment provision for cotton has been under development by RMA for a number of years. We understand that the research has been completed and urge RMA to implement a credible cotton quality loss provision on a bale-by-bale basis without a reasonable threshold of loss.

We also do not believe that the quality should be treated as a separate rider to a standard policy at an additional premium. We remain concerned about RMA's inconsistent policy regarding late planning periods, following final planning dates. Currently, the late planting period for cotton is 15 days, but it is been as long as 25 days.

Our concern stems mainly from the inconsistent implementation regarding appraisals when crops fail to emerge due to insufficient soil moisture. It is our understanding that a producer must now wait an additional 8 days after the end of the late planting period before appraisals can be scheduled, and we have yet not received a clear explanation for the implementation of this new policy.

We urge the Agency to amend its current practice and return to allowing appraisals on non-emerged cotton acreage no later than 15 days after the final planting date.

In summary, Mr. Chairman, the National Cotton Council supports a crop insurance product that provides effective coverage at an affordable price. We urge that this subcommittee continue its oversight of the implementation of ARPA to ensure a meaningful risk management tool for producers. On behalf of the Council we appreciate this opportunity to present these comments.

Thank you.

[The prepared statement of Mr. Anderson appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Anderson, thank you. Next I recognize Mr. Leo Bindel, who is the past president of the National Grain Sorghum Producers Association.

Mr. Bindel.

STATEMENT OF LEO BINDEL, PRODUCER, SABETHA, KS, ON BEHALF OF THE NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION

Mr. BINDEL. We would like to thank the chairman and members of the subcommittee for calling this important hearing today.

My name is Leo Bindel and I am the immediate past president of the National Grain Sorghum Producers. I farm in a family partnership near Sabetha, KS, between Kansas City and Lincoln, NE. Our operation includes grain sorghum, corn, soybeans and hay. I have carried crop insurance on my farm since 1961. Our recommendations to you today are focused on specific needs of grain sorghum producers, and we appreciate your consideration of our input.

NGSP understands the complexity of this program, a difficult task that is before you. We are grateful that we are invited here to testify because we believe that grain sorghum is a risk management deal. This is because of sorghum's ability to survive dry and arid conditions better than any other crop. But sorghum's crop insurance track record doesn't always tell that story. Sorghum is a tough crop, planted where other crops fail because of hail or drought or on less productive acres.

Our concern today falls in two main areas: First, a level crop insurance playing field is needed so that crop insurance will stop distorting planting decisions. Some changes can be made by RMA administratively, but we also urge you to keep a level playing field in mind as you look to future legislation.

Our other concerns that we will discuss are based on crop insurance questionnaires that we recently sent to our leadership and entire membership. NGSB believes prior selection for grain sorghum should be equalized with corn. Price selection should better reflect actual sorghum prices that are equal with corn today. This will help in planting decisions that are based on crop insurance. This change will also reflect the final mental shift in markets and cash prices due to ethanol and other needs.

Finally, it will recognize sorghum's water saving benefits. Ethanol plants and other end-users price sorghum equally with corn because it performs the same as corn, but today sorghum price selections are well below those for corn, causing a drop in sorghum makers. This is true even during years when sorghum planning has increased because of limited moisture. We haven't seen even a dramatic increase in planted acres this year since the sorghum loan rate was equalized with the corn loan rate in the 2002 farm bill.

Something else that should have encouraged farmers to plant sorghum is a 57 percent jump in the high-value food and ethanol markets for sorghum from 2000, 2003. This is, by the way, what also led to higher cash prices for sorghum.

NGSB believes that crop insurance inequities discourage these farmers from planting sorghum; in fact, a land management company that manages about a million acres in the Midwest this year advised its renters not to plant sorghum because of the lower crop insurance protection and admitted it in a letter to one of our State organization. Here is an excerpt, and I quote:

> Like many producers, we have simply reduced the acreage planted to grain sorghum, and even though it may make sense from an agronomic standpoint due to the drought to plant more acres of sorghum, it simply will not be done with our operations because of crop insurance.

But these price selections and inequities also mean more Government payouts and higher risks when droughts hit. Things like this encourage farmers to plant corn or soybeans rather than sorghum. Even USDA's own data runs contrary to continued inequities in price elections. Average over the last 3 years, the price of grain sorghum was higher than that for corn. That is according to the USDA's Crop Values Report released in late February.

In its monthly Feed Outlook Report in August, USDA said by the end of the marketing year prices received by farmers for sorghum will edge out the price of corn by 3 cents. USDA also says that the price of sorghum next year will be even with corn.

I should mention that NGSB has been told that some lenders are being asked to document crop insurance cash assurances to bank examiners as part of documented loan soundness, so many—so lenders are making planting decisions for their borrowers and are requiring their borrowers to plant some other crop besides sorghum.

Business is business, and NGSB understands the position that lenders and examiners are in given the current farm economy. As if the price selection issues aren't bad enough, sorghum producers have no excess to revenue assurance product and many of our members tell us that they would like many other products available like for other crops. Additionally sorghum has not been included in the cost of production pilot projects. Finally, for 6 years, NGSB has been working toward insurance coverage for sorghum silage, but today sorghum silage is not insurable and we have been told by RMA that it is not insurable until 2005.

NGSB currently surveyed its membership regarding insurance equalizing price selection, with corn topping its list of concerns, but APH yield guarantees and high cost of premiums followed closely.

Throughout much of the U.S. Sorghum Belt, multiple-year droughts on the Plains have destroyed guaranteed yields for crop insurance purposes, unfortunately making the program ineffective. Due to the continued threat of drought, we are concerned that in the face of disaster, farmers are not adequately protected. We urge the subcommittee to consider change in the way APH is calculated.

NGSB suggests this subcommittee order it, a study of different ways to address either APH or premiums in counties that have been declared disaster areas in multiple years.

We would like to thank this subcommittee for convening this hearing today and would be happy to provide any further input or information at any time.

Thank you.

[The prepared statement of Mr. Bindel appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Bindel, thank you very much.

Mr. Ron Litterer on behalf of the National Corn Growers Association.

STATEMENT OF RON LITTERER, CHAIRMAN, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWERS ASSOCIATION, GREENE, IA

Mr. LITTERER. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you this morning on behalf of the National Corn Growers Association. I am a corn, soybean, and hog producer from Greene, Iowa. I currently serve as chairman of NCGA's Public Policy Action team and as a member of the Board of Directors of the Iowa Corn Growers Association.

The difficult circumstances that corn growers have faced in recent years have demonstrated the need for further improving the farm safety net. In our view, Congress took a major step forward with the adoption of ARPA in 2000. The commitment of resources to higher levels of premium subsidies has not only resulted in significant increases in participation and the percentage of acreage covered, but it has facilitated a dramatic shift toward higher levels of coverage.

Our growers recognize the upward trends as real progress. U.S. producers received over $4 billion in lost payments just for the 2002 crop year while receiving $1.7 billion in premium subsidies.

In 2001, the Federal Crop Insurance Program paid out almost $3 billion in indemnity payments. Compare these sums with the Crop Disaster Program of $3.1 billion for the last 2 years and you can understand why the program is so critical to American farmers.

This is not to say that our members are content with the status quo. NCGA is looking for reasonable changes in the program's regulations, including those that govern preventive planting provisions, quality and loss adjustments more accurately tied to real market value, improved coverage of center-pivot dryland corners that allow same row direction while keeping separate units for irrigated and dryland acres, and ratings of buy-up coverage that better reflect trend yield growth and determine policy guarantees.

We are encouraged though by the Risk Management Agency's ongoing outreach to seek input from growers on these important issues.

For NCGA, the subsidy structure of the Federal Crop Insurance Program should encourage producers to insure to avoid devastating losses, but it must not artificially stipulate production. To say the least, this requires a real balancing act to reach an optimal level of financial incentives, actuarially sound policies, and minimize fraud and abuse.

Briefly, I would like to summarize some of NCGA's key areas of concern. There is no question that the new farm bill provides a much more reliable protection against depressed commodity prices, but we have to recognize crop insurance participants who experience shallow but significant losses in back-to-back years can find themselves in no man's land. If they have lost, for example, 25 percent of the crop, they most likely cannot file a claim nor can they qualify under today's Crop Insurance Program, Crop Disaster Program. Two or 3 years of these kinds of losses can seriously impact net farm income and erode producers' equity.

While NCGA recognizes that repetitive losses can adversely impact a grower's average production history, the APH, and consequently the value of indemnity payments, we urge the committee and RMA to consider innovative alternatives beyond artificial APH adjustments. We feel that this kind of approach invites ill-advised planting decisions and unintended consequences of higher premiums for producers where the incidence of repetitive crop losses has a much lower probability.

NCGA is very concerned in failing to address the erosion of indemnity benefits, sustaining the increase in program participation and reducing the need for ad hoc disaster aid will become increasingly difficult. We suggest one potential solution will be to develop a supplemental insurance product that covers the producer's deductible when 2 years of consecutive losses exceed a predetermined percentage of average production.

In addition, we believe wider availability of group risk protection, now limited to five States, will provide producers the option of more affordable protection against widespread area losses. NCGA intends to survey corn growers on these and other risk management proposals later this fall.

Short of creating a supplemental insurance product, NCGA supports reforms to traditional crop disaster aid. Last year, NCGA's Disaster Assistance Task Force went to work in developing a proposal that would deliver financial aid in more equitable and effective ways, plus encourage participation in the Crop Insurance Program. The task force first recognized that crop insurance reforms approved 3 years ago are now part of the very different farm safety net.

Second, NCGA observed that traditional disaster aid bills have targeted disproportionate payments to growers with insurable large yield losses, but growers could still lose up to 35 percent of their expected crop and sustained substantial financial losses. The companion Disaster Assistance Program Act, introduced by Representative Graves, would complement the Federal Crop Insurance Program by covering a portion of the uninsurable deductible rather than duplicating insurance coverage.

Disaster payments could be better targeted and delivered sooner because most growers who collect indemnity payments on their insurance policies would be eligible to collect disaster payments.

Mr. Chairman, I would like to comment on two other immediate concerns to the NCGA.

First is the administration's proposal to reduce funding for the administrative and operating expenses reimbursement to the insurance companies. While we believe there is improvements in services that can be made by the industry, we have questions regarding any funding changes that could potentially undermine those services and financial incentives for companies to continue service in the Federal Crop Insurance Program. NCGA urges Congress and RMA to proceed with caution on these complex matters.

Second, NCGA wishes to express opposition to the language in the fiscal year 2004 Senate agriculture appropriations bill that restricts the use of funds under the AMA program. The language jeopardizes the ability of growers in States such as New York, Pennsylvania, and Maryland to receive an additional subsidy to purchase higher levels of crop insurance coverage.

Participation in the Crop Insurance Program in the 15 underscored States increased by more than 25 percent in direct response to the additional subsidy.

Last year's action by Secretary Veneman to allocate for this purpose is an excellent example of how taxpayer dollars can be better spent to provide a more predictable farm safety net.

Finally, Mr. Chairman, I want to thank you and members of the committee for holding this hearing on the program that offers tremendous benefit to corn growers throughout the country. We appreciate your support and your continued efforts to further improve upon its successes.

Thank you.

[The prepared statement of Mr. Litterer appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Litterer, thank you very much.

Mr. Metz on behalf of the American Soybean Association.

STATEMENT OF BOB METZ, PRODUCER, BROWNS VALLEY, MN, ON BEHALF OF THE AMERICAN SOYBEAN ASSOCIATION

Mr. METZ. Thank you, Chairman Moran, and members of the subcommittee for holding this hearing today. I appreciate the opportunity to testify on behalf of the American Soybean Association. My name is Bob Metz. My wife Karen and I are fifth generation farmers in northeast South Dakota. We have been involved in production agriculture for the past 28 years.

Our family farm has 2,700 tillable acres consisting of hard red spring wheat, corn, and soybeans. We have purchased crop insurance for approximately the last 20 years. Each year we sit down with our agent and decide the appropriate level and coverage and type of coverage. We normally would purchase an RA, CRC, and MPCI at the 70 to 75 percent level. Crop insurance has given our family and our lender the peace of mind that we can survive a crop failure and still meet our financial obligations.

Overall, soybean producers in most regions are generally satisfied with the Crop Insurance Program. A recent study completed by the United soybean Board found, however, many soybean farmers don't feel very knowledgeable about crop insurance. USB's recent study showed these findings.

There continue to be disparities in crop insurance participation among soybean farmers based on the region, farm size and age of producer. Generally, producers in the Midwest and Plains States are more likely to buy crop insurance, and those in the South less likely. Younger farmers are more likely to participate in this program, as are those with larger farms.

Soybean farmers are not well informed. Those that feel the best informed about the programs are those who buy it and those with larger farms and those with 250 acres of soybean production. The reason soybean production buy insurance is primarily to protect against crop failure, because their lenders require it, or to qualify for future disaster payments. Those soybean farmers who didn't buy it said they didn't need it and can self-insure, they cost too much, or they don't know enough about it.

Finally, when asked what their source of information is about crop insurance, the soybean farmers in the study reported 47 percent received theirs from their insurance agent or company, 18 percent from periodicals, 14 percent from the Federal Government and 2 percent from the Internet.

The committee should be aware that the opinions about the success of the Crop Insurance Program remain sharply divided in our organization. Some producers, particularly in the South, still feel as though the crop insurance rates are inequitable and too high, and although many farmers feel that their agents provide them with adequate information, the study I cited earlier shows that they still do not feel they know enough about this program.

Clearly, more work remains to be done, especially to resolve regional differences that color the way many farmers feel about buying crop insurance. A handful of issues come up again and again when talking about crop insurance. Multiple years of disaster tops this list. It seems that consecutive years of losses, 3 or more, plus weather create the single biggest problem with crop insurance. The low or zero yield result in multiple yields of losses for a farmer's APH to drop so far that he is unable to buy adequate insurance when he really needs it the most. I know this is a problem of which the committee is well aware of and which it has tried to address in the last crop insurance legislation.

Unfortunately, the fix where farmers are allowed to substitute 60 percent of the T-yield for those loss years doesn't go far enough to solve this problem. There is no good answer to the question of multiple years of loss. As farmers we look for flexibility in the program to remedy every problem.

We are also concerned about exposing the program to abuse. Fraud costs us all money. One solution farmers often talk about is a 10-year APA system which allows a farmer to eliminate his best and worst year. On my farm in, for example, the 10-year APA system means that I can finally get rid of my low APH from the flooding of 1993. We found that many times the best year out of 10 isn't that much better than average, but the worst year is really low and a terrible drag to the average.

Prevented planting is another perennial problem, especially in my home region of the northern Plains. I am aware that RMA is working on changes to prevented planting provisions and we appreciate those efforts.

One problem I can point to specifically is the requirement that 20 percent of a field or 20 acres be prevented from planting to qualify. That requirement is high enough to cause significant financial loss for a farmer who can't plant perhaps 15 percent of a field, and causes farmers to do things they wouldn't otherwise do just to make a field eligible for crop insurance. While requiring a minimum loss is a good idea, a lower threshold would make better sense, perhaps 5 acres or 5 percent.

The current policy forces farmers to plant in a wet area. A smaller requirement means that farmers who are prevented from planting a significant part of their field will be eligible.

Finally, let me thank the committee and Congress for the ad hoc disaster payments of recent years. I think we have all learned that while crop insurance has to be the Government's primary risk management tool, there are instances where crop insurance alone isn't enough.

Tying disaster payments to a grower buying crop insurance in the future is a good idea. However, the stipulation in last year's legislation that the combined value of disaster payment, crop insurance indemnity, and market value of the crop not exceed 95 percent of the crop's value turned out to be a real disincentive for those who bought the highest crop insurance coverage and spent the money to do so. Any such efforts to limit payments in the future must be structured so that those who try to cover their own risk be winners and not losers.

In preparing for this meeting I talked with a number of farmers and bankers in my area and surrounding States. The consensus was that a lot of farmers are still farming that wouldn't be without crop insurance. While you are not going to get rich on crop insurance, it will keep you on the farm is the commonly heard refrain.

In my family, my son is just finishing his second year of farming. Without crop insurance he wouldn't be able to get the loans to stay in business. That is how important this program has become.

On behalf of the American Soybean Association, I thank the committee for improvements in the program in recent years and the continued attention you are giving to it. Crop insurance works far better than it used to, and our members look forward to working with the committee and RMA on more improvements in the future.

[The prepared statement of Mr. Metz appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Metz, thank you very much. Our next witness is Mr. John Thaemert on behalf of the National Association of Wheat Growers.

John, before you commence your testimony on behalf of the agriculture community in Washington, DC, I want to express my condolences to the National Association of Wheat Growers in the loss of your past president's wife in a car accident last week. She is a Colorado resident, a resident of Ms. Musgrave's district, and we express our sympathies to you and the National Association of Wheat Growers.

STATEMENT OF JOHN THAEMERT, CHAIRMAN, DOMESTIC POLICY COMMITTEE, NATIONAL ASSOCIATION OF WHEAT GROWERS, SYLAN GROVE, KS

Mr. THAEMERT. Thank you, Mr. Chairman.

My name is John Thaemert. I am a wheat producer from Sylvan Grove, KS, currently serving as chairman of the Domestic Policy Committee of the National Association of Wheat Growers, as well as president of the Kansas Association of Wheat Growers.

Mr. Chairman, I am pleased to have this opportunity to offer our thoughts on crop reform. We applaud Chairman Moran and the subcommittee for their efforts to provide effective and affordable insurance for farmers. Crop insurance needs reform, a fact made evident by the need for disaster legislation last year.

The passage of the Agriculture Risk Protection Act was a major improvement in crop insurance, and our proposals today build on ARPA's reforms. Nevertheless, the cost of higher levels of coverage and the inability of crop insurance to address the needs of disaster-affected farmers has lead NAWG to list crop insurance reform as one of our top priorities.

We understand clearly the current budget environment. Our proposals tend to be cost effective, especially compared to disaster funding.

NAWG has four primary goals for crop insurance reform. They are in order of priority as follows:

No. 1, more affordable coverage at higher levels.

No. 2, prevent or slow declining APH due to consecutive disasters.

No. 3, establish farm savings accounts which become available in the event of disaster.

No. 4, establish a minimum loss standard.

I will discuss each of these in turn, beginning with coverage levels. The higher levels of coverage currently available are not affordable. The most cost-effective coverage for producers is either 65 percent MPCI or 70 percent CRC. Therefore, these are the levels most farmers purchase. Consequently, most farmers face a 30- to 35-percent deductible in the event of disaster.

The 5-year average net return to operate labor management for wheat farms in the North Central Kansas Farm Management Association data base is about 18.9 percent. At 70 percent CRC, a farmer loses roughly 1½ years of income before any claim is paid. An 85 percent coverage would cover some of this gap. However, higher coverage might be affordable. To raise my farm's coverage to 85 percent from 70 percent for 2003 would have cost $1 of premium for each $2.45 of additional coverage. The availability of higher coverage is of little use and a farmer cannot afford the premium. Therefore, in order to help producers reach higher coverage levels, the cost of higher coverage must be reduced.

As for actual production history, the Nation's wheat growers know all too well the effects of prolonged drought. Until this year, much of the Nation's Wheat Belt suffered from 2 to 6 years of drought. Even though my home State of Kansas produced a good wheat crop this year, there were still dry areas within our member States which were now in their seventh consecutive year of drought. Each year of crop failure reduces the farmer's APH, eroding the crop insurance safety net.

The minimum yield plug is an effective tool. However, the current 60 percent plug is too low. We suggest the level of coverage purchased by the producer as an appropriate yield plug factor. Another factor to consider is that a T-yield, based on a short time frame is impacted more drastically by consecutive disasters. It is my understanding the current T-yield plus is based on a NASS 10-year historical data per county. If the T-yield were based on a longer time frame, the effect of consecutive disasters would be minimized. Therefore, a more stable yield plug floor would help farmers through consecutive disasters.

As for farm savings accounts, NAWG and other farm organizations have supported the creation of these accounts in previous farm bills. Tax-deductible contributions with taxable distributions would be fundamental principles to these accounts. A USDA match as well as tax deferred growth would provide incentive for our account establishment. Therefore, disaster reserve accounts, held in local financial institutions, would provide stability to farm income and security to rural communities.

Finally, minimum loss standard. The deduction of a salvage yield from a disaster-affected field or crop obviously reduces crop insurance coverage. Currently a farmer with an APH of 40 bushels per acre and 70 percent coverage assumes a 28 bushel per acre guarantee. A custom harvest cost for wheat in Kansas is around $14 an acre. At this cost and a $3 per bushel price, a farmer with an appraised salvage yield of 4 bushel per acre couldn't economically justify harvesting the remaining crop. This effectively drops coverage to 24 bushel per acre, or a 60 percent guarantee instead of 70 percent.

Therefore, when the cost of harvesting a loss-affected field exceeds the appraised salvage value, that field or insured unit should be assigned an appraisal of zero.

In conclusion, Mr. Chairman and members of this subcommittee, we thank you for this opportunity to testify and we look forward to working with you on this effort. I will be happy to respond to any questions you may have, and I pledge NAWG's assistance to you in developing, refining, and implementing a more effective risk management product.

[The prepared statement of Mr. Thaemert appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much, Mr. Thaemert.

There has been a theme today somewhat, as well as our subcommittee's hearing in Minnesota, about multiyear disasters; and we have heard a variety of suggestions for improving crop insurance to address the problems created in multiyear disaster circumstances: the plug, a higher percentage, omit a year. Ten-year we heard about today.

Let me ask a broader question—and my follow-up is does anybody want to tell me how we fix the multiyear disaster problem—but a broader question is: Can it be fixed, or is this an example of where disaster assistance, disaster ad hoc assistance is required—let me ask the question this way. In kind of a broad philosophical way, are we ever going to be able to get away from ad hoc disaster assistance? Can crop insurance policy be created that satisfies the needs of producers across the country, or do we just say that when we try to put money into crop insurance? We tell our colleagues in Congress that this will solve the problem and we'll not back asking for ad hoc disaster, and, in reality, that is unrealistic?

Mr. ANDERSON. Everybody looking at the cotton guy, Mr. Chairman. If you will allow me, I will take a stab at that.

We have looked at that issue for the last 2 or 3 years, and in particular there is a county about 60 miles west of me. A lot of us in west Texas over the last 7 or 8 years have had multiple losses in all crops and short of affecting actuarials of the insurance business, I don't see how you are going to be able to get there when you really look at the loss history. We looked at 20 years' worth of data and 30 years' worth of data. And, yes, both of those lessen the impact of those multiple loss years, but all of those—and the end result would have an impact on the budget for the whole program. And in these tough budget times, short of having some additional funds to take care of that, I am not sure how you would get there.

Mr. LITTERER. Mr. Chairman, the National Corn Growers Association has spent time studying this as well, and one of the things we need is a more predictable plan in place to protect producers when they have multiple-year losses. We think there can be improvements made. We think producers can probably stand to lose a deductible for 1 year, but when you go 2, 3, 4 years, then it becomes a real drain on their equity.

We are looking at a proposal that would allow producers to buy up coverage for that deductible, but wouldn't be triggered until we get into the second consecutive year of losses. So we believe a plan can be devised, and we are working on it. Will it ever eliminate all ad hoc disaster, the political ramifications? I don't know that I can say that. There are always pressures, you are well-aware of that, but we think this can go a long way in providing a more predictable level of coverage for producers.

Mr. MORAN. I was very interested in your testimony in that regard. And how far along are the corn growers in developing a proposal? As I understand it, you've got an additional insurance provision.

Mr. LITTERER. Yes.

Mr. MORAN. That comes into play, what, you've got a multiyear disaster that helps cover the uninsured loss?

Mr. LITTERER. Yes. We are exploring that and we haven't got the details worked out. We have some preliminary plans in place that we are studying and we are hopeful by this fall and winter we can have a real firm proposal in mind.

Mr. MORAN. Thank you very much.

Mr. Metz.

Mr. METZ. Yes, thank you, Chairman.

One discussion item that has been around in the American Soybean Association, as you know, different areas has suffered multiple years, would be the possibility of freezing your APH if your county was declared by the Federal Government as a Federal disaster area. I think this would stop the fraud of someone planting for crop insurance, but yet allowing that APH to remain frozen when the Government did declare that you were in a disaster area.

Mr. THAEMERT. Mr. Chairman, in my written testimony I submitted a possibility for an APH factor adjustment. The unfortunate thing about a plus or a T-yield plug, a good farmer gets the same plug as a poor farmer, and we would propose some type of basis adjustment that takes into consideration a deviation of APH, both above and below county average.

Also we think that the T-yield plug is an effective way to counter this. I think a T-yield plug for a longer time period would help, and a farm savings account that would be triggered by a crop disaster would help also.

And I agree with Mr. Litterer. I don't know how you can ever say that a crop insurance—total reform of crop insurance could ever really replace ad hoc disaster assistance. I don't know how great the disasters would be in the future, and we don't know how broad an impact it could have on a national scale, but I know the wheat producers have suffered dramatically successive years of drought.

I know I have talked to one of my Idaho buddies yesterday. He is on his seventh year of drought, and I can remember my grandfather telling stories of leaving Lincoln County, KS to go to Idaho because he was tired of the successive droughts in Kansas. So every territory, every region, will face this from one trial to the next, so it is something that we have to consider.

Mr. MORAN. My time has expired, but I will come back with several other questions after members have had an opportunity to question the witnesses.

Mr. PETERSON. Thank you Mr. Chairman.

I am not sure if this is politically feasible, but if we could find a program and have the money where we could have an ad hoc program as part of the farm bill, it would be structured something like—the Secretary, if you are declared a disaster county, the Secretary could also have benefits like FEMA does under the other disaster program. If we could find the money to do that, would you support such an idea?

Mr. LITTERER. Mr. Peterson, I would respond by saying the National Corn Growers, as I gave in my testimony based upon a more predictable scenario that would be in place, so the timing issue of getting payments out to farmers would be more predictable, but not duplicating the current crop insurance.

Mr. PETERSON. No, this would be added on, what I would be envisioning some addition of crop insurance.

Mr. LITTERER. So I guess the answer to your question is we would, as long as it met the parameters of not duplicating crop insurance and provided coverage for parts of the deductible.

Mr. BINDEL. I think the National Grain Sorghum Producers would be very much in favor of this, again, as long as it didn't distort people that not being—wouldn't then maybe try to buy crop insurance. As long as you left that in there, that they had to buy the crop——

Mr. PETERSON. Well, I think that would be part of the deal. You would have to have crop insurance in order to qualify. That is what I would prefer. But, Mr. Anderson, do you have any ideas?

Mr. ANDERSON. Yes, I would comment on that. In the old days, back when we had the ad hoc disaster at ASCI or FSA, you had better controls in compliance, you had more on-the-ground eyes with other producers there that made that program work a little more efficiently than what we are seeing today.

I think that would complement what we are seeing in policies now. It would need to be as a complementary program for the individual loss issues that you still have out there, so the whole county didn't have to have a disaster to trigger any kind of a program payment. But I think we would be in full support of looking at an ad hoc disaster program permanently in the farm bill.

Mr. METZ. Mr. Peterson, I would agree. I think it should be a supplement to crop insurance, though. I think that has been part of the problem. It is been a separate program. And then the farmers out there that have sent the money there over the years to buy crop insurance are always penalized when these programs come along. So I believe if your county were declared a disaster area, it would be to supplement that, this possibly 70 percent that you have already bought in crop insurance, to help with that extra.

Mr. PETERSON. I guess, Mr. Litterer, in your testimony you indicated that you were concerned about changing the plug because you thought people might overproduce?

I don't know what it is like in your area, but I don't think that would happen in my area, given what has happened up there, but——

Mr. LITTERER. Well, it does cost a lot of money to fix the plug, and I think it does—maybe with grain sorghum in Kansas might be an example, where people might be planting corn instead of grain sorghum. So we are saying there is an alternative to the plug, and that would be to look at all tentative coverage.

Mr. PETERSON. How would that work? Would they actually buy a policy?

Mr. LITTERER. Yes. We are proposing an add-on policy that would cover the deductible in a second consecutive year of loss.

Mr. PETERSON. Well, it seems to me that if you are going to make this affordable, it is going to cost quite a bit of money to do that, too.

Mr. LITTERER. Well, it depends on how you set the trigger; I mean, if you set it by farm, it could cost more. If you set it by county trigger, like a group trigger, it could lower the cost.

Mr. PETERSON. But going back to what I talked about earlier, if we could design something in that area right, we wouldn't have to be trying to do these other things like fixing the plug and so forth. We would have a mechanism in place to take care of that and it would solve—might be better to spend the money that way than to try to jury-rig the system to make this work.

I guess I would encourage all of you to, since you have said you were interested in this, trying to get together and work on this, maybe work with us and see if we can come up with something, see what it costs, see if it is feasible. And I think the more I look at this, I am not sure that wouldn't be a better way to try to solve this than some of the other things I have looked at.

Thank you, Mr. Chairman.

Mr. THAEMERT. Mr. Peterson, I think the idea of a FEMA-type plug or ongoing ad hoc FEMA-type program has tremendous merit. One thing, it has to be predictable. It can't vary from time to time, and that is one thing that really frustrates lenders and producers when they have something that oh, well, this year, it is different than last year, or this program is different from what it was previously. So I do think that has a lot of merit and I think that is something we will look into.

Mr. LITTERER. Mr. Peterson, could I make one other comment?

Some of our producers do have some concerns with crop insurance; and that is, if you make the guarantee, the risk, so low that you will drive profitability out of agriculture, and that some of the producers don't want the guarantee to be high, because it will increase cash rents and land values, so we need to keep some risk to producers out there, so it is a real balancing act.

Mr. PETERSON. I agree with that, but I have got an area where they've lost seven crops out of eight, and 100 years before that, they didn't lose anything, and you can get into these cycles and it is not your fault. We got to come out of this. This year we had a drought. We had floods before, and so forth.

So I guess that is why I think maybe we might be better off looking at trying to have some, like you say, predictable ad hoc thing in place where we could supplement. But thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Peterson.

Mr. Stenholm.

Mr. STENHOLM. Mr. Metz, I believe you said the difficulty of treating a good farmer and a poor farmer the same way is a problem. What do you mean? Talking about the plug, you stated—I believe it was you. It might have been Mr. Thaemert.

Mr. METZ. It wasn't me, but I would certainly comment on that. There definitely are differences in farming practices, and that is fine. I mean, everyone has their ability to farm as they wish, but there are farmers out there that possibly are not fertilizing, are not using the proper herbicides or the newest technologies and to give everybody the same when they are not producing. That APH actually works quite well, and the ability when you take on a new piece of ground to move your farming ability or APH to that new piece of property really has made a lot of sense in crop insurance. I think it is one of the better issues that you have changed in the past.

Mr. STENHOLM. OK. It was you, Mr. Thaemert.

Mr. THAEMERT. Yes, Mr. Stenholm. The issue is on the yield plug that is used. Whenever there are successive years of drought, you use a yield plug, or successive years of disaster. A very conscientious producer that tries to do everything right, soil test, fertility, crop rotations, what have you, gets the same T-yield plug as a guy that tries to probably farm the Crop Insurance Program. And so we are proposing an APH factor taken into consideration on yield plugs, standard deviations that have yield both above and below the average for flood.

Mr. STENHOLM. One of the big frustrations that I have had with RMA's nonimplementation of the ARPA—and I mean nonimplementation. Several of you mentioned the cost of the production insurance policy project proposal that we were supposed to have had out a couple of years ago, supposed to have had out this year, not even going to have out next year, and it is very frustrating when the very agency that we entrust with at least exploring some different ways of doing business can't seem to bring it about.

Mr. Anderson mentioned the—again, in the farm bill we required that RMA and FSA work together, and unless we can bring ourselves to having meaningful oversight and using all of our Government resources, it is not going to work. You are mentioning frustrations that we have which get into the abuse category, and unless you have a policeman on the block you are not going to do the kind of things that will keep our producers happy, the good and the bad.

That is called abuse. In some cases it is called fraud, and it is amazing to me how many companies continue to tolerate abuse, and we don't seem to be able to get the kind of oversight into this from RMA that the law states we shall do.

Now, there is nobody at the table from RMA today. Mr. Chairman, you had them before you before. You are going to have them back again, but we have got some problems that we are not going to solve.

Now, I like what Mr. Peterson and Mr. Moran, what you are talking about and each of you have talked about, some kind of a plug, a permanent disaster program. I really would ask each of your associations to help look at a permanent disaster program that would be paid for by producers, that we would buy, and if you don't buy it you don't qualify, and that you have it where it does match with buying crop insurance, and so that it is predictable.

Now, I really think we need to look at this from another perspective, Mr. Chairman, and that is from livestock. Just ask ourselves in the livestock industry if that one mad cow had occurred in the United States rather than Canada, what would we be looking at with a disaster program for livestock? We had better start preparing for that, and it is not unreasonable, I think, to ask producers to bear a reasonable cost with the Federal Government taking the risk, because if we are going to come and ask for disaster programs every time we have one in different parts of the country—we have had them in the 17th district. You had them in Minnesota. Had them in Kansas. Had them in South Dakota. You have got hurricanes that hit. You have got all kinds of things that happen. We know it is going to happen, but we don't seem to be able to bring about a predictable way to deal with it, and I do think that it is very possible and probable that we can design a plug that is permanent, that will fit, that will not overly reward producers, that will not insure against any loss whatsoever.

It can be done. There has been so many people who are through our Departments of Agriculture, through our Farm Credit System and others that have been looking at this theory of cost of production, which is another way of saying it, but we don't seem to be able to bring the powers that be to honestly look at it for some strange reason.

Mr. Chairman, I hope as you continue to hold these hearings that we will seriously talk about this and ask other folks to give us their best shot, because it is unrealistic I think to expect the Congress to come up with additional money year after year after year in the budget problems that we are now into, and we had better start looking at doing the kind of cooperative venture that will provide what we need and decide what we are willing to pay for it and how we are willing to police it, because if we keep having a few rotten apples in the barrel it is going to get more and more difficult for us to have any kind of support from the nonmembers of this committee and those that do not represent agriculture.

Mr. THAEMERT. Mr. Stenholm, I would like to comment on that if I could, please. At the National Association of Wheat Growers we have talked about that issue. And you mentioned the ability or the desire of RMA and FSA to work more closely together, and that is something that we have really promoted and pushed.

At the local level you have got an FSA county board, and the county board monitors everything from grain levels in your bins to any number of things from acreage of crops. And they have oversight there, but why couldn't we have an FSA, RMA county level board that would oversight neighbors on fraud and abuse in crop insurance? We don't have such a thing, and I don't think it would be that hard to implement; but I think a county level board would also address the fraud at the local level, too, and that is where it has got to be addressed. And I agree with you we have to police ourselves better, but I think that would be one way of addressing that issue.

Mr. STENHOLM. Mr. Thaemert, one of the reasons—and they are very honest about this, but the companies do not want this. I mean, they have stated so in hearing after hearing. I mean, there is a reluctance on the part of the companies to have someone else doing their adjusting for them other than themselves, and that has been a problem. And I respectfully ask the companies who are listening to this to look at this as to why we continue to say that we should not have cooperation from RMA and FSA so that we do have that kind of cooperation that will make—it would seem to me that it just makes so much sense, but the companies have opposed this 110 percent since we first started talking about it.

Mr. MORAN. Mr. Stenholm, thank you. We have taken a brief look at some issues related to fraud and abuse in this subcommittee. That will continue. I think it is important. Your reminder about oversight is a good reminder, and also we intend to look at the livestock issues as crop insurance relates to the livestock sector.

Mr. Neugebauer, the gentleman from Texas.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. One of the things that has been a lot of discussion in west Texas is the second crop issue, and based on the new rules of the loss of the first crop and options for the second crop for producers in West Texas, how is that going to impact the cotton farmers, particularly when some of the first losses are generally due to drought weather conditions?

Mr. ANDERSON. I suppose you are asking me that question, Mr. Neugebauer. Our frustration with RMA is that they have not enforced that regulation. They have not put it in place, to my knowledge. If it were put in place like it were written where you would choose which is your primary crop, which is your secondary crop and you would only share in a portion of the secondary crop, I think it would work quite well.

Part of the problem in our part of the State is that we have had some frustration with loss adjustment with the time period past the final planting date before the adjusters will come out and adjust your crop, and they have in essence tried to use that crop adjustment date in lieu of the regulation for the second planting.

As part of my testimony, I addressed the fact that those of us are really frustrated with RMA's reluctance to go ahead and implement that regulation.

Mr. NEUGEBAUER. And when you ask them about that, what is their response?

Mr. ANDERSON. Quite frankly, many times we get a bureaucratic response, if you will pardon the expression, that really sidesteps the issue, and there just doesn't seem to be a desire within the agency to implement all of the provisions of ARPA. It is very frustrating.

Mr. NEUGEBAUER. Mr. Bindel, if the insurance protection is improved by equalizing the sorghum CRC price selection with corn, how would that impact your farming operation?

Mr. BINDEL. It is already impacting my farming operation, and the reason I say this, my son, he has been farming with me for about 20 years. I have basically turned it over to him, and CRC in my area this year for grain sorghum is $2.30, and for corn it is $2.42. It has definitely impacted my farming operation, because he has to borrow the money to put in the crop, and when he goes to the local banker, the local banker said, which crop is going to give me the most money for my buck, irregardless of what I have had, hail, below normal crop and a drought and maybe another drought this year; but, I mean, it has really affected my operation, because my son, who is now running the place, he says, well, Dad, I have got to go where I can get the most money, even though it may not be the most economical thing to do.

And I would like to comment a little bit further. My sorghum yields have dropped in the last 3 years, and I don't know what is going to happen now, but they have dropped like 8 bushel to the acre. And, I mean, again, I have carried crop insurance all my life, and I do proven yields rather than APH. When they say APH, I think that is all right maybe for the average farmer, but I think that our operation is maybe above average. We use proven yields. I hope—have I answered your question?

Mr. NEUGEBAUER. This is a general question, and one of the things at least during my campaign was the cost of production issue and how to integrate that into the system today. Coming from the real estate business, I can take the risk analysis of, say, buildings that I might own or operations that I am involved in, and I can determine what risks I am willing to take myself, and then I can buy into additional risk, which is what insurance is designed to do.

When you start talking about cost of production, that cost of production number is actually—it is a moving target depending on where you are in the production cycle. Are there some thoughts that you gentlemen have as to how—if you went to a cost of production program where you—let's say you are towards the end of your crop year where your inputs are relatively high but you had relatively low yields and so you are really underinsured at that point in time. Are there ways to integrate that?

Mr. ANDERSON. The problem with the cost of production insurance, we have worked with private industry as they have tried to develop that, and I think they have struggled as we have struggled in how you differentiate between different areas and different costs of production and what inputs you are going to include. The last discussion that we had with them, Mr. Neugebauer, was they weren't allowing as part of a cost of production coverage to include depreciation and some of the other fixed costs that we as producers said that we had to have.

And then second, the difficulty in trying to do a one-size-fits-all type cost of production program is that my inputs are different from his inputs and different regions; and so, consequently, you have to try to reach a standard for a county or an area or a crop, and that gets to be pretty burdensome and a little subjective.

So we hadn't been able, with my experience, to work with those trying to develop that program, and I suspect we won't really know until they put a pilot out there and we see how it can evolve over a year or two or three and actually putting it into practice in the country. That is what we have encouraged them to do, but we have some serious concerns about the allowables under the cost of production input schedule that I have seen.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Neugebauer.

The gentleman from North Dakota.

Mr. POMEROY. Thank you, Mr. Chairman. The ARPA legislation added about $8 billion into trying to plus up the coverages. As a result, we have more affordable buy-up levels, some floor on the minimum considered for the APH; but the problems that the panel is raising this morning sound very familiar and very similar to what we have experienced before we passed ARPA at all, and I do find it difficult to try and get this coverage to where we need to get it. I know from talking to North Dakota farmers that, well, they think the program is a little better for the effort. They still think it has got a long ways to go, so I appreciate your ongoing work in this area.

One of the areas in North Dakota that has come into focus is—the key shortfall of the program is the quality loss and the coverage when you lose bushels. You can't get the bushels to the elevator, but if you have got the bushels but you have got no value in the bushels because of disease, there is just really not much coverage for that.

I would be interested in whether or not the—Mr. Thaemert has got—on behalf of the NAWG organization an evaluation of the recent quality loss assessment put out by the contractor doing the research for RMA on this question.

Mr. THAEMERT. Mr. Pomeroy, that is an issue that we have discussed. As you note, that wasn't part of our four main topics or four main priorities. Quality loss adjustments are definite factors, especially, well, during wet years you have sprout damage, and we had a situation in Kansas where we had some insect damaged kernels from head meal moth, which is kind of unusual. It turned out not to be that much of an issue.

But I don't know how you address that other than look at—disregard the class that is brought in and covered as a top class. I don't know how you address that, but you do have to make some adjustment for that loss because that is definitely lost revenue for the producers.

Mr. POMEROY. It absolutely is lost economic opportunity from the crop, and that is what we want to protect, offer risk protection.

The contractor's report seems to recommend a fairly elaborate response that frankly goes beyond the reach of RMA funding presently or in the alternative suggests, well, let's say in the status quo, and I am not sure that I am satisfied with those recommendations. This is an area where I want to engage in some vigorous discussion with RMA. I really appreciate the Director of RMA, Ross Davidson, attending these hearings. I think that it is rather unusual and commendable for the agency head to come and take it right on the chin. Often they prefer to stay downtown, and I think it is going to help us work in concert to address these issues.

Mr. LITTERER. Could I address the quality issue? The Texas Corn Growers have had concerns with microcosms in certain years, an ongoing problem, and they have recommended a couple of things, that we look at it from a regional perspective as far as the pricing and that we use a weighted average in determining those losses. So just a couple of suggestions there to look at.

Mr. POMEROY. And that was developed by the Texas——

Mr. LITTERER. The Texas Corn Growers Association, yes. They have recommended that we look at those two issues.

Mr. POMEROY. I will contact them for what they have done in that area.

I very much like the suggestion in the NAWG testimony on minimum loss standard, the frustration of basically losing your crop and yet not being able to get an adjustment until you spend more to get what remains out there. Like salt in the wound, you have got a loss and you have got to make the loss deeper before you get covered on the first loss. Would you elaborate just briefly on that minimum loss point?

Mr. THAEMERT. Yes. Thank you, Mr. Pomeroy. That is an issue, and this is an issue that both insurance adjusters, agents and farmers agree on. It is a discouraging thing. You have got a major loss, and the adjuster comes out and says, well, there are three bushel left out there and I am going to have to take that off your settlement. And the producer just got beat up with a loss, and now he is looking at this. And there is no way that you can economically justify harvesting three bushel when it is sitting out in the field. It just doesn't make sense.

So when you thought you had a 28-bushel guarantee, as I said in the example, you in effect had a 24-bushel guarantee. You had 60 percent coverage instead of 70 percent coverage. We realize that there may be a higher cost associated with it, but it is ridiculous to count that coverage when you know that practically speaking you are not going to——

Mr. POMEROY. Total loss ought to in the end be considered on the reality, the real-life situation. No one is going to spend more on a harvest of a couple bushels that will lend you much less in terms of return on the cost of pulling it off the field. At that point a total loss should——

Mr. THAEMERT. It should be assigned a zero value at that point, we think. When the cost of harvesting a salvage yield exceeds the value of the crop remaining, it should be assigned a zero value.

Mr. POMEROY. I will be interested in seeing what RMA thinks about that. I think it is a very constructive suggestion.

Thank you, Mr. Chairman. I will be ready for the second round.

Mr. MORAN. Thank you, Mr. Pomeroy. We will have a second round, in part because I have some additional questions.

Let me ask this of Mr. Anderson and maybe the Soybean Association as well. It is my understanding in the South that crop insurance is less desirable, less purchased, a smaller component of a farmer's operation. What is the explanation for why crop insurance is a less popular risk management tool in the Southeast of the United States than elsewhere? And I guess—first of all, is my understanding correct?

Mr. ANDERSON. It was before ARPA, Mr. Chairman, and with the increased subsidies for the buy-up, crop insurance in the mid-South and the Southeast has improved considerably. Originally part of the problem in that area was that the loss experience that we had—or that the industry had in those areas was based on those who were having multiple losses, and consequently you didn't have the better producers or those producers who were participating in the program that would have allowed a bigger pool to define the actuarials from.

But with the reduced premium and the additional subsidies on the buy-up, we have seen significant participation improvements in those areas. I am not sure if that answered your question, but originally it was because of—it is kind of a chicken and an egg deal. You didn't have enough participation in the area to get the price level selections down enough, and then we have seen slow improvement and, consequently, with the new reform and additional subsidies we have seen the participation up.

Mr. MORAN. Mr. Metz, anything to add to that?

Mr. METZ. I believe in the Southeast they have had multiple years of disastrous yields in soybean. So their APH is down so far that they really basically can't buy a decent insurance, and this is part of the problem. I really like the thoughts of Mr. Peterson, that letting agriculture know up front that if your county is declared a disaster area, that there will be some type of a Government disaster program. But that program would not start from zero. It would start from the 70 percent level of crop insurance. This rewards people for buying crop insurance, and they know that if their area is declared a disaster area there will be a small amount of help to them. And this would also stop fraud, because your county would have to be declared a disaster. You couldn't just go out there and do a poor job of farming to get the crop insurance.

Thank you.

Mr. MORAN. Along those lines, do any of you have specific provisions of the Crop Insurance Program that you believe lend itself to fraud or abuse practices in your neighborhood, in your county, among your neighbors, the particular areas that this subcommittee ought to be aware of in regard to fraud and abuse?

Mr. METZ. I don't know if you would call it fraud or abuse. I did touch on the prevent planting areas, the 20 percent, or 20 acres. Many times up in the upper Midwest where we have had a lot of flooding, 18, 19 acres is a pretty substantial part of a field that you are going to get no income off and you would still have the expenses for that part. So many times they will cut that part of the field out and make it a separate field and very late in the season they will plant a different crop to make that acres eligible. It is perfectly legal, but yet it isn't really a good farming practice.

Mr. MORAN. Was the double cropping change necessary to prevent fraud and abuse, or has it created more problems than it was designed to solve?

Mr. ANDERSON. I will respond to that, Mr. Chairman. If it were implemented as written, I think it would have solved the fraud and abuse problems of double cropping. There is nothing wrong in our mind in being able to double crop. The problem is when the producer decides he is going to double or triple dip. And so if the regulation had been implemented and enforced as written, I don't think it would be a problem.

Mr. MORAN. One additional question. When we were in Minnesota in Mr. Peterson's district, we heard a lot about really two issues, about how to improve crop insurance, one being one we spent some time on which is multiyear disasters. The other is a belief that we need to reallocate the subsidy toward higher levels of coverage.

Is that a uniform belief across the country and across the various commodities that are grown, or is there regional differences in the desire to do that?

Mr. LITTERER. Mr. Chairman, from the corn growers perspective, I think we would support looking at that, because, for example, I think one of the things that could be done in crop insurance is to move toward more of a county trigger or enterprise or whole farm type of coverage which would help with the abuse situation somewhat. But you can't buy as high a level coverage, for example, with a whole farm as you can with an enterprise unit.

The other thing is the subsidy levels. For example, if you use an optional unit at 75 percent level coverage, it is subsidized at 55 percent. If you use an enterprise unit, which would probably be very cost-effective, you are only subsidized at 38 percent. So I think that is something the committee needs to spend some time looking at.

Mr. THAEMERT. Mr. Chairman, the higher levels of coverage issue is something that is very dear to NAWG's heart. It is something that we would really like to see done.

If you look at RMA data, I have got RMA data in my written testimony for Kansas as well as national, and the focus is on the 70 percent level in CRC and 65 percent NPCI. There is a tremendous amount of deductible there that leaves a lot of operators exposed to, and you will also note that the CAT coverage is extremely high as far as the net acres that are covered, and that is mainly to take advantage of disaster programs. And it is just something that we think that really ought to be focused on and promote the higher levels of coverage.

Mr. MORAN. We can discuss this perhaps after the hearing, but I am interested in knowing if there are regions of the country or farming areas in which the weather-related difficulties, disasters are so much more minimal than other places in the country that they really do prefer the lower levels of coverage, and I don't know the answer to that question. I am interested in knowing whether that is the case or whether kind of farmers across the country would all desire to have higher levels of coverage based upon the risks that they face in farming.

Mr. ANDERSON. If I could, Mr. Chairman, just briefly, the cotton industry, particularly in the West, in California and Arizona, I think would be interested in that that you just laid out, except for the fact when they have a loss their loss is greater. And so I think that in theory you are correct, but in some of those higher cost areas, in some of the bigger yielding areas, I don't think that would be acceptable.

The other question that you——

Mr. MORAN. You don't think that it would be acceptable to reallocate the subsidy because there are those who just want the lower levels of coverage?

Mr. ANDERSON. Yes, and that is a financing issue in many areas of the Cotton Belt. You have producers who literally cannot afford the buy-up policy and their lenders are at least requiring them to have CAT policy.

Mr. MORAN. Thank you. My time is expired, and if I don't abide by the clock, none of my members will either.

Mr. Stenholm.

Mr. STENHOLM. Mr. Thaemert, you were a little critical of the change in the farm bill that said that you can't collect more in a disaster payment or crop insurance in the value of the crop than 95 percent. The biggest criticism that I have heard in my area have come from farmers who try, who make just enough not to qualify for insurance, don't qualify for a disaster program, but they are out there trying; and then they observe what has been too often the case, folks that didn't try that get a zero on their production and then they get a disaster program and they end up making more money than if you would have made a crop and sold it at the price. Part of this has been that our market prices are way too low, as we all know. But that has been the problem that we have tried to work out. Harvest incentive, we tried. We had an experimental program for a period of time. We found that—this was 10 years ago now. This is not criticism of the current administration. But we found in the cotton industry that we had cotton ginners that were very upset because they were seeing cotton shredded that should have been ginned, and so we came up with the idea let's not make this subjective. Let's say that there is a harvest incentive so that, by God, if you go out there and you harvest it, you are not going to lose money by running, in your case, your combine over it and in our case a cotton stripper over it. I thought it was a pretty good idea. It was putting an incentive in there to do it. It is not so much in grains and beans, but it was in cotton, because you know when you have a drought it is not just the farmer. It is the gin that also has a disaster.

And so Mr. Anderson mentioned that as we look at providing some way for our cotton gins to buy insurance to cover against a catastrophic—something that gets completely overlooked from a producer's standpoint is what about your hired hands, and I have had many complaints over the years of folks who say we take care of the farmer, but then we don't end up taking care of the folks that work for us. And that is a valid criticism that—as we start looking at an all encompassing program that we really and truly ought to consider if we continue to expect to have the majority of the people in the Congress support us in the things that the chairman and the ranking member are setting out to do here today.

It shouldn't be a no-brainer that if you are in a drought area, that if you lose your first crop to drought, there is a pretty good chance you are going to lose your second crop, and there is a darn good chance you are going to lose your third crop; but yet because we could do it we are still having three policies sold again this year.

Now, this is meant for those that are out there listening and selling these policies. That is getting awfully close to being past abuse, folks, awfully close to getting past abuse, but we still have that being done.

Now, we have got the data mining project and lo and behold, I have been very critical of RMA, but then we ran into the fact that

FSA has been kind of very reluctant to share their information with this data mining so that we have got a way to check on this to help, and all of a sudden FSA is dragging their feet. And if we are going to do what—collectively you have done an excellent job today of outlining the problem of what we have got to do in this high risk, low margin industry that we now call agriculture, that if we are going to provide for that risk that we are going to have to think outside the box and we are going to have to do things a little bit different than what we have been accustomed to doing. And if we are going to get taxpayer dollars more than we are putting into it today, I think we are going to have to do a better job of administering it.

On the fraud and abuse, one last question. Would any of you care to share your thoughts regarding RMA's new efforts to use data mining which I have mentioned? FSA spot checks of producers with frequent or expensive claims? RMA's ban on the availability of insurance for a third or fourth crop in the season? Looking ahead to implementation of the 2004 crop year of the ARPA, the 2000 limitation on indemnities paid on two crops which is going to take effect in 2004, which is a reform; and then RMA's efforts to detect agents and adjusters who are involved with more than their fair share of expensive indemnity payments? RMA and FSA cooperative efforts to correct policy design details that lead to abuse? Any comments along any of those areas? If not here, if you would submit it for the record.

Mr. ANDERSON. Mr. Stenholm, if you would allow me, as you are well aware, past experience with FSA gives me some personal knowledge on the efforts between the two agencies to better cooperate, and as one of the gentlemen stated earlier, I think for us as an industry to address the fraud and abuse problem, we are going to have to seriously as an agricultural industry decide we are going to clean ourself up, and the best way to do that is through the cooperation between RMA and your FSA county committees, in my opinion.

When we first had crop insurance in my county, which wasn't available until the early 1980's, we had RMA spot checks of appraisers, and during those days you didn't get the kind of appraisals that we have seen since then, because everybody was afraid that their appraiser was going to be spot checked.

One of the things that we looked at when I was at FSA was that maybe on a random basis the appraisals that are submitted to RMA should be spot checked by a third party.

The other thing that probably is more effective than any is that when you get into an area where the producers are cooperating with compliance and RMA, the word of mouth indictments and the word of mouth justice that is being served on those that are abusing the program has gone a long way to clean up fraud and abuse that I am aware of.

So I think we are making some progress, and I wouldn't want to leave the perception that it is rampant. I think there are still a few bad apples in the crate, and I think industry as a whole needs to make the commitment that we want to work with FSA and RMA to clean that problem up, because it is in all of our interest to do so.

Mr. LITTERER. Mr. Stenholm, I would like to comment also. I can't disagree at all with what you are saying here. We need to work on this issue, and I do think it has improved too in the last few years. But I think also FSA and RMA need the resources to be able to do these things, and FSA, for example, their computer system is outdated, hasn't been updated for a long time, so there are some other issues that have to be addressed along with this.

Mr. THAEMERT. Mr. Stenholm, I would like to address the data mining issue. I think that is a good—all well and good, but you can have a very good producer that by no fault of his own suffers from successive droughts and probably has been—or successive disasters, probably has big claims and will set up a red flag in a database and you have got all kinds of audits and all kinds of things for no fault of his own.

Mr. STENHOLM. Would you not agree in that case that a peer group——

Mr. THAEMERT. That is just what I was going to say. To me that is the best issue or the best way to address that issue, is that you have the coordination between RMA and FSA at the local level, because just about every producer will go to the FSA office and report, and then you have the FSA board and the RMA—have certain RMA oversight, and I think a peer review would be the most effective way to deal with that as opposed to data mining of large volumes of data at some bureaucratic level.

Mr. METZ. Mr. Stenholm, I would certainly agree with those comments. I believe at the local level is the place that you are going to stop the fraud and abuse. I don't see a lot of fraud and abuse in our part of the country, but the local level, everyone usually knows who the bad egg is in an area, and the local level is the place to handle that.

Mr. MORAN. Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman. The reality of a budget deficit exceeding $500 billion this year alone and looking at more of the same in future years will impact our ability to get disaster aid for farmers, no question about it. It will impact our ability to improve crop insurance. No question about it. And we really need to hold those linkages in mind. The deficit hurts crop insurance and so many other things.

One of the things that concerns me is with the prospect of the renegotiation of the standard reinsurance agreement looming that the Office of Management and Budget deficit for money to help offset the $87 billion we are about to send to Iraq. Well, trying to grab a little here and grab a little there while grabbing an untenable amount under the standard reinsurance compensation of the public-private partner has a prospect of significantly impacting capacity of coverage.

So for all the work we do on coverages, at the end of the day nobody writes it, because of no interest in the industry because the private partner share will no longer induce business interest.

I think an evaluation—gosh, I would be the first to say I am not a technical expert on what they ought to get, but an evaluation is best drawn by capacity presently in the market under the present SRA, and so I would be interested in what you are seeing in terms of number of companies participating in the marketplace. Do you think there is enough capacity in the market now? Are you worried about capacity going forward? Do you think that there is maybe undue enrichment to the private partner and we could make some cuts that are appropriate savings to the taxpayer? What are your thoughts? And, Mr. Thaemert, if you don't mind, we will start with you and run right down the panel.

Mr. THAEMERT. Those are good points, Mr. Pomeroy. The reinsurance business has been hit hard with terrorist attacks. It has been hit hard with multiple disasters.

One comment that you will hear from some producers is that while these crop insurance companies are getting rich, well, crop insurance companies are going broke and pulling out of the market. That just isn't the case, and I wish I could say that I agree with them, but I cannot say that. It is getting harder and harder to find reinsurance for crop risk, and as we all know in this room, that to put actuarially sound and economically viable in the same sentence as crop insurance just doesn't make sense. It is not going to happen. We are going to need the subsidy.

And in light of those comments, I really like Mr. Peterson's comments about ongoing ad hoc built in that we know what to expect. Again, yeah, we have got a budget deficit. It wasn't that long ago we had a budget surplus. We may have a budget surplus again. We will certainly have budget deficits again. But every one of us that are testifying here would agree that food security is definitely a priority for our country and maybe a fat and happy consumer doesn't realize that, but if we ever had a problem with a secure food supply we would have some serious angst in this country.

But as far as addressing the reinsurance issue, I don't know how you can, and that is why I really like the concept of the ongoing ad hoc built into a cooperation with——

Mr. POMEROY. On the wheat question, we are seeing in North Dakota some beginning signs that we might have a capacity problem next year.

Mr. THAEMERT. Yes. We are seeing a capacity problem. We are having problems with crop insurance companies supporting our gatherings because they don't have enough money.

Mr. METZ. Thank you, Mr. Pomeroy. In preparing for this testimony, I did visit with agents in about a four-State area, and that was one of their concerns, that as you take the compensation away from the agents, which is a real possibility, let's face it, there will be less agents out there, and it will just be poorer service to the ag communities. So they are very concerned. That was an ongoing comment that I heard as I prepared for this testimony.

Mr. LITTERER. As I stated in my testimony, I think we have a concern that the financial incentives to companies not be cut and that they be maintained, and part of the problem we see is that the companies are no longer introducing new products. The product development has declined dramatically, because they don't have the resources to do it and it cost so much to do it.

Mr. BINDEL. I am kind of beside myself here on this little deal, because I listen to my colleagues on both sides of me talking about what we would like to have. I mean, the insurance companies, sure, I want them to be confiscated—I am sorry, Jerry. I want them to be compensated for what they have to do, but I just feel that there must be a lot of money in that, because they said there is—in our area it used to just be the crop insurance agent. There was a few of them. Now the banks are into it. Now the elevators are getting into this. So there must be still a lot of compensation out there for the people who are selling insurance or the companies they—the reinsurance people, I don't know anything about that, but I would just like to see some of the policies implemented that we want. We don't have revenue assurance, and I would like to see that for grain sorghum.

Mr. ANDERSON. I would like to respond, if I could, in two different areas, Mr. Pomeroy. One I guess would be under ARPA we saw a budget resolution that authorized the expenditure of these funds that we are now dealing with, and we have played by those rules of the budget resolution at that time, and I would hope that we could still adhere to those even in increasing budget pressures.

The second response is that under the Standard Reinsurance Act, we do have some concern about the reimbursal to the companies for maybe CAT policies being disproportionate to those to buy-up policies and have some concern that consequently maybe the agents are not pushing the buy-up policies to the point that they should. It is easier money, if you will, on the CAT policy.

So maybe they are getting complacent in the easiness of selling those higher return policies and not doing the work and selling the cost of production back to the companies and some of the other new product lines that all of us think we would like to see. So I think it is sad that the insurance companies have stopped developing new products and have gotten complacent in taking the money on the products that they have in place.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Pomeroy. Let me see if our hearing just got a little longer.

Mr. Burns.

Mr. BURNS. Thank you, Mr. Chairman. I have no questions.

Mr. MORAN. Chairman Goodlatte, we are delighted for you to join us. I certainly personally would be delighted to stay here if you have any questions of any of these witnesses.

Mr. GOODLATTE. I apologize.

Mr. MORAN. Thank you very much. I do appreciate very much Mr. Davidson being with us. As Mr. Pomeroy indicated earlier, it is a good sign from my perspective that the administrator of the agency is here time and time again, has been with us through all our hearings, has listened to the witnesses testify, has heard the suggestions and complaints and concerns. And one of the things that this committee intends to do in the near future as we work our way through this is have Mr. Davidson and his staff down and sit around the table and see if we can talk about what we have heard, what we have learned and what the agency's perspective is in trying to address the suggestions that were made here today and by witnesses in past and future hearings.

So Mr. Davidson, we thank you once again for being with us today, and you all I just would compliment you as an exemplary set of witnesses. All of you seemed to have somebody here who is from your home State. And I say this not because there are two

Kansans on the panel, but you all are very well prepared and I appreciate the information that you have provided.

Without objection, the record will remain open for an additional 10 days to receive additional testimony, materials that supplement written responses of any questions that have been posed to our witnesses by members of this panel, and the hearing of the Subcommittee of General Farm Commodities and Risk Management is now adjourned.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF BOB METZ

Thank you, Chairman Moran and members of the subcommittee, for holding this hearing today. I appreciate the opportunity to testify on behalf of the American Soybean Association.

My name is Bob Metz. My wife Karen and I are fifth generation farmers in northeast South Dakota. We have been involved in production agriculture for the past 28 years. Our family farm has 2,700 tillable acres consisting of hard red spring wheat, corn, and soybeans.We have purchased crop insurance for approximately the last 20 years. Each year we sit down with our agent and decide the appropriate level of coverage and the type of coverage. We normally purchase RA, CRC, and MPCI at the 70 percent to 75 percent guarantee level. Crop insurance has given our family and our lender the peace of mind that we can survive a crop failure and still meet our financial obligations.

Overall, soybean producers in most regions are generally satisfied with the Crop Insurance Program, a recent study completed by the United Soybean Board (the check-off organization) found. However, many soybean farmers don't feel very knowledgeable about crop insurance. USB's recent study showed these findings:

There continue to be disparities in crop insurance participation among soybean farmers based on region, farm size and the age of the producer. Generally, producers in the Midwest and Plains States are more likely to buy crop insurance, and those in the South are less likely. Younger farmers are more likely to participate in the program, as are those with larger farms.

Soybean farmers are not well informed. Those that feel best informed about the program are those who buy it, and those with larger farms and more than 250 acres in soybean production.

The reasons soybean farmers buy crop insurance are primarily to protect against crop failure, because their lender requires it, or to qualify for future disaster payments.

Those soybean farmers who didn't buy it said they don't need it or can self-insure; it costs too much; or they don't know enough about it.

Finally, when asked what their source of information is about crop insurance, the soybean farmers in the study reported:

- 47 percent from insurance agent or company
- 18 percent from periodicals
- 14 percent from the Federal Government
- 2 percent from the Internet.

The committee should be aware that opinions about the success of the Crop Insurance Program remain sharply divided in our organization. Some producers, particularly in the South, still feel as though crop insurance rates are inequitable and too high. And although many farmers feel that their agents provide them with adequate information, the study I cited earlier shows that many still do not feel they know enough about this program. Clearly, more work remains to be done, especially to resolve the regional differences that color the way many farmers feel about buying crop insurance.

CURRENT ISSUES

A handful of issues come up again and again in talking with growers about crop insurance. Multiple years of disaster top this list. It seems that consecutive years of losses—three or more—due to extraordinary weather are plaguing more and more of the country and creating the single biggest problem with crop insurance. The low or zero yields resulting from multiple years of loss cause a farmer's APH to drop so far that he is unable to buy adequate insurance when he needs it most.

I know this is a problem of which the committee is well aware and which you tried to address in the last crop insurance reform legislation. Unfortunately, the fix where a farmer is allowed to substitute 60 percent of the T-yield for those loss years doesn't go far enough to solve the problem.

There is no good answer to the question of multiple years of loss. While as farmers we look for flexibility in the program to remedy every problem, we are also concerned about exposing the program to abuse. Fraud costs us all money.

One solution farmers often talk about is a 10-year APH system that allows a grower to eliminate his best and worst years. On my farm, for example, the 10-year APH system means that finally this year I will get rid of my low APH from the flooding of 1993. We've found that many times the best year out of 10 isn't much better than the average, but the worst is really low and a terrible drag on the average.

Prevented planting is another perennial problem, especially in my home region of the northern Plains. I am aware that RMA is working on changes to prevented planting provisions and we appreciate those efforts.

One problem I can point to specifically is the requirement that 20 percent of a field or 20 acres (whichever is lower) be prevented from planting to qualify. That requirement is high enough to cause significant financial loss for a farmer who can't plant perhaps 15 percent of the field, and causes farmers to do things we wouldn't otherwise do just to make a field eligible for insurance coverage.

While requiring a minimum loss is a good idea, a lower threshold would make better sense, perhaps five acres or 5 percent. The current policy forces farmers to plant in a wet area. A smaller requirement means that farmers who are prevented from planting a significant part of their field will be eligible.

Finally, let me thank the committee and Congress for the ad hoc disaster payments of recent years. I think we have all learned that while crop insurance has to be the Government's primary risk management tool, there are instances where crop insurance alone isn't enough.

Tying disaster payments to a grower buying crop insurance in the future is a good idea. However, the stipulation in last year's legislation that the combined value of the disaster payment, crop insurance indemnity, and market value of the crop not exceed 95 percent of the crop's value turned out to be a real disincentive for those who bought the highest crop insurance coverage—and spent the money to do so. Any such efforts to limit payments in the future must be structured so that those who try to cover their own risk be the winners, not the losers.

In preparing for this hearing, I talked with a number of farmers and bankers in my area and the surrounding states. The consensus was that there are a lot of farmers still farming that wouldn't be without the Crop Insurance Program. "While you're not going to get rich from crop insurance, it will keep you on the farm," was a common refrain.

In my family, my son is just finishing his second year of farming. Without crop insurance, he wouldn't be able to get the loans to stay in business. That's how important this program has become.

On behalf of the American Soybean Association, I thank the committee for the improvements in the program in recent years and the continued attention you are giving it. Crop insurance works far better than it used to and our members look forward to working with the committee and RMA on more improvements in the future.

Statement of Ron Litterer

Good morning. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you this morning on behalf of the National Corn Growers Association (NCGA) to discuss the impact of the Federal Crop Insurance Program across the corn belt. I am Ron Litterer, a corn, soybean and hog producer from Greene, Iowa. I currently serve as Chairman of NCGA's Public Policy Action Team and as a member of the Board of Directors of the Iowa Corn Growers Association.

The National Corn Growers Association was founded in 1957 and represents more than 32,600 dues-paying corn growers from 48 States. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 States.

I do not need to belabor the point that the past few years have been very challenging years for corn growers. Many producers have faced depressed markets followed by a period of prolonged drought—conditions that have jeopardized the financial viability of their farm operations and even forced their exit from agriculture. The transition to the new 2002 farm bill has also required considerable adjustments by producers and their lending institutions as the timing of program payments has impacted cash flows.

The difficult and varied circumstances that corn growers have faced in recent years have demonstrated the need for further improving the farm safety net. In our view, the Congress took a major step forward with adoption of the Agriculture Risk Protection Act of 2000. The commitment of additional resources to higher levels of premium subsidies has not only resulted in significant increases in participation and the percentage of acres covered, but it has facilitated a dramatic shift toward higher levels of coverage. This positive development tells us the Federal Crop Insurance Program has become an even more important risk management tool for corn growers and other producers as well.

Our growers, overall, look at the numbers and recognize the upward trends as real progress. The reforms of 2000 are making a real difference. More producers have far more protection and peace of mind to deal with crop losses and lower prices than they did three years ago. U.S. producers received over $4 billion in loss payments just for the 2002 crop year, while receiving $1.7 billion in premium subsides. In the previous year, the Federal Crop Insurance Program paid out almost $3 billion in indemnity payments. Compare these sums with the crop disaster program of $3.1 billion for the last two years and you can understand why the program is so critical to American farmers.

This is not to say our members are content with the status quo. NCGA is looking for reasonable changes in the program' regulations, including those that govern prevented planting provisions, quality loss adjustments that are more accurately tied to real market value, improved coverage of center-pivot dryland corners that allows same row direction while keeping separate units for irrigated and dryland acres, and ratings of buy-up coverage that better reflect trend yield growth and determine policy guarantees. We are encouraged, though, by the RMA's ongoing outreach to seek input from growers, particularly on reforms to prevented planting and quality loss adjustment provisions.

For NCGA, the subsidy structure of the Federal Crop Insurance Program should encourage producers to insure adequate revenue to avoid devastating losses, but it must not artificially stimulate production. To say the least, this requires a real balancing act—to reach an optimal level of financial incentives, ensure actuarially sound policies, and minimize fraud and abuse which undermines the program's integrity and the industry's financial health. NCGA is prepared to work with the Risk Management Agency and the crop insurance industry to further strengthen the program.

Briefly, I would like to summarize some of NCGA's key areas of concern. One needs to look no further than the past year to understand there are still gaps of vulnerability within the farm safety net. There is no question that producers have a much more reliable farm bill in terms of protection against depressed commodity market prices. But, we also have to recognize that many crop insurance participants who experience shallow, but significant crop losses in back to back years can find themselves in no man's land. If they have lost, for example, 25 percent of their crop, they most likely cannot file a loss claim nor would they qualify under today's crop disaster program. One crop year with this kind of crop loss should be sustainable. But, two or three years of these kinds of losses even under favorable commodity prices, can seriously impact net farm income and erode a producers' equity.

While NCGA recognizes that repetitive losses can adversely impact a grower's average production history, the APH, and consequently the value of indemnity payments, we urge the committee and the RMA to consider innovative alternatives beyond artificial adjustments to T-yields and the APH. We fear that this kind of approach would invite ill advised planting decisions, and the unintended consequence of higher premiums for producers where the incidence of repetitive crop losses has a much lower probability.

NCGA believes there are more constructive ways to address the problem of eroding indemnity benefits resulting from multiyear production losses. We are very concerned that in failing to address this situation, sustaining the increase in program participation and reducing the need for annual ad-hoc disaster assistance legislation will become increasingly difficult. We suggest that one potential solution would be to develop a supplemental insurance product that would cover a producer's deductible when two years of consecutive losses exceed a predetermined percentage of average production. In addition, we believe a wider availability of Group Risk Income Protection (GRIP), now limited to five States; Illinois, Indiana, Iowa, Michigan, and Ohio, would provide producers the option of more affordable protection against widespread area losses. NCGA intends to develop several concepts and survey corn growers on these and other risk management proposals later this fall.

Short of creating an add-on or supplemental insurance product, NCGA supports reforms to traditional crop disaster aid that is approved on an ad-hoc basis. Last year, NCGA's Disaster Assistance Task Force went to work on developing and proposing a new program to deliver disaster aid in a way that is more equitable and effective and also encourages participation in the Crop Insurance Program. The Task Force first recognized that crop insurance reforms approved three years ago are now part of a very different farm safety net with the addition of the new counter cyclical payment program. Secondly, NCGA observed that traditional disaster aid programs have targeted disproportionate payments to growers with large yield losses, but growers could still lose up to 35 percent of their expected crop and sustain substantial financial losses. Moreover, the current crop disaster program duplicates the coverage for losses already protected under subsidized Federal crop insurance policies.

Legislation introduced by Representative Sam Graves, the Companion Disaster Assistance Program Act, would compliment the Crop Insurance Program by covering a portion of the uninsurable deductible rather than duplicating the insurance coverage and provide payments more proportionate to the severity of actual crop losses. We also believe that disaster payments can be delivered sooner and in a more targeted way because most growers who collect indemnity payments on their insurance policies would be eligible to collect a disaster payment.

Mr. Chairman, I would like to comment on two other issues that are of immediate concern to NCGA. First, is the Administration's proposal to reduce funding for the administrative and operating expense reimbursement to the insurance companies and negotiation of the Standard Reinsurance Agreement. While we certainly believe there are improvements in services that need to be made by the industry and crop insurance agents, we have questions regarding any funding changes that can potentially undermine these services and any financial incentives for companies to continue to service the Federal Crop Insurance Program. Any savings that might be achieved in the short term could hinder efforts to produce program refinements and new products that producers are looking for today. NCGA urges the Congress and the RMA to proceed with caution on these complex matters.

Second, NCGA wishes to express our opposition to language in the Senate agriculture appropriations for fiscal year 2004 that restricts the use of funds under the Agriculture Management Assistance program. The language in section 759 jeopardizes the ability of corn growers in underserved states such as New York, Pennsylvania, and Maryland to receive an additional subsidy to purchase higher levels of crop insurance coverage. NCGA has learned that participation in the Crop Insurance Program by producers in 15 underserved states increased by more than 25 percent in direct response to the additional subsidy. Last year's action by Secretary Veneman to dedicate the AMA funds for this purpose is an excellent example of how taxpayer dollars can be better spent to provide a more predictable and reliable farm safety net.

Finally, Mr. Chairman, I want to thank you and the members of this committee for holding this hearing on a program that offers tremendous benefits to corn growers throughout this country. We appreciate your support and your continued efforts to further improve upon its successes.

STATEMENT OF JOHN THAEMERT

Mr. Chairman, The National Association of Wheat Growers is pleased to have this opportunity to offer our thoughts on crop insurance reform. We applaud Chairman Moran and the subcommittee for their efforts to provide effective and affordable insurance for farmers.

Crop insurance needs reform, a fact made evident by the need for disaster legislation last year. The passage of the Agricultural Risk Protection Act (ARPA) was a major improvement in crop insurance. Our proposals today build on ARPA's reforms and assume their continuance. Nevertheless, the cost of higher levels of coverage, continuous drought, and the inability of crop insurance to address the needs of disaster affected farmers has led NAWG to list crop insurance reform as one of our top priorities.

We understand clearly the current budget environment; farmers operate under tight budgets also. Our proposals intend to be cost effective, especially compared to disaster funding.

NAWG has four primary goals for crop insurance reform. They are, in order of priority, as follows:

More affordable coverage at higher levels.

Prevent or slow declining Actual Production History (APH) due to consecutive disasters.

Establish Farm Savings Accounts, which become available in the event of disaster.

Establish a minimum loss standard.

I'll discuss each of these in turn.

COVERAGE LEVELS

The higher levels of coverage currently available are not affordable. The most cost-effective coverage for producers is either 65 percent MPCI (APH) or 70 percent CRC, therefore these are the levels most farmers purchase (see Kansas and national RMA data in Tables 1,2 and 3). Consequently, most farmers face a 30–35 percent deductible in the event of disaster. The five year average net return to operator labor and management for wheat farms in the north central Kansas Farm

Management Association database is about 18.9 percent (Profit Center Analysis: 5-year & 2002, table 4). At 70 percent CRC a farmer looses roughly 1½ years of income before any claim is paid. An 85 percent coverage would cover some of this gap, however higher coverage must be affordable. To raise my farms coverage to 85 percent from 70 percent for 2003 would have cost $1 of premium for each $2.45 of additional coverage. The availability of higher coverage is of little use if a farmer cannot afford the premium.

In order to help producers reach higher coverage levels; the cost of higher coverage must be reduced.

ACTUAL PRODUCTION HISTORY

The Nation's wheat growers know all too well the effects of prolonged drought. Until this year, much of the Nation's Wheat Belt suffered from 2 to 6 years of drought. Even though much of the Nation's breadbasket produced a good wheat crop this year—particularly my home State of Kansas—there are still dry areas within our member States which are now in their seventh consecutive year of drought. Each year of crop failure reduces a farmer's APH, eroding the safety net provided by crop insurance.

The minimum yield plug is an effective tool. However, the current 60 percent plug is to low. We suggest the level of coverage purchased by the producer as an appropriate yield plug factor. For example, if a farmer purchased 75 percent coverage, their yield plug option would be 75 percent. This rewards the producer who buys up coverage. Another factor to consider is that a T-yield based on a short time frame is impacted more drastically by consecutive disasters. It is my understanding the current T-yield plug is based on NASS 10-year historical data per county. If the T-yield were based on a longer time frame the effect of consecutive disasters would be minimized. Also, the use of a T-yield plug as it is currently calculated puts good farmers on the same level as average or poor farmers. We suggest an APH factor adjustment to the T-yield that would take into account a producer's APH deviation from county average, both above and below the average.

Farmers need a more stable yield plug floor for support during consecutive disasters.

FARM SAVINGS ACCOUNTS

NAWG and other farm organizations have supported the creation of these accounts in previous farm bills. Tax-deductible contributions with taxable distributions would be fundamental principles of these accounts. A USDA match as well as tax deferred growth would provide incentive for account establishment.

These Disaster Reserve Accounts held in local financial institutions would provide stability to farm income and security in the form of deposits to rural lenders and communities in case of disaster.

MINIMUM LOSS STANDARD

It is discouraging for a farmer to be told by a crop adjuster that a small bushel yield will be deducted from their claim since there is some crop remaining in a disaster affected field. Currently a farmer with an APH of 40 bushel per acre and 70 percent crop insurance assumes a 28 bushel per acre guarantee. The custom harvest cost for wheat in Kansas is around $14/acre (which does not include transportation cost). At this cost and a $3 per bushel price (current central Kansas CCC loan rate is around $2.85/bushel) a farmer with an appraised salvage yield of four bushel/acre couldn't justify harvesting the remaining crop. This scenario effectively drops his coverage to 24 bushel per acre or a 60 percent guarantee instead of 70 percent.

When the cost of harvesting a loss affected field exceeds the appraised salvage value, that field or insured unit should be given an effective appraisal of zero.

Mr. Chairman and members of the subcommittee, we thank you for this opportunity to testify, and we look forward to working with you on this effort. I'll be happy to respond to any questions you may have, and pledge NAWG's assistance to you in developing, refining and implementing a more effective risk management product.

STATEMENT OF LEO BINDEL

National Grain Sorghum Producers would like to thank Representative Moran and members of the subcommittee for calling this important hearing today. My name is Leo Bindel, and I am the immediate past president of the National Grain Sorghum Producers. I farm in a family partnership near Sabetha, Kansas between Kansas City and Lincoln, Nebraska. Our diversified operation includes grain sorghum, corn, soybeans and hay. On my operation, I have carried crop insurance since 1961.

NGSP represents U.S. grain sorghum producers nationwide. Headquartered in the heart of the U.S. sorghum belt at Lubbock, Texas, our organization works to increase the profitability of grain sorghum production through market development, research, education, and legislative representation. We would like to thank the committee Members for their support in equalizing the sorghum loan rate with corn in the 2002 farm bill.

Our recommendations to you today are focused on the specific needs of grain sorghum producers, and we appreciate your consideration of them. NGSP understands the complexity of this program and difficult task that is before you.

SORGHUM INDUSTRY OVERVIEW

The United States grain sorghum industry is comprised primarily of nine states in the Great Plains, although grain sorghum is grown from California to New Jersey. Last year, the states of Kansas, Texas, Arkansas, Missouri and Nebraska accounted for the majority of production. Over the last 10 years grain sorghum acreage has ranged from 13 million to 9.3 million planted acres and production has ranged from 795 million bushels to 370 million bushels. Additionally, the forage sorghum industry utilized as silage, hay and direct grazing represents another 5 million acres of production.

The U.S. is the world's chief producer and exporter of grain sorghum, and the crop ranks fifth in importance as a U.S. crop behind corn, cotton, soybeans and wheat. Roughly half of the U.S. crop is exported, while the rest is used domestically for feed and an exponentially growing amount—a 57 percent increase in the last 2 years—going to ethanol.

With no less than eight proposed ethanol plants under various stages of development in the Sorghum Belt, the ethanol industry holds tremendous promise to become the single largest user of grain sorghum in the United States if they can be assured a reliable supply of grain. Worldwide, approximately 50 percent of grain sorghum is consumed directly as a food grain, leaving a tremendous growth opportunity here in the United States.

Additionally, the U.S. dominates world seed production in sorghum with a billion dollar seed industry focused on 250,000 acres primarily in the Texas Panhandle.

SORGHUM AS RISK MANAGEMENT

It is most appropriate that sorghum is represented here today, because we believe that grain sorghum in and of itself is a risk management tool. This is primarily due to its ability to withstand extremely dry and arid conditions better than any other grain crop. For instance, according to a Texas A&M study, sorghum uses one-third less water than corn. NGSP's members believe that Federal farm programs, like crop insurance, should be promoting the conservation of resources like water. Setting the sorghum price election equal with corn helps conserve water. More and more farmers have been planting less drought tolerant crops in the arid areas of the Sorghum Belt because farm programs like crop revenue coverage insurance (CRC) have encouraged them to do so. Farmers are experiencing crop failures because of the lack of water (which also has increased crop insurance claims) or they have turned to irrigation to produce a crop, thereby increasing the pressure on water usage.

However, sorghum's crop insurance track record is deceptive at first glance because, due to its stress tolerance, it is planted in the most marginal areas or as a catch crop during marginal planting periods after a preceding crop fails due to hail or drought.

The Agricultural Risk Protection Act passed by Congress effectively ended double dipping and planting a second crop when there was little hope for it. We hope that sorghum actuarial loss numbers can be refigured to reflect these changes in the law.

In fact, later in this statement, NGSP will detail how we believe that some current crop insurance provisions affect the planting choices that producers make. Perhaps if these issues are rectified by USDA, sorghum will be the first crop of choice more often, and its true risk-management characteristics will become more evident.

NGSP's primary concerns that we will detail today fall into two main areas. First, a level crop insurance playing field is needed for grain sorghum so that crop insurance will no longer distort planting intentions. We will detail needed changes—some of which can be made administratively. However, we also would like to urge this Sub-committee to keep the need for this level playing field in mind as it forms future crop insurance legislation. Additionally, NGSP will detail other concerns that we urge this Sub-committee to address based on a Crop Insurance questionnaire that our organization recently distributed to our leadership and entire membership.

Leveling the Playing Field

Price Elections: NGSP believes price elections for grain sorghum and corn should be equal to help curtail government policy distortion of planting decisions. When the CRC program was established, USDA based its price election for sorghum on a relationship to CBOT corn. This change will recognize the fundamental shift in markets and cash prices due to ethanol and other new uses; and to recognize sorghum's water-saving benefits. Ethanol plants and other end users price it equally with corn because it performs equally for them. Today, sorghum price elections are well below those for corn, causing a significant shift out of sorghum acreage and into other crops. Crop insurance should not drive planting intentions, nor should it artificially distort them.

For example, USDA Sorghum Planting Intentions since 1996 (the year Crop Revenue Coverage came into being) have shown no increase in planted sorghum acreage, even during years when planting intentions for sorghum should have risen due to limited moisture and even this year since the sorghum loan rate was equalized with corn in the 2002 farm bill. In the past four years, market signals should have told farmers to plant more sorghum, given a 57 percent jump in the high value food, seed and industrial uses from 2000 to 2003 that has led to higher cash prices for sorghum. However, it is NGSP's assertion (and many producers' own admissions) that government policy inequities discouraged these plantings.

In fact, a land management company that manages about one million acres in the Midwest this year advised its tenant farmers not to plant sorghum due to its lower crop insurance price elections and admitted as much in a letter to one of our State affiliates.

Here is an excerpt of the letter:

> Like many producers, we have sharply reduced the acreage planted to grain sorghum and even though it may make sense from an agronomic standpoint due to the drought to plant more acres to sorghum, it simply will not be done on our operations because of crop insurance.

These price election inequities mean more government payouts on higher-risk crops that lack the drought tolerance needed to grow in the drier areas that are traditional sorghum producing areas. Sorghum farmers are penalized $10 to $30 per acre when droughts hit, encouraging farmers to plant higher-insurance-guarantee rather than sorghum.

However, price data collected by USDA runs contrary to continued inequities in price election levels for sorghum. Averaged over the last 3 years, the price of grain sorghum was just higher than that for corn, according to the annual USDA Crop Values Report released in late February 2003. According to the USDA report, the price for grain sorghum averaged over the last three years was $2.08 per bushel, just above $2.06 per bushel for corn during the same period. Recent USDA-ERS numbers released in August give further indication that a fundamental market shift is continuing to result in sorghum prices that are on par with prices for corn, both near and long-term, further making the case for a level crop insurance playing field. In its monthly Feed Outlook report, the agency projected that by the end of the 2002/2003 marketing year, prices received by farmers for sorghum, forecast at $2.33

per bushel, will edge out prices for corn by 3 cents. Additionally, USDA also predicts that prices for sorghum in 2003/2004 will be even with corn, with both commodities pegged to command prices ranging from $2.00 to $2.40 per bushel.

Multi-peril Crop Insurance also discriminates against sorghum. As you can see in the above graph, MPCI coverage for sorghum is less than corn. Sorghum farmers are confused and frustrated when they are paid a price equal to corn or a premium at the local point of sale and then are told by USDA that the sorghum cannot be insured at the price level they are paid.

In addition to this market shift, and to prevent the sorghum industry from complete elimination of its infrastructure; sorghum price elections should be equalized with corn because:

- Data shows that sorghum is equivalent to corn for ethanol use. Each bushel of sorghum produces the same amount of ethanol and Distillers Dry Grain (DDG) as corn. DDG's for the two commodities are typically priced the same, although sorghum's DDG could demand a premium because of higher protein levels. More and more sorghum is being used in ethanol.
- Sorghum is a water conserving crop. By eliminating the incentive to plant higher-water-use crops due to higher CRC price elections, water can be saved in Texas, Nebraska, Kansas, and South Dakota. Hypothetically, by switching from irrigated corn to irrigated sorghum in 21 Texas Panhandle counties, over 50 years enough water could be saved annually to provide water each year for the city of Austin, which has 294, 400 households.

But, above all, the CRC price elections for grain sorghum and corn should be equal based on market conditions.

Failure to address this inequity will result in further insurance losses from planting decisions that are based on crop insurance guarantees. However, it should be noted that NGSP has been told that some lenders are being asked to document crop insurance cash assurances to bank examiners as part of documenting a loan's soundness. As a result, some lenders are making the planting decisions for their borrowers and requiring their borrowers to plant some other crop besides sorghum due to sorghum's lower crop insurance guarantees. Business is business, and NGSP understands the position that lenders and examiners are in, given current economic conditions.

As an example of this, here is an excerpt of an email NGSP received from a concerned Great Plains banker who is also a farmer:

To: Mr. Tim Lust

Subject: RE: Disaster Hearing

. . .This drought could bring a lot more interest in milo. If we get some moisture, milo will be better than corn. Milo may be better than corn on some irrigated ground with limited water.

However I have had to tell customers that for 2002, dryland corn is better than dryland milo. Milo has a lower "T-yield" on MPCI/CRC. CRC milo price [price election] is 95 percent of corn. Finally, almost all dryland corn in this area is appraising at "0"bpa. My milo has heads. I don't know how it will appraise. If it appraises at 3 bushels per acre, my CRC payment will be reduced by $8 per acre (based at $2.80 Dec CBOT x 95 percent). . .What I get for planting a moisture saving crop is a lower CRC payment. Based on my APH information (with 2 years of T-yield), Dec CBOT of $2.80, and 3 bpa appraisal, milo will net $35 per acre less than corn.

[Corn: 68 bpa APH x 70 percent x $2.80 = $133

[Milo: 57 bpa APH x 70 percent less 3 bpa appraisal x $2.66 = $98]

This is just one of several examples that have been strongly communicated to NGSP regarding the unintended consequences of Federal crop insurance.

PRODUCT ACCESS AND AVAILABILITY:

Currently, sorghum producers have no access to Revenue Assurance products, and many of our members tell us that they would like this product for grain sorghum. Sorghum farmers like this program. They use it on other crops and want Revenue Assurance for sorghum as well. This program can be a valuable risk management tool for farmers that are looking to protect their profits. Additionally, sorghum has not been included in Cost of Production pilot projects. Current new-product-development efforts have largely ignored or been ineffective for this nation's sorghum producers. NGSP has been told that RMA is reviewing a new combined revenue insurance product for 2006, but until then, sorghum remains the only program crop that does not have Revenue Assurance. Further, we have been told that RMA will not allow Revenue Assurance to be sold to sorghum farmers until changes are made in 2006.

Finally, for 6 years, NGSP has been working toward insurance coverage for sorghum silage. To date, sorghum silage is not insurable, while corn silage can be insured, and we have been told by RMA that it will not be insurable until at least the 2005 crop year. The sorghum industry continues to struggle with the ability to insure the production of sorghum silage. According to data released from the Texas A&M University Extension Center, Bushland, Texas, in 2001, sorghum silage outyielded corn silage in both tonnage and pounds of quality product while using approximately half the irrigation water required for corn silage. Despite all the time and energy that the House Agriculture Committee, National Grain Sorghum Producers and Risk Management Agency have put into understanding, researching and documenting the merits of sorghum silage insurance, farmers currently cannot insure the crop in the U.S. today. At a time of multiyear droughts when producers need water-saving options, government crop insurance policy is dictating that farmers grow corn silage with insurance in order to get financing by their bankers. It is unacceptable to any agricultural commodity that it should take eight years to get new insurance products in place. Therefore, we ask that the ag committee instruct RMA to make the sorghum silage policy a rider on the sorghum grain insurance provisions for the 2004 crop year.

Producers in the arid regions of the U.S. Sorghum Belt continue to wait for coverage that will allow them to grow a water-conserving silage crop with the assurance of an equal insurance safety net.

CROP INSURANCE YIELDS & PREMIUM SUBSIDIES:

As part of information gathering for this hearing, NGSP surveyed its membership about concerns and improvements regarding insurance. While inequities in price elections topped the list of concerns, APH yield guarantees and the high cost of premiums followed closely.

Throughout much of the U.S. Sorghum Belt, multiple-year droughts on the Plains have destroyed guaranteed yields for crop insurance purposes, unfortunately making the program largely ineffective. Due to the continued threat of drought, we are concerned that, in the face of these disasters, farmers are not adequately or realistically protected.

We urge this subcommittee to consider changing the manner in which actual production histories (APH) are calculated. NGSP suggests this subcommittee order a study of various alternatives such as what adjustments could be given to either APH or premiums in counties that have been declared disaster areas. After all, it is the widespread disasters that have the greatest impact, not only on producers, but on the rural communities that are dependent upon a healthy farm economy.

We would like to thank this subcommittee for convening this hearing today, and we would be happy to provide any further input or information at any time. Thank you.

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Statement of
Congressman John Shimkus
19th District, Illinois
HOUSE AGRICULTURE SUBCOMMITTEE ON
GENERAL FARM COMMODITIES AND RISK MANAGEMENT
Hearing to review crop insurance for program crops
9-23-03

Thank you Chairman Moran, for calling this important hearing and allowing me to insert my comments for the record.

Traveling throughout my Southern Illinois district this August, many concerns were brought to my attention. Specifically, I would like to draw your attention to several areas of the current crop insurance program.

According to many producers in my district, the new prevented planting rules concerning planting a second crop after a failed or prevented crop is not productive. Many producers have stated that waiting until the end of the late planting period to plant a second crop in the Southern Illinois region is not feasible. For example, June 30 was the end of the late corn-planting period, which was ten days later than the date for milo or soybeans. It is my understanding that a seven or even ten day waiting period would be more realistic. According to most producers, planting corn after the June 10th in most of Central and Southern Illinois inhibits producers from raising an average crop.

In addition, producers should be able to declare, at sales closing time, the number of acres they intend to plant of a particular crop. Producers that have made seed, chemical and fertilizer purchases for a particular crop could prove those acres at sales closing time. These producers would then be eligible for prevented planting should the weather prevent them from planting that many acres during the planting season. I agree that tightening up the rules for prevented planting makes sense, but there must be more flexibility for those producers that are truly affected by prevented planting.

Furthermore, the ability to insure AAA or BBB high-risk land at a level different than the regular rate land would be a tremendous help to many producers in my district. Putting those acres on a CAT policy is not useful and does not meet the requirements of the 2002 disaster program for those who did not have buy-up insurance in 2002. The program's complexity is confusing, because it still has different levels of coverage whether it is CAT or some other level. Also, many producers claim that planting a corn crop on June 25, will create more claims than letting a producer plant the second crop, on June 12 or June 15, for example. The USDA has increased the levels of support for higher levels of coverage so producers can better insure themselves. However, $40.00 per acre for AAA land that is $15.00 acre for non-high risk is not feasible. Producers need to be able to insure those high-risk acres at a lower level that is superior to CAT yet still affordable.

Mr. Chairman, I thank you for allowing me to share the concerns of my Southern Illinois program crop producers. I am sure that they are similar to those of other Congressional District's who are major producers of Corn and Soybeans.

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Testimony
Of
Woody Anderson
National Cotton Council Vice Chairman
Before
House Agriculture General Commodities Subcommittee
September 24, 2003

Good morning, Mr. Chairman, I am Woody Anderson, a dryland cotton and grain producer from Colorado City, Texas. Colorado City is located in the Rolling Plains of Texas near Abilene. I am a proud constituent of Congressman Charlie Stenholm. I am here today representing the National Cotton Council and serve as its Vice Chairman.

Mr. Chairman, as an aside, we are pleased to welcome Kansas as the newest cottonbelt state with 125,000 acres planted to cotton this year. We recognize that a considerable portion of the Kansas acreage is located in your 69-county "Big First" district.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state.

Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $120 billion annually. Cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

Mr. Chairman, thank you for holding this hearing on the implementation of the Agricultural Risk Protection Act (ARPA) of 2000. The House Agriculture Committee worked diligently to craft this complex piece of legislation. The Council strongly supported its passage and is pleased to offer these comments regarding its implementation.

Crop insurance is an important risk management tool for cotton producers. I have been farming for 29 years and consider insurance coverage as important as any other production input. West Texas producers are particularly vulnerable to Mother Nature. For example, in the High Plains of Texas, just to the west of my farm, two separate hail storms destroyed close to 100,000 acres of cotton near Lubbock. Over 1 million acres of the Texas Northern High Plains was hailed-out earlier in the year. Last week, Hurricane Isabel has recently damaged the Carolina and Virginia cotton and peanut crops. This serves to remind us that all cotton producers need a crop insurance product that provides effective coverage at affordable prices.

The Council supported passage of ARPA and has closely monitored its implementation. One of the main attributes of the reform legislation was to make higher levels of coverage more affordable. This year well over 90% of the U.S. cotton crop has some form of crop insurance coverage. ARPA helped to increase this usage. We are pleased to offer the following general observations and recommendations for administration of the crop insurance program.

Accurately rating coverage is critical to an affordable insurance product. USDA's Risk Management Agency (RMA) should continually look for ways to move towards individualized experience rating. RMA should develop a program that rewards "good" loss experience through lower premiums and/or higher levels of coverage. Producers who practice risk–reducing cultural practices, such as planting improved varieties and employing good soil and water conservation practices, should be able to benefit from improved insurance coverage. Producers are not able to benefit from their advanced practices with a county-based ratings system.

Four years ago, at the urging of our industry and with help from Congress, RMA commissioned and implemented a major rate review in a number of Cotton Belt regions that resulted in significant adjustments. This review determined that the actual county experience did not reflect the latest trend yields due to overall low participation by producers and those who did participate had abnormally poor yields. Adjustments were made to the county figures and rates, and in some cases there were significant adjustments. We want RMA to continue to evaluate and improve its rating methodology.

Private companies and RMA should continue to develop innovative types of coverage to reflect special regional needs. We suggest more emphasis be placed on development and delivery of Group Risk Protection (GRP) as a viable alternative to CAT coverage. Some regions of the country believe that the addition of subsidized hail coverage to GRP would be extremely valuable. This would provide a degree of producer-specific coverage as well as more meaningful catastrophic loss protection than current CAT coverage.

We would encourage RMA and private companies to develop insurance products for processing segments of production agriculture to cushion them when there are catastrophic production losses. It is unclear the procedure or the availability of assistance from the Small Business Administration for these processing segments. When a cotton crop is destroyed by natural disasters, ginners, warehousemen and other parts of the processing chain are impacted. This is particularly true for cotton gins, a majority of which are owned by producers.

NCC supported the development of a cost of production insurance product. We have been disappointed by the slow development of this product by RMA. We understand that research has been completed and a pilot program is being developed. We recommend the pilot be conducted on a wide geographic basis for the 2004 crop so that it can be accurately evaluated. Only after such evaluation will our industry know if it will be a useful product.

With current multi-year droughts seriously impacting water supplies to producers in federal and state water districts in the irrigated West, we want to emphasize the need for continued prevented planting coverage. Currently, federal multi-peril policies provide for prevented planted coverage in cases where water districts can certify that producers would have received historical allocations given normal rainfall or snow pack. We expect these districts will face even tighter water supplies next year based on drought conditions and urge RMA to provide timely guidance to agents, producers and water districts about the availability of preventive plating coverage.

Crop insurance fraud and abuse by producers, agents and adjusters add costs to the government and insurance companies and reduces effective coverage to all producers. Some method of differential rating for producers who have continuous losses that are inconsistent with area experience would benefit other insured growers by lowering their rates. ARPA calls for additional monitoring and tighter enforcement of good farming practices. It is our understanding that RMA possesses new methodology to better track and differentiates losses. We urge them to fully implement the new tools at their disposal to reduce fraud and abuse. In addition, we urge continuation of a close working relationship between RMA and the Farm Service Agency (FSA). We believe that FSA cab serve a meaningful role in monitoring compliance with good farming practices for insurance purposes. It is also critical that the two agencies continue the use common databases for sharing information.

A new quality adjustment provision for cotton has been under development by RMA for a number of years. We understand the research has been completed and urge RMA to implement a credible cotton quality loss provision on a bale-by-bale basis with a reasonable threshold of loss. Cotton has the unique ability to preserve identity on a bale-by-bale basis. We believe cotton quality loss provisions should be structured in recognition of the unique bale identity. We also do not believe that it should not be treated as a separate rider to a standard policy at an additional premium.

We remained concerned about RMA's inconsistent policy regarding late planting periods following final planting dates. It has always been RMA's policy to allow producers to plant cotton after the final planting date in exchange for reduced coverage. Currently, the late planting period for cotton is 15 days, but has been as long as 25 days. Our concern stems mainly from the inconsistent implementation of rules regarding appraisals when crops fail to emerge due to insufficient soil moisture. In recent years our industry and several Members of Congress have worked closely with RMA to insure that fair and consistent policies dealing with non-emerged seed are in place. We understand that RMA must allow adequate time after the final planting date to determine if seed planted into dry soil will receive adequate moisture to achieve a viable stand. We also believe that there is a responsibility to the producer to provide a timely adjustment on non-emerged acres so that alternative management plans can be initiated. It is our understanding that a producer must now wait an additional 8 days after the end of the late planting period before appraisals can be scheduled and loss settlements finalized. This additional waiting period was added in just the past few years in place of policy that allowed appraisals on non-emerged acreage after the end of the applicable late planting period. We have not received a clear explanation for implementation of the new policy, nor any favorable response to our request for changes. This appears to be another case where the agency is attempting to somehow thwart what they suspect is manipulation of multiple crop coverage at the expense of legitimate loss determination. We urge the agency to amend its current practice and return to allowing appraisals on non-emerged cotton acreage no later than 15 days following the final planting date.

In summary, the National Cotton Council supports a crop insurance product that provides effective coverage at an affordable cost. Crop insurance must be developed, delivered and administered as an effective risk management tool and innovative policies must be developed to make crop insurance more useful in various and ever-changing production conditions. We urge this Subcommittee to continue its oversight of the implementation of ARPA to ensure a meaningful risk management tool for producers. On behalf of the Council, we appreciate the opportunity to present these comments.

REVIEW CROP INSURANCE FOR SPECIALTY CROP PRODUCERS

THURSDAY, OCTOBER 2, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM
COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 1300 of the Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Smith, Jenkins, Burns, Neugebauer, Osborne, Peterson, Alexander, Pomeroy, Etheridge, Larsen, and Stenholm.

Staff present: Kelli Ludlum, subcommittee staff director; Dave Ebersole, Callista Gingrich, clerk; Teresa Thompson, John Riley, Lisa Kelley, and Howard "Chip" Conley.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. Good morning. The Subcommittee on General Farm Commodities and Risk Management's hearing on crop insurance, especially for specialty crops, will come to order.

I would like to welcome our witnesses here today. This is another in a series of hearings on crop insurance today for the second time specifically devoted to specialty crops.

Our panelists are here as a result of previous hearings that we had and their request or their commodity group's request for the opportunity to present testimony to our subcommittee. And we are delighted to have the opportunity to further complete the record on crop insurance as it relates to specialty crops.

I would recognize the gentleman from Minnesota for any opening comments he may have.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and thank you for calling this important hearing, which is one in a series of a hearings that we have had. And I want to thank especially the witnesses for taking their time to be here to help us understand more about this whole area.

I think we have made tremendous progress since the past passage of the bill in 2000. We have got a lot more acres covered, and we are making progress. But I still think last year's call for disaster assistance and now this year people asking for disaster assistance, we still haven't gotten to the point where we have got this thing completely figured out so that it takes the place of disaster. And we have had discussions about that in the past.

So I don't know as much about the drought area as I know about some of the other areas, so I am looking forward to hearing from the witnesses. And with that, let us get at it.

Mr. MORAN. I thank the gentleman.

We have had a bit of bad luck in the logistics of this hearing that was previously scheduled on the day that the hurricane arrived in the area. And one of our witnesses from California, who was originally scheduled for that hearing, was unable to be with us today, but we do have three witnesses. And I would invite them to the table.

The first witness we will hear from is Mr. Johnny Barnes. If you would like to come forward. He Is a North Carolina grower representing the U.S. Sweet Potato Council. Mr. Barnes is ably represented in Congress by Mr. Etheridge, and I recognize the gentleman from North Carolina.

OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ETHERIDGE. Mr. Chairman, thank you. And thank you for calling the hearing.

I appreciate this opportunity to present to the members of the committee a constituent of mine and a friend. And his wife, Lisa, has joined him, also, today, so we welcome them to Washington. For those of you who don't know, in this subcommittee, North Carolina is the top producer of sweet potatoes in the United States. And for those of you who also don't know, it is a great source of beta-carotene. Mr. Barnes is from Nash County, which is in my district, a county which ranks second in the United States as the largest county producing sweet potatoes. Johnston County, where I grew up, is the largest producing in the country.

In addition to growing sweet potatoes, Mr. Barnes' family also grows tobacco, wheat, and a variety of other specialty crops. He has been a leader in agriculture, and I state, for a number of years. Even though he is a young man, he has done an awful lot. He served as president of the North Carolina Small Grain Growers Association, a board member of the National Association of Wheat Growers, but today he is here to share with us his expertise in sweet potatoes and the problems they face with crop insurance, a real issue for all of the growers of sweet potatoes, large and small.

His family farm is the largest family-owned producer of sweet potatoes in the United States, so when he speaks, he speaks with some expertise in the area. He is a board member of the North Carolina Sweet Potato Commission Foundation and formerly on the board of directors of the North Carolina Sweet Potato Commission himself. I know his testimony will be listened to with intense interest by this committee, and certainly he will speak for the growers all across North Carolina and the country.

Thank you for being here, Mr. Barnes, and thank you, Mr. Chairman, for the opportunity to present him here today.

Mr. MORAN. Thank you, Mr. Etheridge, for those remarks in recognizing and welcoming Mr. Barnes and recognizing North Carolina and sweet potatoes. The advertisement was well made.

Mr. Barnes will be joined by Mr. Jim Bittner. If you would like to come to the table, Mr. Bittner. Mr. Bittner's farm is located in Appleton, NY, and he is here as an apple grower. And our third witness is Ms. Lin Schmale, representing the Society of American Florists.

We welcome all three witnesses and appreciate the efforts that you have made to be with us today. We look forward to your testimony. Mr. Barnes, we welcome you to commence with your testimony.

STATEMENT OF JOHNNY C. BARNES, PRODUCER, SPRING HOPE, NC, UNITED STATES SWEET POTATO COUNCIL, INC.

Mr. BARNES. Thank you, Mr. Chairman and members of the subcommittee and especially Congressman Etheridge for that warm welcome. I want to thank you for allowing me to testify before the subcommittee on the subject of crop insurance.

Again, my name is Johnny Barnes of Spring Hope, NC. I am part of a family-owned and operated farm located in Nash County, NC. Our farm is a diversified operation as we grow several different commodities. We have been growing sweet potatoes for 50 years, and we currently grow approximately 3,600 acres.

According to the National Agricultural Statistics Service, sweet potatoes have been commercially grown in the United States since the 1800's. The 1997 Census of Agriculture reports that sweet potatoes are grown in some 23 different States. The top four States in production in 2002, ranked from one to four, were North Carolina, California, Mississippi, and Louisiana. In 2002, NASS reported that nationally, sweet potatoes were grown on 83,300 acres. Production was 1.2498 billion pounds with a crop value of $213 million. Sweet potato production is very important to the rural communities in which they are grown.

Sweet potatoes may be the most nutritious of all vegetables. They are a powerhouse of nutrition. According to the USDA, they are an excellent source of beta-carotene, a good source of vitamin C and potassium, a non-fat source of vitamin E, and they also contain other valuable nutrients, such as vitamin B6, folate, and fiber.

Sweet potato producers need an effective risk-management tool available to all growers, which will provide a safety net against weather-related disasters. The variability of the weather is the most important economic factor sweet potato farmers encounter during a growing season. Hurricanes and tropical storms, which affect the eastern and southern gulf States, deliver torrential rains during the time when the sweet potato crop is mature and ready for harvest. Because sweet potatoes are a root crop, they can not survive excessive moisture nor will they mature during prolonged dry conditions. Crop insurance for all who choose to protect themselves against catastrophic loss is essential.

Prior to 1998, crop insurance for sweet potato production and storage was not available. The current pilot programs started with the 1998 crop year. By including the current 2003 growing season therefore, the current pilot program has been in effect for six seasons.

The pilot program currently operates in five different States and eight different counties, as follows: Baldwin County, Alabama; Merced County, California; Avoyellas County, Morehouse County, and West Carroll County, Louisiana; Columbus and Johnston County, North Carolina; and Horry County, South Carolina.

During the 6-year existence of the pilot, our growers and the North Carolina Sweet Potato Commission have had a number of meetings with USDA's Risk Management Agency to talk about crop insurance and to discuss the kind of program we wanted. Similarly, growers from other States and their State organizations have also had meetings with RMA.

In our meetings with RMA consultants, RMA staff, and in our correspondence with RMA and Congressmen in Washington, sweet potato growers and our council have always made it clear that we want a Crop Insurance Program for sweet potatoes that is: one, market neutral; two, honest with no fraud; three, practical; and four, affordable.

The requirement that the program be market neutral is very, very important. However, as much as we have tried to communicate to RMA the need for market neutrality, sweet potato growers are not convinced that RMA is hearing us.

To assure that the issue of market neutrality is included, our North Carolina growers have always asked that three requirements be included in any permanent Crop Insurance Program for sweet potatoes. Number one, producers must have a 3-year history of production before obtaining coverage with acreage certified by FSA. Number two, the producer is limited to insuring no more than 110 percent of his prior 3-year average of certified acreage. For example, if a grower's certified acreage over the past 3 years is 100 acres, then the most acreage that he could insure for the coming year would be 110 acres. Number three, producer must prove or show that unharvested acreage is destroyed prior to closing the claim.

Moreover, since the pilot program is now completing its sixth year of existence, U.S. sweet potato growers, through the efforts of the United States Sweet Potato Council, are now asking that the pilot program become a permanent program and be made available to all sweet potato growers in all counties in all States. We don't think it is fair for some growers to have had the program for 6 years while the rest of us have to go without the safety net against disaster that crop insurance provides.

To give the subcommittee an example of why we think it is so important to have market neutrality and to make it available to all growers, may I refer the subcommittee to table 1 of my testimony. And in that table, there is a comparison of sweet potato acreage planted, acres harvested, and net acres insured in Columbus County, North Carolina through the time period of 1998 to 2001. In this chart, you will see, during this 4 years, a total of 6,505 acres have been planted, 5,455 acres have been harvested, but insured, there has been net acreages of 13,080 acres: 6,500 acres over what was even certified as planted. You would think that there is fraud involved in this acreage difference. That would be everyone's first conclusion.

To end my testimony, U.S. sweet potato growers would very much like to have an effective risk management tool available to them. However, if a program can not be devised that is market neutral, honest, practical, and affordable, I would then recommend that the Crop Insurance Program be dropped completely for sweet potatoes. Similarly, it is not fair for some growers to have access to the pilot program for 6 years and thereby create additional volume and competition for bona fide growers that have been growing sweet potatoes for many, many years but do not have access to the benefits of the pilot program. Unless it is made available to all growers in 2004, again, I would recommend that the Crop Insurance Program be completely dropped.

[The prepared statement of Mr. Barnes appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, Mr. Barnes, very much. I appreciate your testimony, and it does raise a couple of questions that we will explore with you and RMA as well.

Mr. Bittner.

STATEMENT OF JAMES J. BITTNER, PRODUCER, SINGER FARMS, APPLETON, NY, U.S. APPLE ASSOCIATION

Mr. BITTNER. Thank you very much.

My name is Jim Bittner. I am an apple grower and owner of Singer Farms from Appleton, NY. We are located along Lake Ontario near Niagara Falls in the northwestern area of New York State. I am also a very diversified farm. We farm about 500 acres of various orchard crops, over 200 acres of it being apples. I am here today on behalf of the U.S. Apple Association, which represents the apple industry from growers to retail suppliers. We have members in over 40 States and regional apple associations around the country.

I am also the president of the New York State Horticultural Society and the Northeast Stonefruit Growers Association, and I am past president Niagara County Farm Bureau.

I would like at this time to summarize some of the longer more detailed written comments that we have sent in for the committee. And I would like both my oral and written comments included in the process of the committee.

I can speak personally of crop devastation caused by severe weather beyond a grower's control. In the summer of 1997, my orchard was pretty much destroyed by a hailstorm, making my fresh apples unmarketable. After that, we looked very closely into buying up apple crop insurance, but it really took some arm-twisting from my banker who said, "You either buy up on apple crop insurance or we are probably not going to give you an operating loan for the next year." So starting in 1998, and ever since, I have been bought up on apple coverage.

I have learned some of the benefits of it and some of the things that crop insurance doesn't cover, and I would like to talk about them today. Apple crop insurance policy as it currently stands needs to be improved in two important ways. Number one, we need to establish an inclusive all-peril apple crop insurance policy. And

No. 2, growers need the ability to divide orchards into insurable units using public right-of-ways and other obvious boundaries.

I can control many aspects of apple production, such as protecting my crop against diseases using integrated pest management, careful pruning, thinning to influence the size of the apples and the color. I choose varieties that I can grow and market, but unfortunately I can not control weather risks. And it is unfortunate, also, that apple crop insurance today really doesn't protect me against all weather-related perils.

Out of the dozens of potential disasters facing today's apple growers, fresh apples can only be insured against damage by hail, wind, and freeze under current policies. For example, apples damaged by a spring frost or sunburn by midsummer heat are not covered. During the spring of 2002, apple growers in the East and the Midwest suffered the worst spring frost damage they have had in 50 years. Apple trees were in full bloom when multiple consecutive days of below-freezing temperatures killed many blossoms, and the blossoms that did survive grew deformed, mutated apples, which were not marketable. Growers suffered devastating apple production losses and, more importantly, quality losses. These damaged, low-grade apples were not covered by the current apple crop insurance policies. Growers could not sell these apples. They were worthless, and they were not covered by crop insurance.

This single devastating spring frost in 200 highlights the dismal inadequacies of the apple crop insurance policy and was one of the major reasons why the apple industry sought disaster relief from Congress last year. I would like to thank the chairman of the House Agriculture Committee for supporting equitable treatment of specialty crops in that disaster bill. And it was approved by Congress earlier this year.

After working with RMA for the past year, USApple supports revising the current apple crop insurance policy to make it a complete, all-peril policy. Growers should be able to insure their crop against all losses that they can not prevent. An all-peril apple policy would be clear and straightforward instead of growers having to select each peril as a separate policy option. An all-peril policy would provide fair and balanced coverage across the country and prevent enforcement confusion.

The other problem with the current policy is the inability to divide orchards into separate units along obvious breaks. Growers should be able to use public right-of-ways and other obvious boundaries as unit dividers just as annual crops can divide acreage into section equivalents. Optional units are advantageous to growers, because it is more likely to meet claim thresholds in one with smaller units than one large unit. However, under the current program, only noncontiguous units can be made into separate units. The current program says "land separated only by public or private right-of-ways, waterways, or irrigation canals are considered contiguous and therefore not dividable in separate units." This must be changed.

In my attached written testimony, there is a photograph of a public right-of-way making a discernible break between an apple orchard and a farm. The photograph shows a public road dividing the apple orchard. You see the grower uses the road as the discernible break, and he maintains separate records for both sections of his orchard. The separate records include spray records, USDA worker protection requirements, volume and quality of apples produced, planting patterns and the varieties grown. The road divides the orchard by approximately 50 feet, is maintained by the town that receives Federal money to maintain it, yet under the current policy, that road, or any public right-of-way, is not a discernible break. Therefore, the orchard is contiguous and is considered one unit under current policy.

In summary, I urge the subcommittee to support USApple's efforts to improve the apple crop insurance policy through an all-peril policy that allows growers to create optional units, as described above. I also want to thank the RMA staff who recognizes the shortcomings of the current apple policy and has collaborated with us on the concerns I have discussed today. But the job isn't done. Apple growers throughout the Nation need a revised, all-peril insurance policy as soon as possible. I need and want an improved risk-management tool such as that. We want to see the job get done right so U.S. apple growers have the workable, important risk-management tool that they need.

I thank you very much for your time, and I would be glad to answer any questions. Thank you.

[The prepared statement of Mr. Bittner appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much, Mr. Bittner.

Ms. Schmale.

STATEMENT OF LIN SCHMALE, SENIOR DIRECTOR, GOVERNMENT RELATIONS, SOCIETY OF AMERICAN FLORISTS, ALEXANDRIA, VA

Ms. SCHMALE. Thank you. Chairman Moran, Ranking Member Peterson, and members of the subcommittee, we are particularly pleased to be here, and we really commend you on your efforts to bring the needs of the specialty crop industry and risk management in USDA's risk management program to the forefront, because we have been thinking that this is important for a lot of years.

I will try to summarize my testimony and, of course, submit it for the record.

I am here representing the Society of American Florists, which I am the senior director of government relations, and also the American Nursery and Landscape Association. Together, we represent the floriculture and nursery industry in the U.S., including everything from trees, shrubs, perennials, bedding plants, foliage plants, potted flowering plants, cut flowers, cut foliage, propagating material, so right off the top, a very large and very diverse industry, which immediately presents a problem as far as designing a crop insurance policy.

We are a huge and growing industry right now, $13 billion at U.S. farmgate according to USDA statistics. We are the No. 3 crop in farmgate value in the United States. We are only outranked by corn and soybeans. We are among the top five crops in 24 States, and yet despite some beginning good efforts by the Risk Management Agency, our growers still don't have the kinds of good risk-management tools that are available to other segments of U.S. agriculture, and of course that is what we would like to seek.

I have really three major points to make as I talk today: first, to talk about the nursery crop policy that does exist; second, to talk about the lack of coverage for cut flowers and cut foliage; and third, to talk about the need for quarantine protection.

The nursery policy, which is in place right now with RMA, is fundamentally a working policy, but it is extraordinarily complex, and it requires an extraordinarily knowledgeable and talented crop insurance agent to advise a grower on what he is purchasing for the various options available. This presents a problem for the grower, of course, but one of the most important drawbacks of the program is the agents and their companies are exposed to "errors and omissions" lawsuits. Because the program is so complex, if an agent inadvertently makes a mistake or if the grower somehow fails to understand what he is purchasing and has a big loss, the company's "errors and omissions" liability insurance might or might not cover the entire loss, and that puts the entire insurance company at risk. This makes some of our insurance companies reluctant to get into the game and to give our growers the kind of coverage they need.

The existing nursery crop policy was designed originally for woody ornamentals, trees and shrubs, and was later expanded to cover other types of plant material, including some plants grown in greenhouses. And as a result, different kinds of growing practices and conditions are all joined together without much distinction in the way the policy is written. No plants are covered that are grown in less than 3-inch containers. Propagated material is not covered.

And probably most importantly, a grower can buy coverage for a plant in his county only if that plant is listed for that specific county. RMA has published an extremely detailed county plant coverage list, the printout of which runs from 500 to 600 pages or more per region, and it is very difficult for a grower or an agent to look through and understand. And most of our growers don't just grow one kind of plant. A large nursery could grow 1,000 plants, so to look through this huge list and try and decide what is covered and at what price and what he is buying and of the various coverage options, what he wants to purchase to manage his risk is extraordinarily complex and difficult.

For example, if you are a grower in Cheyenne County, NE, which I picked because that is where I am from, and wanted to grow poinsettias, and I don't think there are a lot of poinsettia growers in Cheyenne County, NE, even in a fully heated and protected greenhouse, you would have to rely on this crop county list to tell you whether or not you could buy a coverage and at what levels. And the list, by the way, does not distinguish between whether you would be growing potatoes on the edge of your wheat field or whether you would be growing potatoes in a $1 million greenhouse, which, of course, is a problem. So that makes determining the value of the coverage for the grower very complex, very onerous, and probably most growers and most agents just kind of take a stab at making an estimate, and that exposes them either to the risk of penalties for being over- or under-reporting.

The pricing and county crop list system is basically based on the heartiness zone system, which if any of you are gardeners, you are familiar with.

And let me just give you an example of the kinds of problems that that could solve, because it is combined with counties. Dade, Broward, and Palm Beach County, Florida are all in Hardiness zone 10, but Martin County, Florida, just north of Palm Beach, is in zone 9. As the population increases in Miami, lots of nurseries are moving northward to get out of the city. From the three counties that are in zone 10, they are moving northward into Martin County, which is in zone 9. So a grower, which had been growing Spathiphyllum, just as an example, in zone 10 might not be able to insure it in zone 9 simply because he crossed that hardiness zone line, which seems a little arbitrary.

As I mentioned before, it is a big problem for us that there is no coverage at all available for cut flowers or cut foliage, and RMA contracted a study on that a couple of years ago. We helped them put together their listening sessions. And to date, we have seen no report. We are very anxious to see that report and to work with RMA to see what might be able to be developed for that segment of our industry.

Finally, near and dear to my heart, is the need for quarantine protection. And as some of you know, the geranium industry this year went through a huge and very, very expensive quarantine. And although some coverage, some very limited coverage, was available to growers who had crop insurance, many of them were not covered. We strongly believe, and we strongly urge, that USDA, whether it be RMA, whether it be APHIS, needs to find a way of providing quarantine coverage for specialty crop growers.

Quarantine could be listed as a named peril on Federal crop insurance policies. I know the sweet potato industry worked to do a fund to help provide their own coverage. I think if we think out of the box, we are going to be able to do this, but I think it absolutely has to be done, because in this era of global trade, more and more pests and diseases are coming in, and almost any of them can find a home in a nursery operation. And they are causing our growers huge damage, in addition to ralstonia, which is the disease that hit geraniums this year, we have had emerald ash borer, sudden oak death, plum pox, and citrus canker, all of which have, I think, eventually come to congressional attention and from all of which our growers have suffered. And this is not good for the American agricultural economy.

In summary, I thank you for listening to us and I will be happy to answer any questions.

[The prepared statement of Ms. Schmale appears at the conclusion of the hearing.]

Mr. MORAN. Ms. Schmale, thank you very much.

A couple of questions. Mr. Barnes, do you have a good explanation for why it has been so slow in expanding the coverage from a pilot program to greater coverage?

Mr. BARNES. Yes, sir. I think that the primary reason is the loss ratio to premiums has been so high that they have been hesitant to expand it. And again, the loss ratio is high, we think, because there is abuse of the program involved. When we first looked at having crop insurance for sweet potatoes, we were given an opportunity to make recommendations to RMA on what stipulations that they can put into the program for sweet potatoes that we would like to see. And we gave them this list that is in my testimony, and they were not instituted for one reason or another. The primary concern was that it would limit the accessibility, the access to the program, for producers. However, we were concerned that there would be abuse of the program and that it would destroy our market. It could possibly destroy the sweet potato market. Well, since the loss ratios have been so high, they have been trying to figure out and gradually instituting different parts of these stipulations. They haven't gone all the way. But we believe if they had taken our recommendations to start with and put them in the program, we would already have a nationwide program.

Mr. MORAN. What percentage of farmers in those pilot counties, sweet potato farmers, are utilizing crop insurance? Is the number of acres and number of farmers a significant portion to the total number?

Mr. BARNES. Yes, sir, it is significant. I mean, it is well over a majority of the producers in those counties. I even know of producers in adjoining counties that have never grown sweet potatoes in the pilot program counties that have started producing sweet potatoes in the pilot program county so that they can participate in the crop insurance.

Mr. MORAN. And you, perhaps, were asking a rhetorical question about the fraud or abuse. You showed your chart and asked kind of a rhetorical question about what the explanation might be. But what you are suggesting is that it is a matter of abuse?

Mr. BARNES. Yes, it is not entirely abuse or fraud. At first glance, you would think that is what it is all about. That is a part of it. In our State, we also have a mandatory assessment for the State sweet potato association of $15 per acre, so that there is an incentive for the producer to underreport his acreage to FSA so that he doesn't have to pay the $15 per acre assessment, which is also wrong. So there is both of those things going on.

Mr. MORAN. Let me ask Mr. Bittner. The RMA reaction to all-peril policies has been what?

Mr. BITTNER. My understanding right now is that is in the process of being instituted. It is somewhere in the process of being reviewed by counsel, I believe, at this point. RMA has had a lot of listening meetings where they have talked to growers how they could improve the apple program. The apple industry has really come together and made some really good recommendations, and I think RMA is going with the all-peril. And it sounds like that is a real doable thing.

The division of units seems to be put on the back burner at this point. Within RMA, apparently there is some controversy of whether that is a good idea or not. Really, to make a good, effective policy, we are going to have to have both of them together to make a policy that really works.

Another issue there is timing. Because we grow a perennial crop, we have to sign up for our program in November. I believe it is November 20 for the next year, so anything that comes out of RMA from here on out, we are talking about the 2005 crop to give us a good, workable policy. So I know RMA needs to get going on that in order to even make that deadline so we have something in place for 2005. So they are working on it. We have a good relationship back and forth with RMA about discussing it, but my understanding is the all-peril is moving forward. There is a good chance that that could happen. The division of units is, really, I guess, on a back burner.

Mr. MORAN. Thank you. Ms. Schmale, it seems to me that, perhaps of all of the specialty crops, although I hate to say this because others will disagree, probably rightfully so, but you may have the most complicated circumstances with the variety of crops within nursery and flowers within your industry. And education, you talked about the inability to describe, explain, educate your producers, your farmers. What role has RMA played in that educational process? Have they taken any efforts in this regard?

Ms. SCHMALE. I think that traditionally that is left to the crop insurance agents primarily. And so it varies from place to place. We have instances where growers are pretty well educated about the program. We have other instances where, I am sure, they think they are buying something that they are not really buying. And I think you are right about the complexity. We are a very complex industry, and to try to design a crop insurance policy that is going to cover all of the contingencies for growers ranging from oak trees to impatiens to foliage plants in Florida and from places from Miami to Seattle and to try to cover all of those things in one policy is certainly going to be very difficult, if not impossible. I think probably our best bet, for my industry, is for RMA to do as it has done with some of the other crops and to try to design a policy that would be more of an income-based policy rather than trying to cover specifics.

Mr. MORAN. There is no income-based policy, no revenue insurance policy now?

Ms. SCHMALE. Right. RMA is currently offering a policy, the adjusted gross revenue policy, the AGR policy. And some of that is being sold to some of our growers, but that is a pilot policy again, and it is only available in certain places of the country.

Mr. MORAN. Thank you very much.

Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Barnes, getting back to this Columbus County example here, the acres planted, where are you getting that information from?

Mr. BARNES. The county FSA office.

Mr. PETERSON. So that is the NASS, as I understand it, NASS estimated what this——

Mr. BARNES. It is the Farm Service Agency office there in the county. The acreage that is reported to them that is planted.

Mr. PETERSON. So this isn't an estimate; this is an actual——

Mr. BARNES. Yes, sir.

Mr. PETERSON. Well, I don't understand how you could insure 5 million acres if the FSA says there is only—is it 5,000 acres?

Mr. BARNES. Well, they are——

Mr. PETERSON. Whatever it is, I don't understand how there could be that big of a discrepancy. Why isn't the FSA blowing the whistle on this?

Mr. BARNES. I don't know. I think there is a disconnect there, obviously, that FSA doesn't know the acreage being insured. And the acreage being insured, the agency insuring them maybe don't know whether they are being reported or not.

Mr. PETERSON. So they aren't planting these acres at all?

Mr. BARNES. No, we think that some of these acres are being planted, but a substantial amount of it is not being planted, that is correct.

Mr. PETERSON. Well, I mean, it is like two-thirds of the acres insured are not planted. Well, how could that happen and people not know that? I mean, it just doesn't seem logical. And then for you to be able to have a problem that you are being able to cover too much of your crop, I mean the problem I have with my area is that we can't get the amount of coverage we need. We are limited, when we have loss years, to 60 percent of whatever the county average is. Apparently you have had some losses down there in North Carolina because of the hurricanes or whatever, so you don't have a situation like that where this drags down the amount that you can cover like it is with wheat, corn, and soybeans and so forth?

Mr. BARNES. I think because it is a pilot program, a lot of those situations that you are talking about that are available for general commodities is not a part of the pilot program because of the people just starting in it. For example, we wanted to limit the number of acreage that a person could put in it to, what they had been planting in the last 3 years. Because it is a pilot program, that has not been instituted. I mean, that is not being used, and so the people are going out here and insuring acreages. Farmers are insuring acres they have never grown sweet potatoes before.

Mr. PETERSON. Right. So there is no limitation on that, so if you plant 400 acres and you didn't plant any before, you could insure 400 acres.

Mr. BARNES. Yes, sir.

Mr. PETERSON. And you could actually insure—well, so explain to me then what kind of coverage do you get out of those acres. How does that work? I mean, are you insured for 100 percent of the value of that crop or 80 percent or 60 percent or do you know?

Mr. BARNES. I don't know. It is some percentage of the crops. It is not 100 percent.

Mr. PETERSON. Well, it must be good enough that people are getting——

Mr. BARNES. I think it is 65 percent, but I am not positive. But yes, it is good enough that it is profitable to farm with crop insurance.

Mr. PETERSON. There wouldn't be prevented planting involved in this where the acres planted were 1.8 and the rest of them weren't planted because you had some kind hurricane or whatever and they couldn't plant it, that wouldn't have been the situation?

Mr. BARNES. No, sir, I don't believe so. Most of our weather problems have occurred during harvest season due to hurricanes, excess moisture. Last fall we didn't have a hurricane, but we had rain every third or fourth day. So the acres would get planted, or in this case, would get insured and not planted and certainly not reported as being planted to the FSA office.

Mr. PETERSON. Has anybody turned this into RMA and had them try to go back to the agents and find out what they are up to here and is there any effort being made to see if there is actually fraud going on here?

Mr. BARNES. When we first became aware of these numbers, we had an RMA consultant visit with us from Montana concerning expanding the crop insurance pilot program to the storage of sweet potatoes while they are in storage. And we ship sweet potatoes, sell them 12 months a year. So storage is a large part of the sweet potato cycle, marketing cycle. And they were showing us the loss ratios in these pilot counties. And it was right there on their data, this discrepancy and the acreage being reported to FSA and what was being insured. So I mean it is available to RMA. They should be aware of it. Their consultants are aware of it. They are the ones that made us aware of it. And we told them during this hearing or meeting about concerning expanding it to storage, that "Hey, guys. You haven't got it worked out for in the field yet. You don't need to start thinking about storage. You need to get it worked out in the field first."

Mr. PETERSON. Well, thank you. I see my time is up. Mr. Davidson, you have listened to all of this, I would like you to give us an explanation in writing of what is going on here.

Thank you.

Mr. MORAN. Thank you, Mr. Peterson.

The gentleman from Michigan, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman. And witnesses, thank you for being here.

Of course Michigan, I think we rank second in terms of specialty crops. It seems obvious, Mr. Barnes, that the Federal Government shouldn't have a program that puts some producers at a disadvantage by not having coverage while they have coverage for other producers. And so the pilot program that has the advantages of allowing us to sort of feel our way and decide what the best way to go ends up, as you point out, as a disadvantage to the growers that don't have that opportunity afforded to them. So, Mr. Chairman, I agree that something should happen, especially in sweet potatoes where it might be more profound.

In my district of southern Michigan, we have, I think, either the country's largest or second largest gladiola producer that aren't covered now. And what happened to the operation down in Bronson, Michigan is they bought insurance and the seller of the insurance thought they were covered. But then they eventually had damage and so the insurance company gave them back their premium but still, again, somewhat misleading.

So it seems to me, Mr. Chairman, that the Government can't come in and say, "Look, we are going to take the risk out of farming." As I understand it, Mr. Davidson, we average 24 percent. Government now pays about 24 percent of the administrative cost and ranges some place between 30 percent and 60 percent of the cost of the premium. So that gets as high as, if I am correct, Mr. Chairman, Government paying up to 80 percent of the cost of this insurance. And so I tell my farmers, "Look, you better at least look at this, because Government is subsidizing the true cost of the insurance." I mean, we all know farming is a risk.

Expanding from that, Michigan now is undergoing a disaster of the emerald ash borer. And so the destruction of that timber industry and the nursery industry producing those trees, because Government is coming in now and saying, "There is a quarantine. You can't move those trees out of your area." is an extension of where we might go as far as the kind of insurance coverage that is ultimately needed over and above just the weather coverage, or for that matter, weather and price coverage for the commodity. Do I understand that? You mentioned it in your testimony. Do I understand that you are suggesting that we expand coverage for such things as quarantines and additional disasters? And in apples, of course, if it is the hail or wind or freeze, it is covered, if it is anything else, it is not covered. How far should Government go in having an insurance policy that covers against more and more risk?

Mr. BITTNER. I will answer that. Yes, the Government puts a lot of money into subsidizing the premiums on the policy. But it is important that the policy work and be effective. We are not necessarily asking for more money to be thrown at it, but we have got to have a workable policy. Also, I don't think anyone in any industry is asking for 100 percent coverage. Sixty-five percent coverage, I have talked to farmers. If they had 100 percent wipeout of a crop and got paid for 65 percent of it through insurance, they would still be out of business. So I guess what you have got to look at, the crop insurance is a management tool that helps the grower with some of the risk in growing these crops.

Mr. SMITH. Well, if the Government is paying between 30 and 70 percent of the cost of the insurance, that is quite a lot of help.

Mr. BITTNER. Yes, but it is to ensure the first 65 percent, on average, of the crop. We are never insuring 100 percent of the crop.

Mr. SMITH. No, no. I am just saying that is the amount of the real cost of the premium if it was a private insurance company without Government involvement. Government is now coming in, if I understand that correctly, and paying someplace between 30 and 70 percent of the cost of that insurance, if you include the Federal Government's reimbursement for 24½ percent for administrative costs.

Mr. BITTNER. That is true. I mean, the Government is paying a lot of money for it.

Mr. SMITH. Do I understand? Are you suggesting that we expand coverage for other nursery crops for gladiolas, for example, and for the Government's decision to quarantine some of these crops because of invasive species?

Ms. SCHMALE. Yes. I specifically suggested that whether it be crop insurance or whether it be APHIS, we absolutely need some way to compensate plant growers, specifically specialty crops, for quarantines, because they are becoming more and more common, and they are hugely expensive. The Ash trees are an excellent example up there. Growers are suffering huge financial losses, through no fault of their own. And we need some way to deal with that, whether it be through crop insurance or whether it be through an APHIS program I think remains to be examined.

And coming back to the expansion for things like gladiolas. That is a cut flower, not in the program at all right now. And we definitely need some way to help growers with a risk-management tool to put them on an even footing with the rest of agriculture.

I think that the complexity of my industry, growers are fairly diversified, and that, to some extent, helps them manage their risks. So they don't need the same kind of really complex problem that is going to cover every contingency. In fact, the catastrophic policy that is in place right now is a helpful tool, but I think we can probably do better.

Mr. SMITH. But even a cap program isn't available to gladiolas, for example, right?

Ms. SCHMALE. No.

Mr. SMITH. Mr. Chairman, thank you.

Ms. SCHMALE. It is only available if the plant is on the county list.

Mr. SMITH. My time is up, but it seems to me that we really should be looking at a situation where Government programs now, by pilot programs and others, is sort of picking winners and losers and sort of imposing Government into the marketplace in terms of giving some advantages for different crops, some crops, and less advantage for other crops. And so thank you for holding this hearing.

Mr. MORAN. I think the gentleman from Michigan is right. One of the questions we face is which crops. And the result is there is an unfairness built in the system, and you question about the desire to expand or the appropriateness of expansion. Then the question becomes why them and not me, and farmers make decisions based upon what crop insurance is available. As Mr. Barnes indicates, just where you grow sweet potatoes and whether you grow them.

The gentleman from Louisiana.

Mr. ALEXANDER. Thank you, Mr. Chairman.

Mr. Barnes, I came to this meeting this morning thinking that Louisiana was the second largest producer of sweet potatoes. You tell us that we are fourth. Is it because of a bad vote that we got the demotion?

Mr. BARNES. Louisiana is second in production. I apologize for that incorrect statement.

Mr. ALEXANDER. Thank you. That makes me feel better.

Mr. MORAN. The record is corrected.

Mr. ALEXANDER. All right. I can go back home this afternoon.

How does the risk management determine the price that will apply to potatoes as it applies to the insurance?

Mr. BARNES. They have a certain price per bushel that they put on it, which is based upon production costs, and I am not sure what that price is per bushel. But they put a value per acre. It equates out to a value per acre based on the county average yield. And basically 65 percent is designed to get back your cost of production. It is not designed to be profitable. However, it has been manipulated so that it is being done that way in certain areas.

Mr. ALEXANDER. OK. Thank you.

Mr. MORAN. The gentleman from Georgia.

Mr. BURNS. Thank you, Mr. Chairman.

I don't know how many sweet potatoes we have in Georgia, but I know I remember growing them as a child, so that was just for our enjoyment in the family. I am most interested in, first, Mr.

Barnes' testimony about the discrepancy in acreages for crop insurance. That is a sweet potato problem, or would you see that as a crop insurance problem on a more widespread basis?

Mr. BARNES. I don't think that it is a widespread problem in other Crop Insurance Programs. I think it is part of the process of them trying to work through a pilot program and finding out what will work and obviously what doesn't work. And I think that they have been slow. When I say they, RMA has been slow to react to it.

Mr. BURNS. Is it isolated just to the pilot program in isolated areas then?

Mr. BARNES. Yes.

Mr. BURNS. OK. I agree with your points about what a valid Crop Insurance Program might include. How would you propose insuring that this kind of problem does not continue?

Mr. BARNES. Well, I think we need to have aggressive investigations when there are reports of crop insurance abuse. And there should be substantial penalties.

Mr. BURNS. Mr. Bittner, when you were talking in your testimony about the orchards and the need to be able to subdivide and sectionalize those types of things, are we looking at an annual plan or a multiyear plan? In other words, if you had the opportunity to establish guidelines along those lines, how would you, again, accept natural boundaries, roads, or perhaps some other form of division, but my question really becomes one of how frequently would those boundaries change or would they change?

Mr. BITTNER. Well, I think we are all only asking for roads, and, like, irrigation ditches, natural boundaries that are there. And then I don't think they would change. I mean, it is not like you are going to——

Mr. BURNS. Rivers or streams, perhaps?

Mr. BITTNER. I think you have to say—somewhere there has to be a definition. You might want to say navigable rivers, so we are not arguing about the stream moved or whatever.

Mr. BURNS. But if you have an irrigation ditch, that is a manmade——

Mr. BITTNER. Well, I believe what the growers were asking for is if it was a farmer's irrigation ditch, that doesn't count, but if it is a community irrigation ditch that they don't have control over, where they can't go and move it tomorrow, we don't want to be moving units around. We want things that are there permanently.

Mr. BURNS. That is really the point of my question. I don't have a basic problem with establishing some reasonable boundaries, but I might have a problem with them being so fluid that they move around.

Mr. BITTNER. No, we can't have that, because that is going to create opportunities for people to mess around with the policies. I think if we just had roads, if we just had public right-of-ways as a discernible boundary, we would take a big step in the right direction. And those are clear-cut. There are town maps. I mean, we are not talking about farmers' lanes. We are talking about public right-of-ways. That would be a huge improvement over what we have today.

Mr. BURNS. OK. Now Ms. Schmale, when you were giving your testimony, one of the ironies of your testimony would suggest that it is awfully hard to know what is covered and what is not.

Ms. SCHMALE. That is right.

Mr. BURNS. And if I am in the nursery business in a particular location, there are some things that I might be able to have insurance in and certainly there are others that would not be acceptable, but yet I could move a county boundary, is that correct, and that list may change?

Ms. SCHMALE. That is right. You have to go back to this pretty complex list and figure out in your county whether the plants that you are growing are covered and at what price and then try to design your risk management needs around that.

Mr. BURNS. Then what would you suggest as a better way? Obviously—I shouldn't say obviously. It appears that the way we are doing it now is not very effective or efficient. But what would be your recommendation?

Ms. SCHMALE. Well, I hate to be too critical about that, because I know RMA has worked hard on that policy, and they have listened to growers, and they have tried to make, and in fact have made some improvements on it. I think we need to step back and look at what we are trying to achieve. Our industry does not need a policy similar to the wheat policy. But what our industry needs is a policy that recognizes that diversity and recognizes the ability of growers to control their losses somewhat through their own diversity. And I suppose that just thinking outside the box and some kind of insurance specialists getting together with growers and really talking about it would be able to come up with something that was a little simpler by either grouping things together or providing income management coverage or providing some other kinds of alternatives. If people want to go through that kind of complex process and get that kind of insurance, they probably should be able to do it, but it is very complex.

Mr. BURNS. I realize my time is expired. Let me ask one more quick question. If you group—you have a wide variety of different products in your industry: cut flowers in one and ornamentals and woody products and on and on and on. Is it more appropriate to group them in classifications or name them by species?

Ms. SCHMALE. I think it would probably be more appropriate to try to group them together. I hesitate to say that a little bit, but it seems particularly silly that if you are growing a plant outdoors exposed to the weather and indoors in an environmentally controlled greenhouse you are subject to the same kind of insurance conditions because the risk, obviously, is very different.

Mr. BURNS. I agree.

Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Burns.

The gentleman from North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman. And let me again thank you for holding this hearing.

Mr. Barnes, so the folks who don't deal with a lot of specialty crops on this committee and for a matter of record so they will understand, when you are talking about RMA, the insurance on with a pilot like potatoes or tobacco or any number of areas where you have insurance that is tied to RMA versus FSA, which is the Farm Service Agency, the Farm Service Agency does not have any authority over the RMA. They only accept the reporting because Congress in their wisdom a number of years ago took it out of USDA and put it outside. I think the members need to understand we are dealing with two different areas here. FSA may collect the data and report it, but they have zero authority to act or to police if there is any kind of manipulation of the numbers or if in fact you have got a crop planted and not harvested is really up to RMA or the insurance agency to deal with that, is that correct?

Mr. BARNES. Yes, sir, that is correct.

Mr. ETHERIDGE. OK. I wanted that as a matter of record, because I think sometimes we get here and we think that it is under USDA and it is really not, other than the fact that it is run through there. Let me come back to that, because I think that is an important area and an important distinction when Congress made that decision a number of years ago. I continually hear from the FSA directors that they get blamed a lot of times for these problems of people who fail to harvest. They plant, they collect insurance, and they are blamed and they really have no authority to deal with it. Assuming the pilot were expanded nationwide, OK, let us go for an assumption that we did that with the changes that you have suggested this morning.

My question would be what do you think the impact would be on it regarding the amount of potatoes that, number one, might be produced, and number two, what that might do to price for the consumer or for the farmer or packager for that matter?

Mr. BARNES. If these stipulations that we proposed were introduced, I don't think there would be any negative impact to the market. I think it would be a market neutral program, as best as we can tell. And we don't foresee all impacts, but we think it would be market neutral. It has been a tough couple of weather years in North Carolina and Louisiana over the past couple of years. And you know, there are some producers this year that could not grow sweet potatoes because they could not get financing. If they had had a crop insurance program available, they could still be producing sweet potatoes this year. By the way, the market is really calling for sweet potatoes to be produced. The prices are quite high right now. We have had several short years that a lot of the farmers could not afford to grow the crop this year.

Mr. ETHERIDGE. Let me follow that up, because I think that is important, and it needs to be a part of the record, because banks are reluctant because of the type of product you have. If there isn't some kind of assurance that they are going to get some of their money back, especially with the margins of return that farmers have, it is an additional component that happened this year I know in North Carolina. It may have happened in Louisiana and other States, because we had one of the wettest springs and summers we have had on record, which created, I am sure on your farm and many others, a very difficult time for farmers to get their crops, not only sweet potatoes, but other crops, into the field, which would have had an impact on production. But if you don't have that, then, of course, you don't have some assurance for the bank, then you don't get the money to make that decision anyway.

Mr. BARNES. That is right.

Mr. ETHERIDGE. Thank you, sir.

Ms. Schmale, let me ask you a question. Regarding your desire for the quarantine protection you raised earlier, should a producer who is responsible for bringing an invasive pest in, and sometimes they may not know it, but let us say I am a producer and I bring it in, assuming we had that, should I be able to benefit from whatever we have done as a result of bringing it in? And how do you foresee this protection working should this be granted?

Ms. SCHMALE. Well, when we know the smoking gun that brought a pest in, obviously, that smoking gun has to bear a part of the responsibility. But once the pest comes into the country, the APHIS, USDA is making certain decisions about the quarantine that are out of that producer's hands. And in the case of Ralstonia, the destruction required by USDA was far beyond what would have been the normal practice in the industry, and personally I think it was far beyond what might have been required. So I think there has to be some sharing of the responsibility. The practice in the industry is, for non-quarantinable diseases, if somebody imports a disease that they have to then go back to their customers and say we imported this and then they buy the plant back. But they don't have to buy back 20 acres of surrounding plants as they had to in this case. Is that an answer to your question?

Mr. ETHERIDGE. Yes. Thank you.

Mr. SMITH. Would the gentleman yield just for interest? The emerald ash borer actually came in in the crating from China bringing in manufactured goods in Michigan that is now hitting us with maybe a couple billion dollars of loss.

Mr. ETHERIDGE. Thank you, Mr. Chairman. I see my time has expired. This is an important area, because this is a large industry also in North Carolina and growing very rapidly because of our geographic location, and I think it is important to all of us. Thank you very much.

Mr. MORAN. I thank the gentleman.

The gentleman from Texas.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

If we can kind of give each one of the panelists an opportunity to respond to this question. We have listened to a lot of the testimony and other commodities and your testimony today. And it is obvious with producers in my region, we keep coming back to the aspect that, whether it is 65 percent or 75 percent, it is based on your average yield. And there is some assumption there that producers are working off of a 35 percent margin in their crops when you look at a 65 percent program. And many of the producers tell me that they are not working off of that. They would like to be working off of those kind of margins. So really, when you talk about risk management, to me, I don't know that the current program really is a risk management program. Because if you can't recover your cost, to me, other than your lender requiring you covering it and some of the Government programs requiring you to carry it, it is really not a program that is actually insuring any risk. So I think the question—and then Ms. Schmale brought up the point that commodities of different variations of ornamental flowers may have different needs, and so what it looks like to me is we have created a very complex network of crop insurance trying to—particularly in the specialty crops, is there a better unit to work off of annual revenues? I mean, is there a different direction that maybe we ought to be looking at?

Mr. BITTNER. I would like to take that on first. Sixty-five percent coverage is never going to make you whole. And I guess we are not asking for insurance that is going to make as much profit if we would have had a perfect crop. Sixty-five percent allows you to live for another year to farm again. And that is all you are really asking for coverage. I don't think this country could afford higher coverage. I don't think we would want to spend the money. And growers, quite frankly, aren't asking for that. It is a safety net to let us fight another day. And I think that is a way of looking at it.

As far as other ways of insuring these complicated specialty crops, I mean, ornamentals are probably the most complicated. I grow 11 different crops of fruits on my farms, most of which insurance isn't available for. The only way to really approach that without being so specific and so complicated is the adjusted gross revenue coverage. I bought up that product for the last 2 years. I am gaining some experience with it. I don't know how confident I am with it, but I think that idea, some type of insuring gross revenue, there have been ideas of insuring your expenses, that you at least can cover your expenses. There have been lots of ideas like that, and they are being talked about. There are pilot programs out there that do adjusted gross revenue. AGR Light is the latest one in New York, and Pennsylvania, I guess, started with that. Yes. There are other ways of doing it. And I think it was mentioned with the ornamentals. That may be a way of looking at it. Let us insure our income, because that is really what we are talking about, then it takes—and another advantage to that is we are not only then insuring the crop, the grower is insuring price or income, which we might have crop insurance, but that doesn't help us with the value of the crop just going down the tubes.

Whereas if we had a workable AGR policy, that might be the answer. And I think we are working that way. RMA has been receptive to that idea. And as I said, I am personally trying it right now to see how that works. But that is the only way I think we are going to cover all of these minor crops that are very diversified, very complicated, and not widely grown.

Mr. BARNES. I agree, Mr. Bittner. Sixty-five percent is not going to make anybody any money if they don't manipulate the program. It is going to just allow you to fight another day. In sweet potatoes, for example, around 40 to 45 percent of our cost of production is in harvesting, so if you have a loss where you don't harvest your acreage, you will get reimbursed for at one level and another level after harvest because of the additional expense. And you just want to be able to get a good portion of your costs back. That is all that the programs are designed for. That is all we want. Risk is a great motivational factor. If you take all of the risk out of the crop, there are a lot of things that may not get done. So there needs to be a certain amount of risk maintained with any Crop Insurance Program. We are just trying to get enough of the risk covered so that you don't lose everything with one bad crop.

Mr. NEUGEBAUER. Just as a follow-up to that, because we have had people come in and talk about that sometimes the crop insurance programs sometimes maybe reward the farmer that is farming the least instead of the farmer that is, maybe, a better farmer. And I kind of like that gross number, so if you have not been farming efficiently—I mean, I think we have got to look at ways to improve that so that the people that are serious about this business, that are doing it to be in business on a sustainable long-term basis, and you can't be in business for a sustainable long-term basis just living to play another day. And so I want to listen to some additional dialog as to maybe some ways to improve it before we can make it more of a risk-based program.

Mr. Chairman, I thank you for your time.

Mr. MORAN. I thank the gentleman.

The gentleman from Washington, Mr. Larsen.

Mr. LARSEN. Mr. Chairman, thank you for holding this hearing today. I appreciate that. And the first two questions I have are for Mr. Bittner. One is having to do with, obviously, apple growers, but not only just apple growers in the East and Northeast but in the West. Well, several west coast growers raised concerns over the different disasters that are afflicted upon orchards in the East versus the West, how can RMA help us create a program that defends against all types of crop loss faced by apple growers nationwide, or is that a direction we should take? Should it be an eastern, western, northeastern, northwestern policy?

Mr. BITTNER. That is exactly why the apple growers are asking for an all-peril policy so we don't get into those problems. The West has got different problems than the East. The West is more concerned about sunburn. We are more concerned about frost. It is still weather-related. It is still not in the control of the grower, so that is why we are asking for all-peril so we don't get into those arguments about, well, this thing is going to be covered but not this other thing.

Mr. LARSEN. Yes.

Mr. BITTNER. And that is why we want all-peril policies so all growers across the country are created the same. The worst thing you can do, in example with the sweet potatoes, have growers in one area that benefit from a program and not another. And they are competing in the same market. You can't have that. And that is why the Apple Association has brought the apple growers from the whole country together to come up with one idea that is going to benefit everybody and be fair and equitable across the board.

Mr. LARSEN. You said you are involved. Are you involved in AGR or AGR Light?

Mr. BITTNER. AGR.

Mr. LARSEN. You are in AGR? Could you help me to understand how that is working for you? What is positive and what is negative about it?

Mr. BITTNER. This is my second year, and I haven't filed a claim, and don't expect to this year, so that is the good news.

Mr. LARSEN. Yes.

Mr. BITTNER. What it does is it covers me for crops that I can't buy insurance for. We farm 500 acres: 200 acres of apples, which I can buy insurance for and cover quality; 100 acres is peaches.

We do have a peach policy offered in our area, but quite frankly, it is of no value to me, because there is no quality component to it. Our area has never suffered 100 percent wipeout on peaches in history. We are located up on Lake Ontario. That is why we are there. We can grow peaches year after year after year. So the insurance—and so I know I am going to have peaches out there, but the question is if they get hit by hail or something, they are not salable. Well, the current peach policy wouldn't cover me.

So then I grow sweet cherries, tart cherries, plums, apricots, nectarines, things like that, that are not covered. There is no insurance available. So the only way for me to get some risk protection was through AGR. It appears to be a decent policy. I am fairly comfortable with it. I am still learning. I would like to get to know someone who has actually filed a claim and see how that process worked, because I sort of envision it is going to be quite a hassle to make a claim because you have got to go back a number of years in records and things. AGR Light seems to be something that would make it less complicated. But I think the beauty of AGR is now I can insure crops that don't have policies offered for. I am also insuring against price drops, because I am insuring revenue, not the physical bushels out there.

Mr. LARSEN. Are you insuring your 300 acres under AGR separate from the apples or is it the entire farm?

Mr. BITTNER. No, AGR is the entire farm. Basically, you are insuring your Schedule F.

Mr. LARSEN. So you are combining your policy, your apple policy within your AGR policy?

Mr. BITTNER. They are two separate policies, but because I am buying AGR, the insurance companies in RMA realized that they have less exposure on one, because we have two policies, so there is a discount in the premium on the apple, I believe, because I do have AGR. Because they know you can't be double covered. You can't be covered on something twice.

Mr. LARSEN. Yes. Right. OK.

Now Ms. Schmale, in your testimony on page 6, you say one possibility, although you would not recommend it without seeing what other kinds of coverage paradigms might also be worked out would be AGR type policies. Could you expand on your comments within your testimony? You didn't in your verbal. I would like you to do that now.

Ms. SCHMALE. Right. Just like Mr. Bittner said, it seems that AGR might be one workable way to go. They are using it a little bit, or at least I talked with one agent who is selling it to some flower growers in the Northeast. I am not sure. Again, I think we need to step back and look at what we are trying to achieve with coverage from our industry, and it is live to fight another day. It is risk-management. There is some risk management through diversification promotes growers in any event. Other growers have a lot of risk management through growing things in greenhouses. But what we need is probably coverage geared more to what happens when a real catastrophe occurs that you can't deal with otherwise, but it needs to be more than just the current cap policy. And even as somebody said, the current cap policy is listed to specific crops grown in specific areas.

Mr. LARSEN. Right.

Ms. SCHMALE. And I think there may be others. I would like to look at it a little bit more, and I think there may be other things. But right now, AGR, I am told, looks the best with what is out there.

Mr. LARSEN. All right. When would you expect that SAF might have a more definitive statement on it?

Ms. SCHMALE. Well, on the cut flower side, RMA did do a report, or they commissioned a report, and they haven't released that report. And I am hopeful that that might be released and that we could sit down and talk with them and see what is going on with that. I think on the nursery crop side, there are others. The Florida Nursery Growers have been working with them. It is suggestions get made from the field, and when the percolate up to the top, it might be time to have just another industry meeting with RMA in Kansas City to see what their thoughts are on that.

Mr. MORAN. I believe that concludes our questions. I was giving the gentleman from North Dakota a moment. Do you want to check and see? OK. That does conclude the questionings by our members. We very much appreciate the testimony that you have provided, the responses to our questions. And our committee's next step is to request, and no doubt our request will be honored, a meeting with Mr. Davidson, who is, again, present with us today. And I commend him for his diligence in following our subcommittee's proceedings. But our subcommittee, my goal next, members, is to see if we can schedule time for Mr. Davidson to come over and sit around the table so that we all can work with him to digest what we have heard in these series of hearings, seek his input and direction as to where we go from here, but importantly to follow-up on the complaints, suggestions, and concerns raised by the panel here today but others as well and to find out RMA's reaction and response to those concerns, complaints, and suggestions. So that is next on our agenda. And I would welcome that opportunity as we try to address the things that you have raised today.

Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from the witnesses to any question posed by a member of the panel. The hearing on the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 10:51 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF JAMES BITTNER

Good morning, Mr. Chairman, distinguished members of the committee and guests. My name is Jim Bittner, apple grower and owner of Singer Farms in Appleton, NY. Singer Farms is a 500-acre orchard, with over 200-acres of apples. I appreciate the opportunity to testify on apple crop insurance before the committee on behalf of the U.S. Apple Association (USApple).

USApple is the national trade association representing all segments of the apple industry. Members include 40 State and regional apple associations representing growers across the country, as well as individual companies. USApple's mission is to provide the means for all industry segments to join in appropriate, collective efforts to profitably produce and market apples and apple products. Total U.S. apple farm-gate revenue was $1.6 billion in 2002, according to the U.S. Department of Agriculture.

An improved apple crop insurance program is critical for U.S. apple growers. A workable program would provide a valuable risk management tool and help reduce financial disaster from weather-related crop loss. It would also allow growers to further improve marketing, while reducing market risk and providing additional market opportunities. The financial stability of agricultural lenders would be enhanced for the benefit of growers, who would have access to otherwise unavailable credit.I can speak personally to crop devastation caused by severe weather beyond a grower's control. In the summer of 1997, my orchard suffered horrific hail damage, causing my apples to be rendered unmarketable for the fresh market. I did not have crop insurance for my apples and endured tremendous financial loss. The following year, my bank strongly encouraged me to purchase apple crop insurance if I wanted to continue to work with them.

Since 1998, I have purchased crop insurance for my apples and have experienced the benefits and the shortcomings of the current apple policy. I would like to discuss with you two areas of dire importance to improve crop insurance for all U.S. apple growers. Those two areas are the need for a complete, all-peril apple crop insurance policy based on current apple market standards, and the utilization of public right-of-ways to formulate optional units in apple orchards for crop insurance protection purposes.

As an apple grower, I can protect my crop against disease using integrated pest management techniques. As an apple grower, I can influence the size and color of my apples through thinning and pruning each tree. As an apple grower, I choose what variety of apples to grow and how to market my crop. Unfortunately, as an apple grower, I cannot control the weather. This is a fact that my fellow growers and I accept as part of the job. However, along with this acceptance comes the knowledge that there is insurance intended to help us manage our weather-related risk. Unfortunately, current Federal apple crop insurance falls far short of protecting my investment in my crop against all weather-related perils.

Currently, apple growers can protect their fresh apples against hail, wind and frozen apple damage. These are the only three covered weather-related perils out of dozens of potential disasters facing today's apple growers. For example, apples damaged by a spring frost or sunburned by a midsummer heat wave are not covered in the current policy.

During the spring of 2002, apple growers throughout New York, New England, Pennsylvania, Virginia, the Southeast, Michigan and other parts of the Midwest experienced the worst spring frost damage in fifty years. Growers suffered devastatingly low apple production and quality losses as a result. Apple trees were in full bloom when multiple, consecutive days of below freezing temperatures killed many blossoms and left the surviving blossoms to produce disfigured and mutated apples. Unfortunately, these damaged, low-grade apples were not covered by the current apple crop insurance policy even though the growers had provided the best care possible for their crop and their trees. Growers could not sell the apples and did not receive a crop insurance indemnity for them. Due to this dramatic loss of income, many apple growers were on the brink of bankruptcy, if not completely forced out of business.

This single devastating spring frost in 2002 highlighted the dismal inadequacies of the apple crop insurance policy and was one of the major reasons the apple industry sought disaster relief from Congress. On behalf of USApple, I want to especially thank the House Agriculture Committee, notably its leaders and staff, for their successful work in support of equitable treatment for specialty growers in the disaster bill approved by Congress earlier this year. We appreciate your efforts and thank you.

In an effort to reduce the need for future disaster assistance payments, apple growers partnered with USDA's Risk Management Agency (RMA) in a determined effort to improve the apple crop insurance policy. USApple's Risk Management Task Force, comprised of grower and State representatives, worked closely with RMA to craft the outlines of a workable policy. However, several issues appear to remain unresolved.

As apple growers, we are asking RMA to revise the current apple crop insurance policy to make it a complete, all-peril policy based on current apple market standards. An all-peril policy would not break out each peril as a separate coverage option for growers to select, but instead insure the grower for any and all losses that could not be prevented.

An all-peril apple policy would provide fair and balanced coverage for all growers and prevent discrepancies that may arise in enforcing separate options. For example, under the current policy, the grower has the option to purchase coverage against apples being frozen. However, frost damage is not a covered peril. Many growers and insurance agents selling the policies believed frozen apples and frost-damaged apples were the same, however, when a claim was filed, clarification was given on the differences. To create even more confusion, some growers received an indemnity for the frost-damaged apples, while others did not. An all-peril policy would be clear and straightforward, alleviating confusion and inconsistencies. Growers and insurance agents would know that all unpreventable perils are covered.

Another area of major concern is the grower's inability to divide their orchards into separate, optional units using discernible breaks. Optional units are advantageous in an orchard because growers are more likely to meet claim thresholds if the units are smaller. However, under the current policy, growers are unable to define the size of their orchard units, unless a unit can be defined as noncontiguous. The current apple crop insurance policy definition of noncontiguous is "any two or more tracts of land whose boundaries do not touch at any point, except that land separated only by a public or private right-of-way, waterway, or an irrigation canal will be considered as contiguous." Growers should be able to use public right-of-ways and other obvious boundaries as unit dividers.

I have attached a photograph to show how a public right-of-way acts as a discernible break. The following photograph shows a public road dividing an apple orchard. This grower uses the road as a discernible break and maintains separate records for both sections of his orchard. Separate records include spray records, USDA worker protection requirements, volume and quality of apples produced, planting patterns, and varieties grown. The road divides the orchard by approximately fifty feet, and is maintained by the town with Federal money. The grower cannot plant trees or remove the road. Yet, under the current policy, the road, a public right-of-way, is not a discernible break (a divider). Therefore, the orchard is contiguous, and it is considered one unit.

We are asking that this public right-of-way and similar public right-of-ways be used to create separate, optional units for apple orchards. As an aside, for annual crops, a grower may divide his acreage into section equivalents. These section equivalents are created using public roads. Apples and other perennial crops are not grown in sections, but growers do have public roads dividing their orchards. In summary, we strongly urge that a revised apple crop insurance policy allows apple growers to divide their orchards into separate units, using public rights-of-way and other discernible breaks.

In late August, USApple's Board of Trustees approved adoption of a revised Federal apple crop insurance policy, as recommended by USApple's Risk Management Task Force. This revised apple policy is a complete, all-peril policy, and allows apple growers to create optional units using public right-of-ways and public irrigation canals. We are asking RMA to adopt our recommended revised apple crop insurance policy in its entirety.

On behalf of U.S. apple growers, I ask the subcommittee to lend its support to this effort.

Before concluding, I would also like to thank USDA's RMA staff who have recognized the shortcomings of the current apple policy, and collaborated with USApple in an effort to address the concerns I have touched on today, plus many more. While I thank RMA for their work, the job is not yet complete. Apple growers throughout the Nation need this revised all-peril crop insurance policy based on current apple market standards. I need and want this improved risk management tool. Let's get the job done right, so U.S. apple growers will have the workable risk management tool they need to survive.

Thank you for the opportunity to explain some of the issues facing apple growers concerning crop insurance. I would be glad to answer any questions you have.

Statement of Lin Schmale

Chairman Moran, Ranking Member Peterson, and members of this subcommittee, we are grateful for the opportunity to present testimony today on the U.S. Department of Agriculture's Crop Insurance Program as it relates to the floriculture and nursery industry.

The Society of American Florists (SAF) is the national trade association representing the entire floriculture industry, a nearly $19 billion (at retail) component of the U.S. economy. Floriculture is more than cut flowers and cut foliage—it also includes foliage plants, potted flowering plants, bedding plants, perennials, annuals and bulbs, and seeds and other propagative material. SAF is a vertically integrated organization, representing all segments of the industry: growers, wholesalers, retailers, importers, manufacturers, suppliers, educators, and related organizations. Our membership includes some 13,000 small businesses, located in communities throughout the United States.

The American Nursery & Landscape Association (ANLA) is the national trade association for the nursery and landscape industry—producers, retailers and landscapers focusing primarily on trees, shrubs and other woody ornamentals, perennial plants, and bedding plants. ANLA represents 2,500 production nurseries, landscape firms, retail garden centers and horticultural distribution centers, and the 16,000 additional family farm and small business members of the State and regional nursery and landscape association. ANLA's grower members are estimated to produce about 75 percent of the nursery crops moving in domestic commerce in the U.S. that are destined for landscape use.

SAF and ANLA are the national trade associations representing the floral and nursery industry, sometimes collectively known as "environmental horticulture." Because of the very closely related interests of our members, the two organizations work closely together on many issues. My testimony today recognizes and incorporates and endorses the testimony presented by ANLA at the July 10 hearing held by this subcommittee.

According to the USDA's National Agricultural Statistics Service (NASS), the nursery and greenhouse industry remains the fastest growing agricultural sector in cash receipts. The 1997 Census of Agriculture shows that nursery, greenhouse and floriculture crop sales totaled $10.9 billion in 1997, up from $7.6 billion in 1992. This represents a 43 percent increase in sales over the previous 1992 Census. More recent USDA analyses show that the industry is now valued at over $13 billion at farmgate. Together these crops make up 11 percent of total U.S. farmgate receipts, up from 10 percent. Some 33,935 farms produced nursery plants as their principal crop; floriculture farms numbered 21,824.

In crop value, nursery and greenhouse crops have surpassed wheat, cotton, and tobacco and are now the third largest plant crop—behind only corn and soybeans. Nursery and greenhouse crop production now ranks among the top five agricultural commodities in 24 States, and among the top 10 in 40 States. Growers produce thousands of varieties of cultivated nursery, bedding, foliage and potted flowering plants in a wide array of different forms and sizes on 1,305,052 acres of open ground and 1,799 million square feet under the protective cover of permanent or temporary greenhouses.

Yet despite the strong (and growing) economic importance of the floriculture and nursery industry as a part of U.S. agriculture, our growers are still without all of the good risk management tools which are available to other segments of U.S. agriculture. USDA's Risk Management Agency (RMA) has been working, with some success, for several years to address the risk management needs of floral and nursery growers. In the 1980's, RMA issued its nursery stock policy, which was revised again in 1999. Although the policy and coverage provided are by no means ideal, it has been an important safeguard for some growers affected by disasters in recent years. However, the policy needs many improvements in order to meet the needs of growers in the industry.

In January of 2001, RMA identified development of a risk management program for cut flowers and cut foliage as one of its highest priority projects. A contractor (National Crop Insurance Services, NCIS) was awarded the initial study contract to gather information from various sources, including academics, private insurance specialists, growers, and other sources. A series of regional "listening sessions" was held in various parts of the country. SAF, along with one of the Nation's primary private insurers of horticultural crops, Hortica Insurance, cooperated with the contractor. Hortica, in particular, as an insurer also writing policies under the nursery crop program and an expert in the diverse growing practices of the industry, was closely involved in the study. It is our understanding that a report with recommendations was completed in May of 2002 and presented to the Risk Management Agency. However, since then, no action has been forthcoming, and we remain uncertain as to the outcome of this effort.

The floral and nursery industry is very diverse—literally hundreds of different kinds of flowers and plants are grown, in various climates, in glasshouses, in poly-covered greenhouses, in "shade" houses, and in open fields, in containers of various sizes, and in climates and "hardiness" zones ranging from Miami to Seattle and everything in between. A "one size fits all" policy would be very difficult to write—and administer—in the traditional multi-peril crop insurance policy mold. Yet RMA has begun to break out of that mold in recent years, in designing more diverse policies to meet diverse grower needs in other segments of agriculture. We are hopeful that, similarly, a policy or policies can be designed which will meet the very important risk management needs of floral and nursery growers. A need exists for workable crop insurance in the floral and nursery industry, and we will be happy to work with RMA toward meeting that need.

The remainder of this testimony will focus separately on the existing nursery crop policy and the need for a risk management tool which will meet the needs of growers currently excluded from coverage under the nursery crop policy, in particular, cut flower and foliage producers. Finally, I will briefly touch on the need to provide quarantine protection for U.S. growers, including growers of floral and nursery crops.

I. THE NURSERY CROP POLICY

The current nursery crop policy is, fundamentally, a workable policy—but it is extraordinarily complex and requires an extraordinarily knowledgeable and talented crop insurance agent to advise the grower on what, exactly, he is purchasing for the various options available.

Following are some of the aspects of the policy which are particularly problematic, the complexity of which is probably discouraging growers from participating.

One of the most important drawbacks of the complexity of this program is that agents (and their companies) are exposed to "errors and omissions" lawsuits, if a grower feels that he did not adequately understand what was covered (or not covered) by the policy he purchased, or if an agent makes an error or is inexperienced in the policy complexities. If the agent makes an error, then the very large dollar value of one of these policies could easily exceed the agent's and/or the company's "errors and omissions" coverage, with a severe adverse impact upon the financial health of the insurance company itself. Lawsuits are submitted to binding arbitration, rather than being appealable to Federal court. This is a serious defect in the program, and should be remedied. Insurers will, logically, be unwilling to put their companies at risk to administer a policy which is so complex that misunderstandings are almost certain to result, with negative financial consequences for the company, the agent, and the grower.

- The existing nursery crop policy was designed originally for woody ornamentals (trees and shrubs) and was subsequently expanded to cover different types of plant material, including some plants grown in greenhouses. As a result, different kinds of growing practices and conditions are all joined together without regard to important differences among them (e.g., is the plant grown in the ground? Or in a container? Is it grown in a greenhouse? or a poly-covered structure? Or outside? Is it an annual? Or a tree, requiring many years to get to a saleable size?)
- No plants are covered that are grown in less than 3" containers. This requirement means that many bedding plants are excluded—those grown in "cell packs" for example.
- Propagative material (such as cuttings or plugs) is not covered. Coverage for propagative material should be considered, although not necessarily as part of the nursery policy.
- No cut flowers or cut foliage are covered. NO "stock plants" are covered. This limitation is more thoroughly discussed in the next section. However, it is a serious drawback, for example, for cut rose growers that they cannot purchase crop insurance either for the cut roses which are taken from their stock plants—OR for the stock plants themselves. Rose bushes are insurable only if sold as a "container, garden rose" or if dug up and sold as a garden rose bush.
- Coverage: A grower can buy coverage for a plant in his county ONLY if that plant is LISTED for that specific county. RMA contracted for the development of a very detailed county-plant coverage list—which is downloadable from the Internet or available on CD-ROM. The printout of that list runs from 500–600 pages or more, per region—and it is very difficult for a grower, or even an agent, to look through and understand. For a large nursery or greenhouse, growing a thousand different plants, the process becomes extremely onerous. For example, if you are a grower in Cheyenne County, Nebraska, and want to grow poinsettias—even in a fully heated and protected greenhouse—you cannot buy coverage for those poinsettias unless they are a listed, and priced, crop for that particular county. The further north in the U.S., the more difficult it becomes to purchase coverage for certain kinds of plants (for example, tropical plants), even when they are going to be grown in a fully heated and environmentally controlled greenhouse.
- Pricing. Pricing of plants, also set by the Government's list, is neither diverse enough nor adequate to reflect regional differences and "real-world" pricing. A grower receives coverage based upon the LOWER of his ACTUAL sales price or the Government-listed price. For example, a grower might have a huge, 100-gallon palm tree, designed for high-end interiorscaping. However, the maximum size covered by the Government's price list 65 gallons, so that is the maximum coverage the grower can buy—even though his actual plant is worth much more.

• Determining the value of his coverage—and, of course, the grower should do that to use the policy as a good financial risk management tool—is a very, very complex process. It requires checking back and forth with the official price and availability CD-ROM list. In addition, many growers will turn over three or four, at a minimum, crops in any given year. A grower might start out with geraniums, then move on to impatiens or a mix of summer crops, then grow and sell chrysanthemums, and finally end up with a poinsettia crop. Some of those could be overlapping in the greenhouses at various times of the year. This process is all complicated by having to refer to the "Government's price" rather than just using the grower's actual prices. A grower can purchase an endorsement, which allows him to select two "high value" peaks during the year—perhaps at the spring season and in the fall, for his anticipated busiest times of year—but this still does not solve the problem of using the policy as a good risk management tool.

• In the alternative, of course, the grower could take a "stab in the dark" at guessing the value of his inventory and deciding what coverage he wants to buy. However, this could lead either to being underinsured or overinsured—and there can be penalties for either. At the time of loss, the grower might be asked to provide a detailed inventory of what was in his nursery just prior to the loss. If he has $2 million of inventory but estimated $5 million, he could enter the realm of "fraud, waste and abuse." If he under-reported by 20 percent, then rather than being paid at a 100 percent price level, he would get only 80 cents on the dollar.

• There is no distinction, as mentioned several times above, between plants grown indoors or outdoors. It would seem more logical for the rates and coverage to reflect the different levels of risk posed by those situations.

• Various coverage levels are available: For a $100 administrative fee, a grower can buy a "catastrophic" policy—which would give him 50 percent coverage level and pay 55 cents on the dollar—or, calculated out, 27–1/2 percent coverage. Every grower in the United States should probably, at a minimum, have this policy—because for very little money, it does provide some level of coverage, so long as the plants are "on the list." Various buy-up levels of coverage are available, as well, which an agent and grower can analyze and compare, with a considerable amount of effort, to form a reasonable risk management tool for the grower. However, as discussed above, determining an accurate value is extremely laborious, and the help of a well-qualified, experienced and knowledgeable agent is absolutely essential. Various combinations of buy-up coverage (ranging from 55 percent coverage/100 percent price to almost any other combination) are available. As an example, with a 75/100 policy on a $1 million crop, would mean that you had $750,000 of inventory covered at 100 percent of the price (remember—the lower of the federally established price or the actual price—or, in other words, a $250,000 deductible). That deductible is an annual aggregate, so if you had one $250,000 loss in October and then another in January, the policy would pay on the second loss.

• The pricing and county-crop-list system appears to be based upon the "Hardiness Zone" system, with, in some cases, "heating requirements" added. However, it does NOT reflect whether a crop is actually grown in a fully protected, greenhouse environment. While a crop like "petunias" or "ferns" may be on the list for counties in the southern U.S. the same crop may NOT be on the list for a county in the northern part of the United States even if it were grown in a fully heated glass greenhouse in that northern State. A grower can petition to add plants to the list if he purchases a buy-up (not a catastrophic) policy—but it takes at least two to three months to get it approved. And RMA will not accept a request if it involves changing a "hardiness zone"—even if the request is to grow the plant indoors in an environmentally controlled greenhouse.

Let me give an example. Dade, Broward, and Palm Beach Counties, Florida, are all in Hardiness zone 10. However, Martin County, Florida, just north of Palm Beach, is located in Hardiness zone 9. Lots of nurseries are moving north in Florida, as the population in the Miami area expands, and the growers, of course, are growing exactly the same plants. But if a grower has moved his nursery from Palm Beach County (in zone 10) to adjoining Martin County (in zone 9), he can no longer insure those same plants—even by submitting a special request to have them approved, because the "Hardiness zone Line" has been crossed. So a Spathiphyllum grower who moved his nursery from Palm Beach to Martin County would not be able to insure that plant any more—even by special request.

• Rates are based upon the county—e.g., they are the same, whether the crop is grown in a million dollar, computerized greenhouse or outside in an open field, All plants of one type in a given county (if they are insurable in that county) are insured at the same rate—be they grown indoors, outdoors, or somewhere in between.

In summary, the unwieldy complexity of the nursery crops policy makes it very difficult for growers to use as a true risk management tool. RMA has made a commendable effort to address the needs of a very complex industry. However, many improvements are needed. We will be happy to work with RMA and the insurance industry to address the points we have mentioned above.

We would also encourage the creation of alternative types of policies, which are not designed on the traditional "multi-peril crop insurance" paradigm, but which, in fact, could be used by our industry as a true risk management tool.

I would now like to return to the second major point of this testimony, which is that no coverage is available to cut flower and foliage producers—a significant portion of the floriculture and nursery industry.

II. No Coverage Available to Cut Flower and Cut Foliage Producers

From the point of view of producers clearly not covered under the Nursery Crop Policy, the most serious gap in coverage for our industry is the lack of coverage for cut flowers and cut foliage. Cut flowers and cut foliage make up a significant part of the floriculture industry, at about $520 million per year farmgate value (USDA-NASS).

Because some cut flowers are produced in greenhouses, private insurance is available for certain perils, for growers of these crops. However, a more comprehensive program, which could easily be designed not to compete with any privately available insurance, since the perils covered by private insurance are limited, could be useful to growers.

Field growers of cut flowers and foliage, another significant portion of the industry, are totally excluded both from Federal and from private coverage.

As noted above, we are extremely concerned that, despite a promising beginning, the study initiated by RMA for a cut-flower and foliage program appears to have stalled.

One possibility, although we would not recommend it without seeing what other kinds of coverage paradigms might also be worked out, would be the "Adjusted Gross Revenue "AGR"-type policy. The benefits of the AGR, both from the administrative and the grower point of view, are that it is an income-based program. As such, it relies upon tax return information provided by the grower. It does not attempt to substitute Government pricing criteria for market-driven prices, which are changeable and diverse. It simply provides a minimum guarantee for growers, in case of some defined level of loss, which will help them stay in business. On its face, it would seem to accommodate the vast variety of crops and growing situations and climates which exist within the cut flower and foliage industry. However, as noted above, we would be happy to work with RMA and the insurance industry to see what other kinds of workable programs might be developed.

Finally, the third major point of this testimony addresses the lack of quarantine protection for U.S. growers, including floral and nursery growers.

III. Quarintine Protection

The environmental horticulture industry is uniquely vulnerable to the ravages of invasive plant pests introduced from abroad. Virtually every introduced pest may find a home and suitable plant hosts somewhere in the U.S. and among the literally thousands of species and varieties grown commercially in nurseries and greenhouses. Once established, such pests disrupt the industry by causing direct crop damage, and spurring imposition of quarantines, inspection and certification requirements to slow further pest spread. For the purposes of clarity, references to plant pests in this testimony are intended to include all types of pests such as insects, pathogens, and weeds.

This year, the geranium industry suffered severe losses due to a quarantine imposed by the USDA. These grower losses were incurred due to no fault of their own. Some of them were, in fact, covered by the Federal crop policy—but only because the disease involved is one for which "no control or cure is available"—and coverage was available only to a limited extent.

We believe that "quarantine" should be listed as a named peril on Federal crop insurance policies. There is a great need to explore coverage for crops that fall within a quarantine zone—particularly if those goods are rendered unsalable or ordered destroyed, but also even when sales value is reduced due to the quarantine restrictions. Quarantines are sometimes imposed while the study and assessment of infestation and risk are being completed. The short shelf-life of floral and nursery products, and the short sales seasons, pose unanticipated hardships when coupled with these kinds of quarantine situations. Those hardships are outside the control of the growers—just as are rain and hail for growers of corn, wheat and soybeans. Yet growers in our industry are without recourse, to respond to situations in which they are caught through no fault of their own.

A few examples include:

Ralstonia, a bacterial disease of geraniums and other crops, affecting growers nationwide; emerald ash borer, impacting growers in southeast Michigan and in Ohio; Sudden Oak Death, affecting growers of many crops, in counties in central and northern California, and limited areas in Oregon—to date. Plum Pox, in central Pennsylvania; Citrus Canker, in Florida

It is imperative that USDA, whether it be APHIS, RMA, or some not-yet-devised effort, reach out to help protect growers against these unforeseen and unforeseeable, yet economically devastating, losses. Again, we are willing, and in fact eager, to work with USDA on this problem.

In closing, we very much appreciate the opportunity to represent our industry before this important hearing. The floral and nursery is a huge, and growing, segment of U.S. agriculture—yet our needs are diverse and divergent from those of traditional row-crop producers, in many ways. We look forward to the opportunity to continue working with Congress, and with the Administration, on this very important issue.

STATEMENT OF ROGER BOMAN

Mr. Chairman, members of the committee. I am Roger Boman and I am a citrus grower in the San Joaquin Valley of California with 700 acres of lemons, navel oranges and Valencia oranges grown in Fresno and Tulare counties. Additionally, I grow plums, cherries and grapes.

I have been involved in farming since 1979. I market my citrus through the Sunkist Growers marketing cooperative. Recognizing the need to vertically integrate, I recently acquired a packinghouse and will be packing and shipping citrus for Sunkist.

Additionally, I have been in the insurance industry since 1972 and am owner and operator of Smith-Boman & Associates and owner, president and CEO of Transwestern Insurance Company. I am also a member of the National Association of Crop Insurance Agents as well as the Society of Professional Benefit Administrators.

First I would like to commend you Mr. Chairman and the members of the General Farm Commodities and Risk Management Subcommittee for undertaking this hearing and for your efforts to remedy the longstanding deficiencies of the USDA's risk management program applicable to specialty crops.

During the most recent reauthorization of the farm bill, Sunkist Growers, along with a number of other California specialty crop organizations including Blue Diamond Growers, the California Association of Winegrape Growers, the California Grape and Tree Fruit League and the California Kiwifruit Commission, supported the expansion of an RMA pilot called the Adjusted Gross Revenue program to California.

Due to the present financial distress of specialty crop agriculture in California as well as in other States, and our desire to avoid future costly demands for subsidies that other agricultural commodities receive, these organizations found AGR to potentially be an excellent alternative.

This unique USDA risk management tool was designed with significant input from specialty crops, though it covers all agricultural commodities and crops. It provides producers with the self-help option of insuring a portion of their farm income, based upon an average of their last five tax returns. Given the Administration's initiatives to enable foreign fruit and vegetable producers to secure expanded and more favorable access to the U.S. consumer marketplace, AGR will be a critical trade adjustment assistance tool for American producers impacted negatively by these imports.

We are extremely pleased that the committee approved expansion of AGR into eight counties in California on a test basis. However, the need for expansion of this program statewide still exists, and the opportunity to benefit from its introduction into the most agriculturally-diverse State in the country would yield significant data to benefit RMA as it considers refining and making permanent this valuable crop insurance tool.

In my opinion, AGR should be greatly expanded and could eventually replace both the citrus dollar program and the production guarantee program. However, while the pilot program certainly is more meaningful and offers greater prospects for efficiency and success in addressing the risk management needs of producers of specialty crops—particularly when built upon a multi-peril policy foundation, it does, nevertheless, suffer some real deficiencies as presently devised.

• Notably, growers can participate in AGR only after 5 years of actual production activity. New producers, who are in greatest need of insurance, are precluded from the program. Provision must be made for newer producers to be included in the program, perhaps by indexing expenses using the county averages for that commodity.

• Additionally, from an underwriting perspective, it doesn't allow any farm operation to expand and must provide upward trending in operations and indexing.

• Conversely, AGR doesn't, as presently designed, allow for downsizing of farming operations and consequently forces over-coverage.

• A problem exists in what records are considered acceptable as evidence of gross revenue and there is clear need for consistency in accounting expenses and revenue.

• In the event of shock loss in any of the base years or subsequent years used for AGR participation, and given the limited five-year data base utilized, the subsequent coverage will be inadequate to provide for grower needs. Therefore, there is a need for underwriting adjustment to exempt any shock year losses or expand the data base years.

In general, we have often seen other insurance products generated by RMA that were clearly retreads from programs designed to serve the more traditional program crops. These products often did not take into account the realities that a perennial grower, such as citrus, pears, apples, etc. must deal with.

For example, specialty crop growers have far higher risks than commodity crop growers—and pay much higher premiums. Therefore, there is a real need to offer improved underwriting subsidies designed especially for these specialty crop risks. Additionally, there is a real need for RMA to train people to understand the accounting that compliments perennial producers, as opposed to more traditional row crop producers.

In conclusion, for RMA to develop truly beneficial programs for specialty crop producers, they must engage in a collaborative effort with industry that makes the roll-out of these products the end-result, rather than the beginning of the process. Launching programs at the 11th hour and expecting participation by producers is unrealistic and puts RMA and the industry in a game of catch-up in trying to refine flawed programs, rather than constructing beneficial ones from the ground up.

In the short-term, the needed expansion of the Adjusted Gross Revenue program to all of California's counties would provide both specialty crop producers and RMA with significant benefits. This expansion should take place without delay.

STATEMENT OF CALIFORNIA ASSOCIATION OF WINEGRAPE GROWERS & WINEAMERICA, THE NATIONAL ASSOCIATION OF AMERICAN WINERIES

This statement includes two sections—both of which examine the crop insurance environment for winegrapes. The first section, provided by the California Association of Winegrape Growers, covers the situation in California. The second section, from WineAmerica, examines States other than California. For additional information regarding the California portion of this statement, please contact Karen Ross, president, California Association of Winegrape Growers at 800-241-1800. For further information regarding crop insurance for winegrapes in other States, please contact Bill Nelson, Vice president, Government Affairs, WineAmerica, at (202) 783-2756 x213.

CALIFORNIA

The California Association of Winegrape Growers appreciates the opportunity to make comments. The California Association of Winegrape Growers (CAWG) was created in 1974 to be an advocate for California winegrape growers on State, national and international issues. CAWG represents the growers of more than 60 percent of the State's annual tonnage of grapes crushed for wine and concentrate. The 2002 crush totaled 3.89 million tons, up 12 percent from the 2001 crush. The value of the 2002 crush is estimated to be $1.75 billion. Total winegrape acreage is estimated to be 556,000 acres, including 70,000 non-bearing acres.

Winegrapes are the ultimate value-added agricultural crop. According to a report commissioned early in 2000 (currently in revision) by Wine Institute and CAWG, wine is California's No. 1 finished agricultural product. The report by MKF Research established the full economic impact of the wine industry on the State of California at a total of $33 billion, including direct, indirect, and induced economic benefits. The winegrape and wine industry contributes to the California economy in diverse ways. It generates jobs, exports, tax revenues, tourism and, of course, outstanding wines!

According to the report, 847 wineries and 4,400 grape growers create 145,000 full-time equivalent jobs for $4.3 billion in wages. The retail value of California wine is $12.3 billion. Tourism expenditures are $1.2 billion with 10.7 million visitors. In California, the wine community pays $1 billion in taxes and makes charitable contributions estimated at $62 million annually.

California enjoys an environment ideally suited for the production of high quality grapes in terms of climate, soil and weather. Vineyards represent a long-term commitment with a significant statewide investment by families and family-owned corporations. Winegrapes are a particularly important tool for California's coastal growing regions as they promote the retention of agricultural operations rather than conversion to more urban land uses. Given the lower fertility of the soils in this region, there are few profitable agricultural crops.

THE IMPORTANCE OF CROP INSURANCE

Competitive global markets, falling commodity prices and higher U.S. production costs are driving changes in the rural landscape. More and more States are looking to high-value specialty crops to keep agricultural land in production. Federal crop insurance that provides adequate coverage for permanent, high-value vineyards has become an important risk-management tool for winegrape growers in California. In our State we are fortunate to have a program that works fairly well for winegrapes. This is in part because the underwriters have available to them detailed data on winegrape production compiled by the California Agricultural Statistics Service, and because of the leadership of the California Office of USDA's Risk Management Agency and the staff's understanding of permanent specialty crops like winegrapes.

CAWG has aggressively promoted participation in the program as a critical element in growers' risk management plans for the past seven years. During that time, the number of policies sold has more than doubled. Approximately 65 percent of the acreage is covered by catastrophic crop insurance (CAT) with approximately one-third of the acreage covered at higher levels. The program is providing about $211 million in liability protection to California winegrape growers. There is still a significant need to reach out to small and mid-size acreage growers to educate them about the importance of crop insurance as a risk management tool in their business plan. Entering the program at the CAT level is the first step towards a better understanding of crop insurance and subsequent investments in additional or more adequate levels of coverage above the CAT level.

We have several concerns to bring to the attention of policy makers with regard to the program for California winegrapes:

Winegrape pricing: We appreciate the difficult challenge of establishing winegrape pricing so far in advance of the crop season and we applaud efforts of the California office to develop a methodology that takes into account market trends, previous year's actual market prices (per the annual California Grape Crush Report), and production costs. However, as the market becomes more segmented with specific quality requirements for various bottle price points, the variance between contract prices and spot market prices is significant. There is little incentive for a grower to manage risk by purchasing more adequate coverage when the winegrape pricing established by RMA is considerably less than the contract price.

Vine and tree replacement coverage: The Agricultural Risk Protection Act of 2000 provided specific language for the development of a feasibility study on the creation of vine and tree replacement coverage. At this time, there has been no report on the study and the process reflects the inability of the program to respond quickly to changing agricultural needs while balancing the public's interest in maintaining a program with fiscal integrity. We hope there will be a recommendation for a pilot vine and tree replacement program for the 2005 crop year and that CAWG and other interested specialty crop representatives will have the opportunity to provide input for the counties in which the pilot program will be conducted.

Adjusted Gross Revenue (AGR): AGR was introduced in California as a pilot program in eight counties for the 2003 crop year. Unfortunately, the program details were released late in the season, which limited the ability to provide growers detailed information about the program and its potential benefits as another risk management tool. However, there has been increasing interest in learning more about the AGR program. There is also a very high interest in AGR and concern from growers in counties neighboring pilot counties about their inability to participate in the program. In particular, we have had numerous requests from Sacramento and Madera counties. We urge expansion of AGR coverage to additional California counties as quickly as possible. We also request that the definition of "diversified farmer" be adjusted to accommodate treatment of each winegrape varietal as an individual crop (as in the MPCI program). The purpose for doing so is to allow multiple-varietal growers with different quality cultural practices for each varietal.

On behalf of California's winegrape growers, we appreciate the commitment of Congress to maintain and expand crop insurance as a sound risk management tool for specialty crops. This is an important program that will only grow in importance to America's farmers who must adapt to changing, intensely competitive international markets in addition to the vagaries of Mother Nature.

CROP INSURANCE AROUND THE COUNTRY

WineAmerica applauds the subcommittee's leadership and initiative in examining the crop insurance problems confronting specialty crop producers. WineAmerica, the National Association of American Wineries, has more than 700 members in 48 States. Most are small family-owned and operated farm enterprises, producing less than 10,000 cases per year.

Regrettably, the crop insurance picture for winegrape growers in other parts of the country is not nearly as reassuring as the one in California. As the primary State for growing winegrapes, California produces approximately 90 percent of the crop nationwide. Nevertheless winegrapes are an economically important crop in at least two dozen other States (including AR, AZ, CO, CT, GA, ID, IL, IN, MA, MD, MI, MO, NJ, NC, NM, NY, OH, OR, PA, RI, TX, VA & WA) and a secondary, but valuable crop in virtually all other States.

There are about 950 thousand acres of grapes grown in the United States, some 86 percent of which are grown in California. Winegrapes make up about 60 percent of total acreage, but about two-thirds of the value of the crop because winegrapes are typically more valuable than other grapes, such as juice grapes. For example, in 2002, winegrapes in Washington State averaged $878/ton while juice grapes averaged $155/ton—a ratio greater than 5 to 1. This disparity is even larger in other States like New York, Pennsylvania and Michigan where the ratio of value is closer to 10 times. In California, winegrapes overall are about the same price as table grapes on average but some winegrapes—those grown in the most prestigious wine growing districts—maybe 3 to 10 times more valuable than the average table grapes.

Research and interviews with growers and trade association personnel in a number of States other than California revealed the following problems with crop insurance:

No coverage. According to the risk management website of USDA, crop insurance for grapes is only available in 14 States.

Low percentage of coverage. While about 80 percent of California winegrape acreage is signed up for crop insurance, most of the other States have very low participation rates such as 22 percent for Oregon, 19 percent for Missouri, 19 percent for Ohio, 29 percent for Idaho, 38 percent for Texas, and 10 percent for Arkansas. Even in some of the key grape growing States with higher levels of participation—such as New York (56 percent), Washington (69 percent) and Pennsylvania (68 percent)—these numbers reflect high participation of juice grape growers, and not winegrape growers (2002 Risk Management Agency Statistics).

Insurance agents lack incentive. Far more money can be made selling insurance to farmers with much greater acreage and more traditional crops, and with considerably less hassle. There is very little incentive for agents to take the time to learn the grape insurance program, explain it to and sign up growers with typical plantings of only 5 to 50 acres.

Need to consider separate varieties as separate crops. Crop values and yields vary greatly depending on the variety of grapes planted. So does the potential for losses. An early budding variety such as Chardonnay might be much more susceptible to crop loss due to an early spring frost than Riesling. Successful fruit set in cooler climates is dependent upon temperature during bloom. A week to ten-day period of cool rain during bloom might affect one variety while a variety that bloomed either before or after that period might be unaffected. When all varieties are considered the same crop, significant losses in one variety do not guarantee eligibility for compensation because those losses will be averaged with the performance of all grape varieties. In addition, there are wide disparities between the per ton value of grapes, even within a particular region, depending on variety. While this is especially true when comparing juice grapes to wine grapes, where the ratio may be higher than 10 fold, it is also true for different varieties of wine grapes. For example, in 2002 a ton of Pinot Noir in Oregon averaged over $1,900 while Riesling and Muller-Thurgau went for $840 and $800 respectively (Oregon Agricultural Statistical Service (*www.nass.usda.gov/or/vinewine02.pdf*). A similar pattern occurs in

Washington State where in 2002 the red varieties of Syrah and Cabernet Sauvignon were priced between $1,100 and $1,200 per ton while Chenin Blanc and White Riesling went for $441 and $654 per ton (Washington Agricultural Statistical Service *http://www.nass.usda.gov/wa/grape03.pdf)*. While there are few published statistics for other States, however, New York prices for vinifera varieties were around $1,500 per ton compared to about $200 per ton for Concord and $425 for hybrids. These wide disparities make it very difficult for growers of higher priced winegrapes to be adequately compensated when county or region average grape prices are used to calculate losses.

Inability to properly price insurance because actuarial data is insufficient. In most States the relatively small acreages of grapes used for wine production makes pricing crop insurance very difficult. The great variance between pricing and loss history for different varieties severely exacerbates this problem.

Recommendations for Improving Winegrape Crop Insurance

Catastrophic coverage. Routinely providing CAT coverage at $100 per variety is probably a fair and workable system. It avoids the need for developing complex products and can be based on each grower's historical records and documents. Some customization of pricing history will need to be developed for growers who have wineries and thus do not have to sell their grapes on an open market, but county or State average prices "by variety" could be used to develop their statistical history. But to be a useful product for growers, coverage by grape variety must be implemented.

Pilot programs. It might be a good idea to experiment with revenue-based programs such as the program being tested for cherries in Michigan. That type of program can provide compensation for a combination of loss of yield and loss of quality. However, the applicability of such programs to wine grapes is probably limited since pricing is typically based on "sound" grapes and poor quality grapes are more likely to be totally rejected without being harvested.

WineAmerica appreciates the opportunity to submit this statement, and looks forward to working with the subcommittee to improve and strengthen Crop Insurance Programs for winegrapes. Thank you.

Statement of Sustainable Agriculture Coalition

We welcome this opportunity to outline briefly some of our views on crop insurance. The Sustainable Agriculture Coalition represents thousands of farmers through its member organizations: Agriculture and Land Based Training Association, C.A.S.A. del Llano (Communities Assuring a Sustainable Agriculture), Center for Rural Affairs, Dakota Rural Action, Delta Land and Community, Future Harvest/CASA (Chesapeake Alliance for Sustainable Agriculture), Illinois Stewardship Alliance, Innovative Farmers of Ohio, Institute for Agriculture and Trade Policy, Iowa Environmental Council, Iowa Natural Heritage Foundation, Kansas Rural Center, Kerr Center for Sustainable Agriculture, Land Stewardship Project, Michael Fields Agricultural Institute, Michigan Agricultural Stewardship Association, Midwest Organic and Sustainable Education Service (MOSES), The Minnesota Project, National Catholic Rural Life Conference, National Center for Appropriate Technology, Northern Plains Sustainable Agriculture Society, Ohio Ecological Food and Farm Association, Organic Farming Research Foundation, and Sierra Club Agriculture Committee.

Our statement addresses four concerns—a nondiscrimination with respect to sustainable and organic farming, adjusted gross revenue coverage, continuing problems with organic crop insurance policies, and the special crop insurance concerns of beginning farmers.

1. Implement Principle of Nondiscrimination

This committee addressed a serious crop insurance problem for sustainable and organic producers in the Agricultural Risk Protection Act of 2000 (ARPA). In response to an outpouring of instances in which the then current definition of good farming practices for crop insurance purposes discriminated against producers using sustainable and organic farming systems and practices, and at the urging of the Coalition, an important change was made. Specifically, Congress adopted the committee's amendment to section 508(a) of the Federal Crop Insurance Act to include scientifically sound sustainable and organic farming practices in the definition of good farming practices. The new language changes the general exclusion of losses due to failure of the producer to follow good farming practices to the failure of the producer to follow good farming practices, including scientifically sound sustainable and organic farming practices. (ARPA, section 123).

The House Committee Report (106–300) with respect to this provision directed FCIC to establish specific guidelines defining what constitutes good farming practices relative to producers engaged in scientifically sound sustainable and organic farming practices. (page 34). The Senate Committee Report (106–247) further clarified the intent of Congress:

The committee is aware of anecdotal reports from producers utilizing sustainable or organic farming systems that describe discriminatory treatment resulting from narrow definitions of good farming practices that fail to adequately recognize nonconventional farming methods. By clarifying that good farming practices includes scientifically sound sustainable and organic farming practices, the committee intends for the Department to develop guidelines that will minimize any such future discrimination. The committee also encourages the Department to continue and increase efforts to involve crop insurers, lenders, and other farming-related businesses in educational and training activities exploring alternative farming systems and opportunities. (page17)

The final rule for the changes to the basic crop insurance provisions issued last June revised the regulatory definition of good farming practices as follows:

Good farming practices. The production methods utilized to produce the insured crop and allow it to make normal progress toward maturity and produce at least the yield used to determine the production guarantee or amount of insurance, including any adjustments for late planted acreage, which are: (1) For conventional or sustainable farming practices, those generally recognized by agricultural experts for the area; or (2) for organic farming practices, those generally recognized by the organic agricultural industry for the area or contained in the organic plan. We may, or you may request us to, contact FCIC to determine whether or not production methods will be considered to be good farming practices.

For this purpose, the rules reference sustainable and organic as follows:

Organic agricultural industry. Persons who are employed by the following organizations: Appropriate Technology Transfer for Rural Areas, Sustainable Agriculture Research and Education or the Cooperative State Research, Education and Extension Service, the agricultural departments of universities, or other persons approved by FCIC, whose research or occupation is related to the specific organic crop or practice for which such expertise is sought.

Sustainable farming practice. A system or process for producing an agricultural commodity, excluding organic farming practices, that is necessary to produce the crop and is generally recognized by agricultural experts for the area to conserve or enhance natural resources and the environment.

While in our view there are still shortcomings to this revised regulatory language, it nonetheless represents a very significant improvement. We encourage the committee, as the originator of this change in law, to continue to provide oversight and follow its implementation closely. One key factor will be the ability of private insurers and ultimately of the FCIC to make valid judgments about good farming practices. We are glad of the intent in the final rule for questions to be referred to experts from the SARE and ATTRA programs and we trust the Corporation will make good use of the considerable expertise lodged in these and other USDA programs and in private sector organizations that work directly with sustainable and organic farm practitioners. Insufficient knowledge and training in sustainable and organic farming systems resulted in the problems that were addressed in ARPA. That problem can now be corrected so that the agency and the crop insurance industry may better serve the steadily growing alternative agriculture sector.

m revenue protection package that can be used as a stand-alone coverage or in addition to other individual crop insurance policies. Most farm-raised crops, animals, and animal products are eligible for protection. As with AGR, the program is based on the 5-year average revenue reported on IRS Form 1040, Schedule F; therefore, minimal additional recordkeeping is required. The key advantage to AGR-Lite is that it can be used in conjunction with other Federal crop insurance plans (multiperil, CRC, etc.), coordinating the insurance protection and benefits with other plans. This provides an additional degree of flexibility for the producer and may aid in extending the AGR concept to more areas of the country and making it relevant to a greater number of producers.

The recent expansion of AGR-Lite into the other 11 northeastern States in addition to its original site in Pennsylvania is to be applauded. We are encouraging the agency, however, to work with all the States in getting AGR-Lite or adaptations of AGR-Lite available everywhere so that more farmers will benefit from this innovative approach. Historically, Federal farm programs and crop insurance programs have penalized diversified farmers and ranchers even though a diversified income stream makes economic sense and is a sound form of risk management in its own right. With the introduction of AGR and AGR-Lite, RMA is now trying to offer a Crop Insurance Program that attempts to meet the needs of these types of producers. We hope that for the 2005 crop year RMA will be offering AGR on a nationwide basis and AGR-Lite in States in all regions of the country. We look forward to working with USDA and the House Agriculture Committee in the fine-tuning and expansion of this important risk management program.

3. Address Continuing Organic Crop Insurance Problems

Two fundamental problems remain for organic producers who are looking for or are required to obtain crop insurance coverage. The first is the organic premium surcharge based on a perception of increased risk not backed by sound scientific evidence. The second is the refusal or inability to account for the organic price premium in the event that indemnity payments are triggered. The net result of this double whammy is that organic producers are placed at an unfair competitive disadvantage relative to conventional producers. The problem is magnified for 2004 since until now many organic farmers simply applied under conventional coverage, to avoid the unfair and unsubstantiated premium surcharge, but will no longer be able to do so. The choice will be between an economically disadvantageous organic coverage written agreement and no coverage. This situation must be addressed and corrected on an urgent basis.

To its credit, RMA, ERS and others are working to begin to address these problems, particularly the organic price premium issue. We would urge the subcommittee to support this effort and to encourage an accelerated timetable for completion. One immediate action that would help alleviate the problem is support for the $500,000 appropriation for the organic production and market data initiative (an initiative authorized by section 7407 of the 2002 farm bill) in the FY 04 appropriations bill, and support for a significant increase in FY 05. It is our hope that organic insurance based on actuarial information will be available in the near future so producers are not left with the unenviable choice of insuring under discriminatory and economically disadvantageous written agreements or doing without insurance.

4. Improve Beginning Farmer/New Producers Access to Insurance

Beginning farmers have special needs with respect to insurance. The wide variety of regulations related to production history and records make it difficult for the new producer to choose appropriate risk management tools. Consistent with widespread public support for addressing the crisis of an aging farm population, declining economic opportunity in agriculture, and depopulation of farming communities, the agency should not only make insurance more accessible to beginning farmers through clearer rules related to history and records, but should also offer special incentives to new producers of limited means. While this can be accomplished administratively through development of a new section of the basic provisions to deal specifically with the unique needs of beginning farmers, we would encourage the subcommittee to also review this situation and consider whether enhanced oversight or additional legislation might be warranted.

Thank you for the opportunity to submit this statement for the hearing record. Please direct any questions you may have to Ferd Hoefner, Washington Representative for the Sustainable Agriculture Coalition.

Statement of Ron Litterer

Good morning. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you this morning on behalf of the National Corn Growers Association (NCGA) to discuss the impact of the Federal Crop Insurance Program across the corn belt. I am Ron Litterer, a corn, soybean and hog producer from Greene, Iowa. I currently serve as Chairman of NCGA's Public Policy Action Team and as a member of the Board of Directors of the Iowa Corn Growers Association.

The National Corn Growers Association was founded in 1957 and represents more than 32,600 dues-paying corn growers from 48 States. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 States.

I do not need to belabor the point that the past few years have been very challenging years for corn growers. Many producers have faced depressed markets followed by a period of prolonged drought—conditions that have jeopardized the financial viability of their farm operations and even forced their exit from agriculture. The transition to the new 2002 farm bill has also required considerable adjustments by producers and their lending institutions as the timing of program payments has impacted cash flows.

The difficult and varied circumstances that corn growers have faced in recent years have demonstrated the need for further improving the farm safety net. In our view, the Congress took a major step forward with adoption of the Agriculture Risk Protection Act of 2000. The commitment of additional resources to higher levels of premium subsidies has not only resulted in significant increases in participation and the percentage of acres covered, but it has facilitated a dramatic shift toward higher levels of coverage. This positive development tells us the Federal Crop Insurance Program has become an even more important risk management tool for corn growers and other producers as well.

Our growers, overall, look at the numbers and recognize the upward trends as real progress. The reforms of 2000 are making a real difference. More producers have far more protection and peace of mind to deal with crop losses and lower prices than they did three years ago. U.S. producers received over $4 billion dollars in loss payments just for the 2002 crop year, while receiving $1.7 billion in premium subsides. In the previous year, the Federal Crop Insurance Program paid out almost $3 billion in indemnity payments. Compare these sums with the crop disaster program of $3.1 billion for the last two years and you can understand why the program is so critical to American farmers.

This is not to say our members are content with the status quo. NCGA is looking for reasonable changes in the program' regulations, including those that govern prevented planting provisions, quality loss adjustments that are more accurately tied to real market value, improved coverage of center- pivot dryland corners that allows same row direction while keeping separate units for irrigated and dryland acres, and ratings of buy-up coverage that better reflect trend yield growth and determine policy guarantees. We are encouraged, though, by the RMA's ongoing outreach to seek input from growers, particularly on reforms to prevented planting and quality loss adjustment provisions.

For NCGA, the subsidy structure of the Federal Crop Insurance Program should encourage producers to insure adequate revenue to avoid devastating losses, but it must not artificially stimulate production. To say the least, this requires a real balancing act—to reach an optimal level of financial incentives, ensure actuarially sound policies, and minimize fraud and abuse which undermines the program's integrity and the industry's financial health. NCGA is prepared to work with the Risk Management Agency and the crop insurance industry to further strengthen the program.

Briefly, I would like to summarize some of NCGA's key areas of concern. One needs to look no further than the past year to understand there are still gaps of vulnerability within the farm safety net. There is no question that producers have a much more reliable farm bill in terms of protection against depressed commodity market prices. But, we also have to recognize that many crop insurance participants who experience shallow, but significant crop losses in back to back years can find themselves in no man's land. If they have lost, for example, 25 percent of their crop, they most likely cannot file a loss claim nor would they qualify under today's crop disaster program. One crop year with this kind of crop loss should be sustainable. But, two or three years of these kinds of losses even under favorable commodity prices, can seriously impact net farm income and erode a producers' equity.

While NCGA recognizes that repetitive losses can adversely impact a grower's average production history, the APH, and consequently the value of indemnity payments, we urge the committee and the RMA to consider innovative alternatives beyond artificial adjustments to T-yields and the APH. We fear that this kind of approach would invite ill advised planting decisions, and the unintended consequence of higher premiums for producers where the incidence of repetitive crop losses has a much lower probability.

NCGA believes there are more constructive ways to address the problem of eroding indemnity benefits resulting from multiyear production losses. We are very concerned that in failing to address this situation, sustaining the increase in program participation and reducing the need for annual ad-hoc disaster assistance legislation will become increasingly difficult. We suggest that one potential solution would be to develop a supplemental insurance product that would cover a producer's deductible when two years of consecutive losses exceed a predetermined percentage of average production. In addition, we believe a wider availability of Group Risk Income Protection (GRIP), now limited to five States; Illinois, Indiana, Iowa, Michigan, and Ohio, would provide producers the option of more affordable protection against widespread area losses. NCGA intends to develop several concepts and survey corn growers on these and other risk management proposals later this fall.

Short of creating an add-on or supplemental insurance product, NCGA supports reforms to traditional crop disaster aid that is approved on an ad-hoc basis. Last year, NCGA's Disaster Assistance Task Force went to work on developing and proposing a new program to deliver disaster aid in a way that is more equitable and effective and also encourages participation in the Crop Insurance Program. The Task Force first recognized that crop insurance reforms approved three years ago are now part of a very different farm safety net with the addition of the new counter cyclical payment program. Secondly, NCGA observed that traditional disaster aid programs have targeted disproportionate payments to growers with large yield losses, but growers could still lose up to 35 percent of their expected crop and sustain substantial financial losses. Moreover, the current crop disaster program duplicates the coverage for losses already protected under subsidized Federal crop insurance policies.

Legislation introduced by Rep. Sam Graves, the Companion Disaster Assistance Program Act, would compliment the Crop Insurance Program by covering a portion of the uninsurable deductible rather than duplicating the insurance coverage and provide payments more proportionate to the severity of actual crop losses. We also believe that disaster payments can be delivered sooner and in a more targeted way because most growers who collect indemnity payments on their insurance policies would be eligible to collect a disaster payment.

Mr. Chairman, I would like to comment on two other issues that are of immediate concern to NCGA. First, is the Administration's proposal to reduce funding for the administrative and operating expense reimbursement to the insurance companies and negotiation of the Standard Reinsurance Agreement. While we certainly believe there are improvements in services that need to be made by the industry and crop insurance agents, we have questions regarding any funding changes that can potentially undermine these services and any financial incentives for companies to continue to service the Federal Crop Insurance Program. Any savings that might be achieved in the short term could hinder efforts to produce program refinements and new products that producers are looking for today. NCGA urges the Congress and the RMA to proceed with caution on these complex matters.

Second, NCGA wishes to express our opposition to language in the Senate agriculture appropriations for fiscal year 2004 that restricts the use of funds under the Agriculture Management Assistance program. The language in section 759 jeopardizes the ability of corn growers in underserved States such as New York, Pennsylvania, and Maryland to receive an additional subsidy to purchase higher levels of crop insurance coverage. NCGA has learned that participation in the Crop Insurance Program by producers in 15 underserved States increased by more than 25 percent in direct response to the additional subsidy. Last year's action by Secretary Veneman to dedicate the AMA funds for this purpose is an excellent example of how taxpayer dollars can be better spent to provide a more predictable and reliable farm safety net.

Finally, Mr. Chairman, I want to thank you and the members of this committee for holding this hearing on a program that offers tremendous benefits to corn growers throughout this country. We appreciate your support and your continued efforts to further improve upon its successes.

STATEMENT OF WOODY ANDERSON

Good morning, Mr. Chairman, I am Woody Anderson, a dryland cotton and grain producer from Colorado City, Texas. Colorado City is located in the Rolling Plains of Texas near Abilene. I am a proud constituent of Congressman Charlie Stenholm. I am here today representing the National Cotton Council and serve as its Vice Chairman.

Mr. Chairman, as an aside, we are pleased to welcome Kansas as the newest Cotton Belt State with 125,000 acres planted to cotton this year. We recognize that a considerable portion of the Kansas acreage is located in your 69-county "Big First" district.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing States, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and home-furnishings are located in virtually every State.

Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $120 billion annually. Cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

Mr. Chairman, thank you for holding this hearing on the implementation of the Agricultural Risk Protection Act (ARPA) of 2000. The House Agriculture Committee worked diligently to craft this complex piece of legislation. The Council strongly supported its passage and is pleased to offer these comments regarding its implementation.

Crop insurance is an important risk management tool for cotton producers. I have been farming for 29 years and consider insurance coverage as important as any other production input. West Texas producers are particularly vulnerable to Mother Nature. For example, in the High Plains of Texas, just to the west of my farm, two separate hail storms destroyed close to 100,000 acres of cotton near Lubbock. Over 1 million acres of the Texas Northern High Plains was hailed-out earlier in the year. Last week, Hurricane Isabel has recently damaged the Carolina and Virginia cotton and peanut crops. This serves to remind us that all cotton producers need a crop insurance product that provides effective coverage at affordable prices.

The Council supported passage of ARPA and has closely monitored its implementation. One of the main attributes of the reform legislation was to make higher levels of coverage more affordable. This year well over 90 percent of the U.S. cotton crop has some form of crop insurance coverage. ARPA helped to increase this usage. We are pleased to offer the following general observations and recommendations for administration of the Crop Insurance Program.

Accurately rating coverage is critical to an affordable insurance product. USDA's Risk Management Agency (RMA) should continually look for ways to move towards individualized experience rating. RMA should develop a program that rewards "good" loss experience through lower premiums and/or higher levels of coverage. Producers who practice risk-reducing cultural practices, such as planting improved varieties and employing good soil and water conservation practices, should be able to benefit from improved insurance coverage. Producers are not able to benefit from their advanced practices with a county-based ratings system.

Four years ago, at the urging of our industry and with help from Congress, RMA commissioned and implemented a major rate review in a number of Cotton Belt regions that resulted in significant adjustments. This review determined that the actual county experience did not reflect the latest trend yields due to overall low participation by producers and those who did participate had abnormally poor yields. Adjustments were made to the county figures and rates, and in some cases there were significant adjustments. We want RMA to continue to evaluate and improve its rating methodology.

Private companies and RMA should continue to develop innovative types of coverage to reflect special regional needs. We suggest more emphasis be placed on development and delivery of Group Risk Protection (GRP) as a viable alternative to CAT coverage. Some regions of the country believe that the addition of subsidized hail coverage to GRP would be extremely valuable. This would provide a degree of producer-specific coverage as well as more meaningful catastrophic loss protection than current CAT coverage.

We would encourage RMA and private companies to develop insurance products for processing segments of production agriculture to cushion them when there are catastrophic production losses. It is unclear the procedure or the availability of assistance from the Small Business Administration for these processing segments. When a cotton crop is destroyed by natural disasters, ginners, warehousemen and other parts of the processing chain are impacted. This is particularly true for cotton gins, a majority of which are owned by producers.

NCC supported the development of a cost of production insurance product. We have been disappointed by the slow development of this product by RMA. We understand that research has been completed and a pilot program is being developed. We recommend the pilot be conducted on a wide geographic basis for the 2004 crop so that it can be accurately evaluated. Only after such evaluation will our industry know if it will be a useful product.

With current multiyear droughts seriously impacting water supplies to producers in Federal and State water districts in the irrigated West, we want to emphasize the need for continued prevented planting coverage. Currently, Federal multi-peril policies provide for prevented planted coverage in cases where water districts can certify that producers would have received historical allocations given normal rainfall or snow pack. We expect these districts will face even tighter water supplies next year based on drought conditions and urge RMA to provide timely guidance to agents, producers and water districts about the availability of preventive plating coverage.

Crop insurance fraud and abuse by producers, agents and adjusters add costs to the Government and insurance companies and reduces effective coverage to all producers. Some method of differential rating for producers who have continuous losses that are inconsistent with area experience would benefit other insured growers by lowering their rates. ARPA calls for additional monitoring and tighter enforcement of good farming practices. It is our understanding that RMA possesses new methodology to better track and differentiates losses. We urge them to fully implement the new tools at their disposal to reduce fraud and abuse. In addition, we urge continuation of a close working relationship between RMA and the Farm Service Agency (FSA). We believe that FSA cab serve a meaningful role in monitoring compliance with good farming practices for insurance purposes. It is also critical that the two agencies continue the use common databases for sharing information.

A new quality adjustment provision for cotton has been under development by RMA for a number of years. We understand the research has been completed and urge RMA to implement a credible cotton quality loss provision on a bale-by-bale basis with a reasonable threshold of loss. Cotton has the unique ability to preserve identity on a bale-by-bale basis. We believe cotton quality loss provisions should be structured in recognition of the unique bale identity. We also do not believe that it should not be treated as a separate rider to a standard policy at an additional premium.

We remained concerned about RMA's inconsistent policy regarding late planting periods following final planting dates. It has always been RMA's policy to allow producers to plant cotton after the final planting date in exchange for reduced coverage. Currently, the late planting period for cotton is 15 days, but has been as long as 25 days. Our concern stems mainly from the inconsistent implementation of rules regarding appraisals when crops fail to emerge due to insufficient soil moisture. In recent years our industry and several Members of Congress have worked closely with RMA to insure that fair and consistent policies dealing with non-emerged seed are in place. We understand that RMA must allow adequate time after the final planting date to determine if seed planted into dry soil will receive adequate moisture to achieve a viable stand. We also believe that there is a responsibility to the producer to provide a timely adjustment on non-emerged acres so that alternative management plans can be initiated. It is our understanding that a producer must now wait an additional 8 days after the end of the late planting period before appraisals can be scheduled and loss settlements finalized. This additional waiting period was added in just the past few years in place of policy that allowed appraisals on non-emerged acreage after the end of the applicable late planting period. We have not received a clear explanation for implementation of the new policy, nor any favorable response to our request for changes. This appears to be another case where the agency is attempting to somehow thwart what they suspect is manipulation of multiple crop coverage at the expense of legitimate loss determination. We urge the agency to amend its current practice and return to allowing appraisals on non-emerged cotton acreage no later than 15 days following the final planting date.

In summary, the National Cotton Council supports a crop insurance product that provides effective coverage at an affordable cost. Crop insurance must be developed, delivered and administered as an effective risk management tool and innovative policies must be developed to make crop insurance more useful in various and ever-changing production conditions. We urge this subcommittee to continue its oversight of the implementation of ARPA to ensure a meaningful risk management tool for producers. On behalf of the Council, we appreciate the opportunity to present these comments.

Testimony Before the General Farm Commodities and Risk Management Subcommittee
of the
HOUSE AGRICULTURE COMMITTEE
1301 Longworth Building
Washington, DC 20515
September 18, 2003

Mr. Chairman and Members of the Subcommittee, I want to thank you for allowing me to testify before the Subcommittee on the subject of crop insurance.

My name is Johnny Barnes of Spring Hope, North Carolina. I am part of a family owned and operated farm located in Nash County, North Carolina. Our farm is a diversified operation as we grow several different commodities. We have been growing sweetpotatoes for 50 years, and we currently grow approximately 3,600 acres.

According to the National Ag Statistics Service (NASS), sweetpotatoes have been commercially grown in the United States since the 1800's. The 1997 Census of Agriculture reports that sweetpotatoes are grown in some 23 different states. The top four states in production in 2002, ranked from one to four, were North Carolina, California, Mississippi and Louisiana. In 2002, NASS reported that nationally, sweetpotatoes were grown on 83,300 acres. Production was 1.2498 billion pounds with a crop value of $213 million dollars. Sweetpotato production is very important to the rural communities in which they are grown.

Sweetpotatoes may be the most nutritious of all vegetables. They are a powerhouse of nutrition. According to USDA, they are an excellent source of beta-carotene (a precursor to Vitamin A), a good source of Vitamin C and potassium, a non-fat source of Vitamin E and they also contain other valuable nutrients such as Vitamin B6, Folate and fiber.

Sweetpotato producers need an effective risk management tool available to all growers which will provide a safety net against weather related disasters. The variability of the weather is the most important economic factor sweetpotato farmers encounter during a growing season. Hurricanes and tropical storms which affect the eastern and southern gulf states deliver torrential rains during the time when the sweetpotato crop is mature and ready for harvest. Because sweetpotatoes are a root crop, they cannot survive excessive moisture nor will they mature during prolonged dry conditions. (The east coast has just been relieved of drought conditions during 2003.) Crop insurance for all who choose to protect themselves against catastrophic loss is essential.

Prior to 1998, crop insurance for sweetpotato production and storage was not available. The current pilot programs started with the 1998 crop year. By including the current 2003 growing season, therefore, the current pilot program has been in effect for six seasons.

The pilot program currently operates in five different states and eight different counties, as follows:

Baldwin County, Alabama
Merced County, California
Avoyellas County, Morehouse County, and West Carroll County, Louisiana
Columbus and Johnston County, North Carolina
Horry County, South Carolina.

During the six year existence of the pilot, our growers and the North Carolina SweetPotato Commission have had a number of meetings with USDA's Risk Management Agency (RMA) to talk about crop insurance and to discuss the kind of program we wanted. Similarly, growers from other states and their state organizations have also had meetings with RMA.

In our meetings with RMA consultants, RMA staff and in our correspondence with RMA and Congressmen in Washington, sweetpotato growers and our Council have always made it clear that we want a crop insurance program for sweetpotatoes that is:

1. Market Neutral
2. Honest (No Fraud)
3. Practical
4. Affordable

The requirement that the program be market neutral is very, very important. However, as much as we have tried to communicate to RMA the need for market neutrality, sweetpotato growers are not convinced that RMA is hearing us.

To assure that the issue of market neutrality is included; our North Carolina growers have always asked that three requirements be included in any permanent crop insurance program for sweetpotatoes:

1. Producer must have a three-year history of production before obtaining coverage with acreage certified by FSA.
2. Producer is limited to insuring no more than 110 percent of his prior three year average of certified acreage. For example, if a grower's certified acreage over the past three years is 100 acres, then the most acreage that he could insure for the coming year would be 110 acres.
3. Producer must prove, or show, that unharvested acreage is destroyed prior to closing the claim.

Moreover, since the pilot program is now completing it's sixth year of existence, US sweetpotato growers, through the efforts of THE UNITED STATES SWEET POTATO COUNCIL, are now asking that the pilot program become a permanent program and be made available to all sweetpotato growers in all counties in all states. We don't think it's fair for some growers to have had the program for six years, while the rest of us have to go without the safety net against disaster that crop insurance provides.

To give the Subcommittee an example of why we think it is so important to have market neutrality and to make it available to all growers, may I refer the Subcommittee to Table 1, below of my testimony.

Table 1. A comparison of sweetpotato acreage planted, acres harvested and net acres insured in Columbus County, North Carolina, 1998-2001.

Year	Acres Planted	Acres Harvested	Net Acres Insured
1998	1,455.00	1,355.00	1,582.00
1999	1,550.00	1,200.00	2,317.00
2000	1,700.00	1,400.00	4,011.00
2001	1,800.00	1,500.00	5,170.00
Four Year Total	6,505.00	5,455.00	13,080.00

Source: NCASS and www.rma.usda.gov
Note: Acres planted and acres available only through 2001.

Columbus County, North Carolina was selected as one of the pilot counties when the program was implemented in 1998. Over the four year period, 1998 through 2001, the number of "net acres insured" each year exceeded the number of "acres harvested" and the number of "acres planted". There is something wrong with this picture, and the figures in Table 1 imply there is a problem. Could it be that some growers are farming crop insurance rather than sweetpotatoes?

To end my testimony, US sweetpotato growers would very much like to have an effective risk management tool available to them. However, if a program cannot be devised that is market neutral, honest, practical and affordable; I would then recommend that the crop insurance program be dropped completely. Similarly, it is not fair for some growers to have access to the pilot program for six years, and thereby, create additional volume and competition for bonafide growers that have been growing sweetpotatoes for many, many years but do not have access to the benefits of the pilot program. Unless it is made available to all growers in 2004, again I would recommend that the crop insurance program be completely dropped.

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Tuesday, September 16, 2003

TO: House Agricultural Subcommittee

My name is Vaughn Hunter. I am a crop insurance agent serving thirty seven counties in Pennsylvania and Maryland and for the last six years I have acted as a volunteer consultant for the National Peach Council on crop insurance issues.

I wish to address two issues of vital concern to our growers and the growth of crop insurance in our area.

First is the availability of optional units. Whenever a farm has a separate FSA assigned farm serial number, the insured may, for an additional premium, elect to have such farms adjusted on an individual basis, as opposed to combining all acres grown within a county.

The basis for this problem is that over the years, growers have had to expand in order to survive. Many family farms now consist of several generations and numerous families under one farming operation.

Today in the Northeast, most of our farm operations will consist of several farms, often miles apart, with differing soil types and weather patterns. In the past, each farm would have had a separate farm number and would have been insured separately.

However, under current FSA rules, all farms owned by one operation will be combined under one FSA farm number. Because of this, growers are unable to obtain the benefits of optional units. Without optional units, the value of crop insurance is greatly diminished. This is a serious problem that is curtailing the expansion of crop insurance.

For apples, this has not created a serious problem because apple growers are allowed separate units for non-contiguous acres.

Peach growers are not allowed this privilege. This, combined with the fact that the greatest concern for peach growers is the threat of hail or frost, which can both be very spotty as to where they might hit. A good example of this occurred in 2001 when most of the peaches on high ground froze while those in the valleys were untouched.

Sectional equivalents have been introduced as an option but due to the geographical factors involved, they are of limited value.

The optimal solution would be the ability to reconstitute former individual farm serial numbers. In lieu of, or in conjunction with this, allowing other crops the privilege of separate units for non-contiguous acres will be a strong asset to increase participation in crop insurance.

Any assistance you can provide to broaden the access to optional units will make crop insurance much more attractive to those producers with multiple locations.

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SECOND: In the spring of 2003, RMA made additional subsidies available for under-participating states, mostly in the Northeast. Producer response was outstanding. With more affordable coverage, the number of policies with 75% or higher levels of protection increased from 20% to 60%. This was a very positive step to increase grower participation. However, this was not extended for fall crops, nor is there any indication that this additional subsidy will be available for the 2004 crop year.

While no-one expected this to be a permanent program, neither was there any indication that it would be a one-shot deal. If this is allowed to expire completely and immediately, there is a strong probability that not only will much of the resulting gains be lost, but also that the building grower confidence in the crop insurance program will be reversed and the significant gains of the last few years will be lost.

On the other hand, should this be gradually phased out over the next few years, it will allow the agents more time to extol the benefits and greatly reduce the "sticker shock" to growers.

As an agent, I believe with a gradual phase-out, we will be able to maintain our previous gains and continue to see expanded growth.

Your consideration and assistance will be greatly appreciated.

REVIEW OF CROP INSURANCE AND COMMODITY PROGRAMS

MONDAY, DECEMBER 1, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM
COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Lubbock, TX.

The subcommittee met, pursuant to call, at 1:00 p.m., in the Memorial Civic Center, Lubbock, TX, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Neugebauer, Peterson, Ross, and Stenholm [ex officio].

Staff present: David Ebersole, Kelli Ludlum, Alan Mackey, and John Riley.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. The hearing on the Subcommittee on General Farm Commodities and Risk Management to review crop insurance and commodity programs will now come to order.

I very much want to thank the witnesses that we have today that are appearing before our subcommittee. I appreciate their willingness to devote their time and attention to some awfully important issues for themselves, their members and area producers. I especially want to thank our host today, Congressman Neugebauer, and the staff here at the Civic Center, whose cooperation and assistance have made this hearing possible. So, Randy, thank you very much for allowing us to come to Lubbock. This is my first visit to Lubbock and I will tell you it looks a lot like the southwest part of Kansas where I come from. Although it seems like you have all had a lot more rain than we have had.

I welcome that opportunity today to hear from your State and local agricultural leaders. We have witnesses from Texas, from Oklahoma and from Kansas. This is our second field hearing. The other was held in Mr. Peterson's district in Ada, MN in August. We are glad to be on the High Plains of Texas and hear first hand from producers about the results of crop insurance reforms that took place several years ago, along with the new farm bill and how they have benefitted our farmers' operations.

Crop insurance, from my own experience, is an increasingly important risk management tool for farmers in almost all growing regions, and this area is no exception. Both Kansas and Texas are among the top 10 States in the percentage of eligible acres insured.

Texas producers lead the Nation with the highest dollar amount of crop insurance protection in force. Similarly, both the acres and level of coverage in Oklahoma have increased over the past 10 years, doubling from 31 percent of acres insured in 1994 to 62 percent of acres enrolled last year. In my own congressional district in Kansas we received the most crop insurance payments of any congressional district in the country—a title that is very discouraging. It is a distinction that we would prefer not to have, since even that significant amount of indemnity represented only a partial compensation for the $1.4 billion that we lost last year from drought related problems for our farmers and ranchers.

In addition to hearing what is working well, we are here also to learn what might be improved to better serve the farmers of this region, as well as their lenders and insurance agents. We know that despite increased crop insurance incentives, expanded guaranteed support in the farm bill, and most recently, ad hoc disaster assistance, some needs remain unmet.

In the High Plains, multiyear losses continue to be a problem which crop insurance does not fully address. The story of premiums going up, while coverage goes down, is one that I've heard frequently from my own constituents as a result of four consecutive years of drought. And despite progress, it is still difficult for some producers in specific counties to obtain coverage for their particular crop. The greatest interest I continue to hear from farmers in my own district, as well as from members of this subcommittee and other Members of Congress is on crop insurance availability and providing adequate levels of coverage to meet our producers' needs.

After today's hearing, I expect this subcommittee to continue working with producer groups and the U.S. Department of Agriculture to addresses the issues of national concern that have been raised at our first six hearings, as well as topics of regional interest that may be discovered through the testimony of our witnesses today. Specific to the Crop Insurance Program in the current climate of budget limitations, we must examine options to protect producers from natural disaster without ad hoc emergency spending. So we will seek to address issues that can make the combination of crop insurance and other farm programs more effective risk management tools for farmers and ranchers nationwide.

I welcome our participants today and I would yield time to the gentleman from Minnesota, the ranking member of our subcommittee, Mr. Peterson.

OPENING STATEMENT OF HON. COLLIN PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman.

I look forward to the testimony here, learning more about crop insurance in other parts of the country. We have the same kind of problems in my district, multiyear losses. We have had some pretty high indemnities the last few years, too. This year we had a pretty good crop.

I appreciate, Mr. Chairman, your leadership in really delving into the crop insurance issue so we can continue to improve it. With that, I will yield the remainder of my time to our esteemed ranking member of the full committee. He knows more about Texas agriculture than I will ever learn as long as I try to do it. So I yield to Mr. Stenholm.

OPENING STATEMENT OF HON. CHARLES STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you. I would say that I am learning about Minnesota agriculture as, Mr. Peterson, you are learning about Texas agriculture, and we appreciate that. We appreciate you being here and we appreciate Mr. Neugebauer hosting us here today. Mr. Ross, from Arkansas, we are glad to have you with us today.

Mr. Chairman, I very much appreciate the manner in which you have been conducting this subcommittee regarding the question of risk management. As you said in your opening remarks, and we will hear from witnesses today, the bill that was passed 4 years ago is in need of improvement and the more that we have an opportunity to hear from those who benefit from this risk management, the crop insurance, the better that risk management will be able to address the problems and certainly where it takes legislative correction, this is where it starts. So, Mr. Moran, I very much appreciate you being here.

I noticed, though, that the witnesses from Kansas, one will be talking about canola, the other will be talking about corn, but you did not see fit to bring a cotton farmer from Kansas. It is my understanding that there were 604 Kansas cotton acres insured in 1996, there were 70,000 in 2002. I have not seen the 2003 numbers, but just to put it in perspective, there were 250,000 acres insured here in Lubbock County alone. So I know every time I have the pleasure of being in the audience of Mr. Moran, he talks about how big his district is and how much wheat he grows in his district, more than any other State. That all began with another chairman, a full committee chairman, Mr. Pat Roberts, now Senator Roberts. He kept reminding us. And that is one of the things you do not do when you come to Texas, is talk about how much bigger you are in anything. But Jerry is learning on this.

I do not know if it is true or not, but there are some stories now that have been reported that Kansas cotton farmers doing what they know best, harvesting their cotton with combines, trucking it to the elevator, and they say that much of the bread coming out of Kansas today is very high in fiber. [Laughter.]

Mr. MORAN. The gentleman's time has expired. [Laughter.]

Mr. Stenholm, thank you very much for your very instructive comments. I will conduct myself accordingly to avoid any further outrage by you. [Laughter.]

Mr. MORAN. I am delighted to be here in Lubbock, TX. We now have cotton planted on about 125,000 acres, which I know is a small cotton crop compared to Texas, but we are becoming a cotton State as well. If we get any rain, we may start growing rice as well.

I am delighted, as I said earlier, to be with our friend Mr. Neugebauer. We are in his district here in Lubbock, and I would yield to the gentleman from Texas, Mr. Neugebauer, for any comments you would like to make.

OPENING STATEMENT OF HON. RANDY NEUGEBAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. NEUGEBAUER. Mr. Chairman, first of all, 125,000 acres is a small farm in Texas. [Laughter.]

Mr. MORAN. The gentleman's time has expired. [Laughter.]

Mr. NEUGEBAUER. I want to thank Chairman Moran for bringing the subcommittee to my hometown of Lubbock for this afternoon's hearing. I appreciate the subcommittee members also making the trip to west Texas after last week's Thanksgiving holiday to hear firsthand from this area's producers.

As many of the witnesses will tell us, farming in this part of the country carries high risk of drought, damaging storms and other adverse growing conditions and effective crop insurance is essential to the producers to manage these risks. Without crop insurance and Federal commodity programs producers would not be able to obtain sufficient financing to keep these farms in operation.

In the past several months Chairman Moran has held several hearings to review crop insurance and to listen to suggestions for improvements to those programs. Producers who buy the insurance policies and agents who sell them are in the best position to recommend to the subcommittee how we can make crop insurance a more effective program. I hope the subcommittee can continue to facilitate an ongoing dialog between farmers who rely on these programs and the risk management agency that implements and administers the crop insurance insurance programs.

I appreciate RMA being here this afternoon and the Agency's willingness to respond to the concerns raised today. Thank you to the witnesses for taking time out of your very schedules, especially those from the 19th district. West Texas is one of the most productive agricultural areas of the country and your testimony will help the subcommittee better understand the needs of the producers in this region.

It is also great to see many of the folks from the region and the community here today. I think your presence demonstrates how important and effective Crop Insurance Program is to west Texas. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Neugebauer.

We have 11 witnesses with us this afternoon. Our witnesses will be testifying in three panels. The first witnesses we will hear from today are representatives of seven of the major commodities produced in Texas, Kansas and Oklahoma.

Our second panel consists of producers and lenders who represent general farm interests and have had firsthand experience with the economic consequences of farm programs and risk management strategies.

To complete our hearing today we will focus on crop insurance and we will here from an academic perspective, as well as the views of companies and agents who sell and service insurance contracts. We welcome all of our witnesses today and we look forward to all of their testimony.

Our first panel consists of Mr. John Haas of the U.S. Canola Association; Mr. Ted Higginbottom of the Western Peanut Growers Association; Mr. David Moore of the Texas Wheat Producers Association; Mr. Kenneth Rose of the National Grain Sorghum Producers; Mr. Dee Vaughan of the National Corn Growers Association and Mr. Mark Williams of the Plains Cotton Growers here in Texas.

The chairman's prerogative would be to recognize the Kansan first. Mr. Haas, you may begin.

STATEMENT OF JOHN HAAS, VICE PRESIDENT, U.S. CANOLA ASSOCIATION, LARNED, KS

Mr. HAAS. Thank you, Mr. Chairman and distinguished members of the subcommittee. I thank you for this opportunity to come and visit with you for a moment. My name is John Haas and I farm in Pawnee County, which is about 60 miles from Jerry's hometown. I raise grain sorghum, soybeans, alfalfa and canola. Today, I am also a member of the U.S. Canola Association Board of Directors and presently I serve as vice president.

I would like to visit with you a little bit about the crop of canola which is an emerging crop, particularly in the Plains States. The canola that we have in America today is mostly grown in North Dakota and Minnesota. That is a spring planted crop. Today, I would like to talk about the winter canola that has been developed by Kansas State University under a research grant that the Federal Government has given to us to explore those possibilities. Charlie Rife, our researcher at Kansas State, has spent the last 10 years in developing winter varieties and we are just at the breakthrough time period. Last year there were about 300 acres of canola planted in the State of Kansas and this year it has increased 10 fold to a little over 3,000.

USCA held a growers' meeting in Hutchinson in August and we had 35 new growers participate that got excited about the crop of canola. It is planted similarly to wheat. It is planted in the fall just before when we would normally plant wheat in our area, and it is harvested in the early summer just before we would harvest wheat. You can plant it with the equipment that we have that we plant wheat with, and you can also harvest it with a combine just as you would wheat.

Canola is an important crop to the United States, and we import about 70 percent of the canola that is used. Importing this from Canada and Europe. There is a market here. There is a crop that has a demand for it in America and we would like to see the American farmers take advantage of this. Canola is also the healthiest of all vegetable oils, as it only contains about six percent saturated fat, but it is rich in the beneficial oleic acid. And so as we are very diet conscious today, we see the fact that there is a greater demand for canola. And as economics dictate to those of us as producers, this is a crop that would have a good economic return.

We have a slight problem in the fact that crop insurance covers canola in only 147 counties in the United States. Those counties are in North Dakota and Minnesota. Crop insurance is not available to those of us in the Great Plains area. In 2003 crop insurance—at that time to get a written agreement to be covered, you had to have 3 years of records of your production, and they are proposing that in 2004 the 3 years go to 4 years. Well with a new emerging crop that is very difficult to do. So what we would like to ask is that you could use either similar crops to establish the yield that needs to be or we could see those rules changed to include the canola crop. We think that canola can not only increase like it has from last year to this year, but we think that it has the possibilities—if we can get crop insurance to encourage producers to grow this, it would increase to as high as in excess of a million acres in the Great Plains area.

I visited with one producer on the way down here, I had an opportunity to stop by and visit with and look at his canola, and it looked beautiful, in northern Oklahoma. In that area the rotation seems to be wheat, cattle, wheat, cattle and canola fits that well because of the fact that canola can be pastured by livestock. In fact, it is twice as digestible as wheat is. We have had some fellows in Kansas that have been very successful in pasturing canola and then harvesting a seed crop at the end of that.

These are all good things, but to really get the producers to buy into a new crop, we need to have something in the area of risk management. Today we cannot afford very many hiccups as producers. I think crop insurance has done a good job in areas, but in the area of canola we are falling a little bit short and we would encourage you to look at this.

This fellow that I talked to on the way down here thought that in the northern Oklahoma area where they do a lot of pasturing of wheat that if they have any success this year—because we have got a large group of producers that this in their first year trying it—that it would increase to 600,000 acres in that area alone. That would be a significant area.

Canola is a broad leaf plant, and in the areas that continuous crop wheat, we start getting grass problems. We can clean up those grass problems by putting a broad leaf plant in there and herbicides and clean up that ground.

We have also found that there is an additional kick. We cannot understand what it is, but in planting wheat following canola we can an increase in yields of as much as 10 percent.

So there is just a lot of good things in the crop of canola, and we have got producers that are willing to try this new crop, but without crop insurance, without having something to fall back on, it is pretty difficult to risk very much. They will try a little bit. And so I would like to encourage the subcommittee to recommend that the crop insurance corporation look at the canola issue. USCA would be very happy to work with them in any size, shape or form to be able to draw up something that would work.

And so with that, I think I will conclude my oral testimony.

[The prepared statement of Mr. Haas appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much, Mr. Haas.

Mr. Higginbottom.

STATEMENT OF TED HIGGINBOTTOM, PRESIDENT, WESTERN PEANUT GROWERS ASSOCIATION, SEMINOLE, TX

Mr. HIGGINBOTTOM. Mr. Chairman, members of the committee, it is an honor for me to appear before you today. My name is Ted Higginbottom. I am president of the Western Peanut Growers Association. The Western Peanut Growers Association has more than 1,000 members in Texas who produce 75 percent of the peanuts grown in the State. Peanut production in the U.S. generates an annual crop value of over a billion dollars.

The peanut industry appreciates the committee's diligent work on the 2002 farm bill to provide legislation to convert peanuts from a production quota system to a regular commodity program.

The 2003 Peanut Program significantly changed under the farm bill. The changes to the Crop Insurance Program have lagged behind. Producers of other program commodities have the ability to insure actual production history on acreage by sections. Peanuts are still under a crop insurance policy that was written back in 1999 under the old program.

Under the peanut policy the producer can only have separate units if the acreage is given a separate FSA farm serial number. Therefore, without a change in policy, producers are not permitted to utilize optional farm units. The entire peanut acres are covered under one policy requiring a higher loss percentage in order to obtain any indemnity payment.

The Western Peanut Growers brought this issue to RMA's attention in March of this year during a meeting with RMA Administrator Ross Davidson. During this meeting, RMA promised the optional unit structure would be changed for the 2004 crop year. The contract change date for peanuts was November 30. RMA did not release the new policy for the 2004 crop year with this modification included.

The Western Peanut Growers urges to committee to prompt RMA to expedite the necessary policy changes to allow peanut producers to establish optional units, which would provide better insurance coverage, as the APH would be recorded for the individual acreage sections. This small change in the policy would make the policy more equitable in comparison to other program crops.

The second issue I would like to address today was the change that was incorporated in the Agriculture Risk Protection Act of 2000, which RMA will be implementing for the 2004 crop year, the double insurance provision. This stipulation on coverage will have many unintended consequences; beginning with producers and lenders not having a clear understanding of the amount of insurance that will be available to the producer during the crop year.

Under these restrictions, if a producer has a loss on his first crop, he can receive 100 percent of the insurance loss for the crop and not insure his second crop. The other choice for the producer is to calculate the loss for the first crop, receive 35 percent of the eligible indemnity, plant and insure the second crop. If there is a loss to the second crop he can receive full indemnity for the second crop, but he has to forgo any additional indemnity for his first. If the producer is fortunate and has no loss to his second crop planted, he can obtain the balance of the indemnity for the first crop after he has harvested the second one. At the end of the year, a premium for the two crops will be adjusted according to percentage of indemnity received for these crops.

When crops are hit with natural disasters such as hail or drought, we want to be able to plant another crop because we would like to earn our living from the marketplace. It is very possible for a Texas cotton farmer to have his crop hailed out just after the final planting date for cotton and still have time to go in and plant a crop of Spanish peanuts. He also could have a wheat crop that would be destroyed and still have time to plant a full season peanut.

We understand the reason this provision is in the legislation, to cut down on abusive practices. However, this provision will harm all producers who double crop. We urge the committee to modify this provision with legislation that would provide 100 percent coverage for two crops planted in a calendar year.

The Western Peanut Growers would greatly appreciate the committee's attention to these two very important issues. Thank you.

The prepared statement of Mr. Higginbottom appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much for your testimony.

In the absence of Mr. Moore, we have with us representing the Texas Wheat Producers Association, Mr. Floyd Gibson.

STATEMENT OF FLOYD GIBSON, TEXAS WHEAT PRODUCERS ASSOCIATION

Mr. GIBSON. Thank you, Mr. Chairman. The Texas Wheat Producers Association is pleased to have this opportunity to offer you our thoughts on crop insurance reform. I am Floyd Gibson and I farm down in central Texas, about 100 miles northwest of Austin and halfway between San Angelo and Waco. We are quite a bit different from the High Plains and we still suffer from drought. I have been in the farming business—you can look and see how old I am. I growed up in trouble greasing my daddy's planter and my mamma was always whupping my britches for getting greasy.

It is still a difficult organization of crops to figure out what you are going to do with crop insurance, because there are so many deductions and so much other things that enters in, that by the time you have a disaster and you get paid, the interest on the money you borrowed eats up what you got. But we applaud you, Chairman Moran and the subcommittee members for your diligent effort to provide effective and affordable insurance for farmers.

Crop insurance needs reform. Of course, that is a broken record, we hear that all the time. The fact was made evident by the need for disaster assistance legislation last year. The passage of the Agriculture Risk Protection Act was a major improvement in crop insurance, and our proposals today build up on ARPA's reform. Nevertheless, the cost of higher levels of coverage and the inability of crop insurance to address the needs of disaster affected farmers has led the Texas Wheat Producers Association to list crop insurance reform as one of our top priorities.

We understand clearly the current budget environment. Our proposals intend to be cost effective, especially compared to disaster funding.

TWPA has four primary goals for crop insurance reform. They are, in order of priority, as follows:

More affordable coverage at higher levels.

Prevent or slow declining APH due to consecutive disasters.

Establish farm savings accounts, which become available in the event of disaster.

Establish a minimum loss standard.

I would like to go into detail on these primary goals in turn.

Coverage levels. The higher levels of coverage currently available are not affordable. The most cost-effective coverage for producers is either 65 percent MPCI (APH) or 70 percent CRC, therefore these are the levels most farmers purchase. Why? Because they are cheaper. But when you get to it, you do not get anything after everything is gone. A farmer loses roughly 1½ years of income before any claim is paid. An 85 percent coverage would cover some of the gap; however, higher coverage must be affordable. The availability of higher coverage is of little use if a farmer cannot afford the premium. Therefore, in order to help producers reach higher coverage levels, the cost of the higher coverage must be reduced.

Actual production history. The Nation's wheat growers know all too well the effects of prolonged drought. Until this year, much of the Nation's wheat belt suffered from 2 to 6 years of drought. Here in Texas, some areas have had below average rainfall for many consecutive years. Each year of crop failure reduces a farmer's APH, eroding the crop insurance safety net.

The minimum yield plug is an effective tool; however, the current 60 percent plug is too low. We suggest the level of coverage purchased by the producer as an appropriate yield plug factor. For example, if a farmer purchases a 75 percent coverage, their yield plug would be 75 percent. This rewards the producer who buys up coverage. Another factor to consider is that a T-yield based on a short time frame is based on NASS 10-year historical data per county. If the T-yield was based on a longer time frame, then the effect of consecutive disasters would be minimized. Therefore, a more stable yield plug floor would help farmers through consecutive disasters.

Farm savings accounts. TWPA and other farm organizations have supported the creation of these accounts in previous farm bills. Tax deductible contributions with taxable distributions would be fundamental principles of these accounts. A USDA match, as well as tax deferred growth, would provide incentive for account establishment. Therefore, disaster reserve accounts held in local financial institutions would provide stability to farm income and security to rural communities.

Minimum loss standards. The deduction of a salvage yield from a disaster affected crop obviously reduces crop insurance coverage; therefore, a farmer with an APH of 40 bushels per acre and a 70 percent coverage assumes a 28-bushel per acre guarantee. The custom harvest cost for wheat in Texas is around $14 an acre. At this cost and a $3 per bushel price, a farmer with an appraised salvage yield of four bushels to an acre could not economically justify harvesting the remaining crop. This effectively drops his coverage to 24 bushels per acre or a 60 percent guarantee instead of the 70 percent guarantee. Therefore, when the cost of harvesting a loss-affected field exceeds the appraised salvage value, that field or insured unit should be assigned an appraisal of zero.

Conclusion. Mr. Chairman and members of the subcommittee, we thank you for this opportunity to testify, and we look forward to working with you on this effort. I am happy to respond to any questions you may have, and pledge the Texas Wheat Producers Association's assistance to you in developing, refining and implementing a more effective risk management product. I would like to reiterate that we would like to cover a lot more besides wheat.

[The prepared statement of Mr. Gibson appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Gibson, thank you for your testimony.

Mr. Rose from the National Grain Sorghum Producers.

STATEMENT OF KENNETH ROSE, PRESIDENT, NATIONAL GRAIN SORGHUM PRODUCERS, KEYES, OK

Mr. ROSE. Thank you, Chairman Moran and thank you members of the subcommittee for this opportunity to testify at this field hearing. We welcome all of you to Lubbock, which is also home office of the National Grain Sorghum Producers. My name is Kenneth Rose and I serve as president of the National Grain Sorghum Producers. I farm near Keyes, OK in the Oklahoma panhandle and our operation includes grain sorghum, wheat and cattle.

It is appropriate that the subcommittee is convening here today because Lubbock has been in a drought disaster for at least the last 5 years and are currently 8 inches below normal rainfall. That is a critical shortage in an area that only gets 15 to 18 inches annually.

Additionally, Lubbock, north through the Texas panhandle is home to a billion dollar sorghum seed industry that accounts for nearly 70 percent of the world's hybrid sorghum seed production.

NGSP's primary concerns that we will detail today fall into two main areas. First, a level crop insurance playing field is needed for grain sorghum so that crop insurance will no longer distort planting intentions. Additionally, NGSP will detail other concerns that we urge this subcommittee to address.

We would like to thank the subcommittee members for their support in our efforts to realign sorghum insurance price selections with current market trends. We are encouraged by a recent Federal Crop Insurance Corporation Board resolution that recommends a new formula for determining price selections for sorghum. When the CRC program was established, USDA set the price selection for sorghum at 95 percent of the Chicago Board of Trade December corn futures. Beginning with the 2004 crop NGSP has been informed that the sorghum price selection will be based on a price relationship between sorghum and corn and the January 2004 USDA price outlook factored with the USDA baseline projections and the December corn futures contract. Hopefully, this change will recognize the fundamental shifts in markets and cash prices due to ethanol and other new uses in the United States.

We appreciate USDA and RMA's willingness to revise this formula, and we thank members of this committee and many of your colleagues in the House and Senate for their assistance in this area. However, we are concerned that the use of the USDA baseline projections in this equation may put us back to square one because the track record for USDA sorghum baseline projections is inaccurate compared with what actually happened in terms of the ratio of sorghum farm price to corn. This is in part because the USDA baseline was originally intended as a budget guideline tool rather than to determine the value of the crops. NGSP will continue to ensure that the data is accurately reflecting market conditions.

Grain sorghum itself is a risk management tool due to its ability to withstand extremely dry and arid conditions better than any other grain crop, but more and more farmers have been planting less drought-tolerant crops in arid areas of the sorghum belt because farm programs like crop revenue coverage insurance have encouraged them to do so.

For example, sorghum acreage since 1996, the year CRC came into being, has shown no increase, even during years when sorghum acres should have risen due to limited moisture and the sorghum loan rate being increased. In fact, a land management company that manages about one million acres in the Great Plains this year advised its tenant farmers not to plant sorghum due to the lower crop insurance price selections and admitted as much in a letter to one of our State affiliates.

Finally, for 6 years NGSB has been working toward insurance coverage for sorghum silage. To date, sorghum silage is not insurable, while silage for other crops can be insured, and we have been told by RMA that it will be insurable not until at least the 2005 crop year. According to data released from the Texas A&M University Extension Center in Bushland, TX in 2001, sorghum out-yielded corn silage in both tonnage and pounds of quality product while using approximately half the irrigation water required for corn silage. Despite all the time and effort, farmers still cannot insure the crop in the U.S. today. It is unacceptable to any agriculture commodity that it should take 8 years to get new insurance products in place. Therefore, we ask that the Agriculture Committee instruct RMA to make the sorghum silage policy a rider on the sorghum grain insurance provisions for the 2004 crop year.

As part of information gathering for this hearing, NGSP surveyed its membership about other concerns and improvements regarding insurance. While inequities in price elections topped the list of concerns, APH yield guarantees and the high cost of premiums followed closely.

Throughout much of the U.S. Sorghum Belt, multiple-year droughts on the Plains have destroyed guaranteed yields for crop insurance purposes, unfortunately making the program largely ineffective.

In conclusion, we urge this subcommittee to consider changing the manner in which actual production histories are calculated. NGSP suggests the subcommittee order a study of various alternatives such as adjustments that could be given to either APH or premiums in counties that have been declared disaster areas. After all, it is these widespread disasters that have the greatest impact not only on producers, but also on our rural communities that are dependent upon a healthy farm economy.

Again, I want to thank you for this opportunity and we will be glad to provide any further input or information at any time.

[The prepared statement of Mr. Rose appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Rose, thank you very much.

Our next witness is Mr. Dee Vaughan of the National Corn Growers Association. Mr. Vaughan.

STATEMENT OF DEE VAUGHAN, NATIONAL CORN GROWERS ASSOCIATION, DUMAS, TX

Mr. VAUGHAN. Good afternoon, Mr. Chairman and members of the committee. I first want to thank you for traveling to Texas to conduct this important field hearing today. I appreciate the opportunity to appear before you on behalf of the Corn Producers Association of Texas and the National Corn Growers Association. I am a corn, soybean, sorghum and wheat producer from Dumas, TX and I am currently serving as president of the NCGA.

One of the most difficult tasks for any farmer is risk management. The kinds and amount of risk farmers face can differ greatly between commodities and regions. I understand the different risk management needs across the Corn Belt from east to west and north to south. I want to assure you that I recognize the enormous difficulty of crafting farm policy that meets the needs of U.S. farmers and the needs and interest of taxpayers.

Congress has listened to U.S. producers and taken positive action in recent years to address some of our needs. One major step to improve the farm safety net was the passage of the Agriculture Risk Protection Act of 2000. By committing greater financial resources to premium subsidies, we have seen increases in producer participation, percentage of acres covered and higher levels of buy-up coverage.

Another example of what additional premiums subsidies can do for Federal crop insurance participation is in the Agriculture Management Assistance Section of the Risk Protection Act of 2000. A decision earlier this year by the Secretary of Agriculture to make available supplemental subsidies to 15 under-served States for buy-up coverage resulted in a remarkable increase in liability protection. NCGA is disappointed that the 2004 agriculture appropriations bill has taken away part of the Secretary's authority to use this discretionary funding.

Over the past few years Federal crop insurance has enabled many producers to continue farming who otherwise would not have been able to withstand the financial losses resulting from weather disasters. Indemnity payments in excess of $7 billion for the crop years of 2001 and 2002 have made a real difference to growers who were already coping with low crop prices.

We appreciate the progress that has been made but we also recognize that even with recent reforms too many growers who have exited farming often point to the lack of effective insurance as a contributing factor.

A primary concern for farmers is adequate protection against multiyear crop losses. We have recognized for some time now that many crop insurance participants who experience shallow but significant crop losses in back-to-back years can find themselves in trouble. For example, growers with typical insurance coverage who lose up to 35 percent of their crop most likely cannot file an insurance claim, nor do they qualify for traditional crop disaster payments. In Texas, our normally high variable cost of production has increased dramatically in recent years due to the rising price of natural gas. The margins are so thin that any weather related yield problem has terrible consequences. Multiple years of poor yields can seriously impact a grower's equity base.

We have also noted that multiyear crop losses adversely impact a growers average production history, or APH, and in turn the value of future crop insurance to that grower. However, we strongly encourage the consideration of innovative solutions that go beyond artificial adjustments to T-yields and the APH.

The failure to address erosion of benefits caused by multiyear losses undermines the growth of crop insurance participation as well as the long-term goal of reducing the need for ad-hoc disaster assistance.

One potential solution would be a supplemental insurance product that covers a producer's deductible when 2 years of consecutive losses exceed a predetermined level of his APH. Another recommendation is expansion of the Group Risk Income Protection plan, or GRIP, that until recently was limited to five Midwest States. We are very pleased that growers in some counties of Wisconsin and Texas will now be able to purchase GRIP. The Federal Crop Insurance Corporation Board has also improved the GRIP plan. By adding the Harvest Revenue Option by offering more producers more affordable protection against area-wide losses, the FCIC has taken a step in the right direction. NCGA intends to look at a number of new concepts to enhance crop insurance and will be conducting a national survey of our growers in the very near future.

Realizing that the changes we advocate may be difficult to achieve in the short term, we urge this subcommittee to consider major reforms to traditional crop disaster assistance. NCGA first addressed this issue in response to last year's drought, 2002, by proposing a new program that would deliver aid more effectively and without penalizing participants in Federal crop insurance. We observed that traditional disaster programs have targeted assistance to growers with insurable crop losses. Farmers can lose up to 35 percent of their crop, suffer significant financial loss and still not qualify for any assistance by way of either the disaster programs or insurance.

We applaud Representative Graves for introducing the Companion Disaster Assistance Act, or CDAP, as a means of reforming disaster programs. CDAP would compliment Federal crop insurance by providing payments to cover a portion of the uninsurable deductible rather than duplicating the portion covered by insurance. CDAP payments can be delivered sooner and in a more targeted manner.

Mr. Chairman, I began my remarks by acknowledging the positive impacts of the crop insurance reforms of 2000. We also want to recognize the work of Congress and the commitment it made to U.S. agriculture in passing the 2002 farm bill. This legislation provides farmers with a far more reliable and predictable safety net. We cannot over-emphasize enough the importance of staying the course and the need for Congress to refrain from reopening the farm bill. The 2000 farm bill is a carefully balanced policy that addresses many pressing needs and we ask for your continued support of that farm bill.

In closing, I want to thank you and members of the subcommittee once again for visiting our great State and taking the time to listen to the issues that we have been able to bring before you today. Thank you.

[The prepared statement of Mr. Vaughan appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Vaughan, thank you very much.

Our final witness on this panel is Mr. Mark Williams of the Plains Cotton Growers.

STATEMENT OF MARK WILLIAMS, PRESIDENT, PLAINS COTTON GROWERS, FARWELL, TX

Mr. WILLIAMS. Good afternoon, Mr. Chairman. My name is Mark Williams and I am a cotton producer from Palmer County, TX. I would like to welcome you and the other committee members present to Lubbock. I am presenting testimony here today on behalf of Plains Cotton Growers, Incorporated, a certified producer organization representing the 25 county production regions surrounding Lubbock. This region produces, on average, 60 percent of the cotton grown in Texas and 15 percent of the cotton grown in the United States.

For the most part Plains Cotton Growers supports crop insurance in its present form; however, producers in west Texas still have major problems in making crop insurance an adequate risk management tool. The first issue concerns the severe erosion in APHs that our dryland producers have experienced over the last few years. As you are aware, each time a producer has a crop failure due to drought or lack of timely rainfall his APH drops accordingly. This reduces the amount of coverage these producers can afford to buy.

One suggestion for assisting these growers is through the use of GRP type products. The positives of the GRP policy are that coverage is based on county yields instead of the grower's APH, which allows them to purchase more dollars of coverage per acre at an affordable price. That affordability, however, is derived from the fact that they give up protection against individual loss events. We believe that improvements could be made to the GRP program to increase individual protection.

Our first suggestion is to include with the GRP plan an additional subsidy amount, either in the form of a voucher or some other mechanism, that can be applied towards purchase of privately offered hail insurance. PCG believes that the overall cost to the Government would not be increased. We envision a program that would essentially provide subsidies equal to what the grower would receive if they selected an APH based insurance program. This option would give GRP participants the ability to have some individual risk protection in addition to the lower cost coverage provided by GRP.

The second suggestion is a GRP/CAT, or catastrophic risk protection combination policy. Currently the Government provides a 100 percent premium subsidy on CAT insurance. Bundling the GRP plan with a CAT policy would allow the grower to purchase more dollars of coverage to protect against a widespread loss event, such as protected by GRP, and still provide a small amount of individualized protection against a random, localized loss event through the CAT policy.

A third area where changes could be made to the program to make it more responsive to producer needs is to allow our producer to insure at different levels according to his production practice. The current requirements that everything be insured at the same level keeps many growers from purchasing higher coverage for irrigated units. Allowing producers to purchase higher coverage levels on irrigated units and less coverage on dryland units is one way the program could help producers tailor insurance coverage to reflect specific needs.

The other major issue with crop insurance in west Texas concerns the cost of the policies. Despite the generous subsidies built into the current crop insurance policies, most cotton producers in this area can only afford to buy coverage between 55 and 65 percent.

Two ways to make the purchase of higher coverage levels more affordable are to implement a good experience rating system or simply provide premium discounts for those producers who maintain good production year after year. Analysis has shown that rates for producers who consistently produce at levels greater than the county average could see premiums drop by half if they were rated correctly. This would allow those producers to increase their coverage to levels of 75 or 80 percent. This would lessen the need for disaster assistance when catastrophic events do occur.

Next I would like to discuss RMA's requirements for obtaining coverage on crops through written agreements. In 2002 RMA changed the rules for written agreements to require producers to have a minimum of 3 years of growing experience on a crop in the county before a written agreement could be considered. This is a problem for producers in the northern Texas Panhandle that are turning to cotton as a new crop. The problem is that as they seek to expand cotton acreage lenders are becoming increasingly uneasy about approving production loans without adequate crop insurance protection. Additional testimony concerning acres and yields in the counties of concern will be submitted, and we encourage the committee to look further into this issue so that an equitable solution can be developed.

PCG would also like to encourage Congress and RMA to investigate ways that insurance coverage could be extended to key industry infrastructure such as cotton gins. When widespread crop destruction occurs, these critical industries are left no protection. We encourage the Congress and RMA to determine what level of Government support could be made available and to develop insurance for key industry infrastructure.

PCG has worked very hard on a number of other implementation issues concerning various rules and regulations within RMA. These include secondary crop coverage, the fertile appraisal periods on non-emerged seed and an updated appraisal using a more accurate bowl count methodology. These items are very important to producers in this area and are covered in detail in our written testimony.

The last topic I would like to cover today is disaster assistance. We have had a difficult growing season across the area, and Plains Cotton Growers strongly supports delivery of a 2003 crop loss assistance program. Any assistance you can provide in this regard will be greatly appreciated. Plains Cotton Growers stands ready to provide any help or information necessary to further this effort.

That concludes my testimony this afternoon. In closing, I would like to thank each of you for taking the time to come to Lubbock to discuss this very important topic and for the opportunity to present these comments on behalf of the cotton producers of west Texas. I would be pleased to answer any questions you may have.

Thank you.

[The prepared statement of Mr. Williams appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Williams, thank you. I thank all of our witnesses.

For purposes of questioning, I recognize the gentleman for Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Higginbottom, how would having the option of insuring separate units of peanuts establish production histories for separate farm units, how would that benefit the producers in west Texas?

Mr. HIGGINBOTTOM. West Texas has sort of a unique situation from some other parts of the Peanut Belt in as that we operate usually a lot of large acreage farms, and even though they might be scattered over several miles all of them right now are under one unit. If you had hail damage or early freeze or whatever on one portion of your land, you would have to really have a loss on all of it before you would receive any indemnity. If it was like cotton— that is really what we would like to see, the Peanut Program be made just like the cotton program, where you would have separate units by section. That way if one field made a normal crop but the other one didn't, it would stand on its own.

Mr. NEUGEBAUER. Is there a flip side to that? Is there instances where it could hurt the producer to partition into units?

Mr. HIGGINBOTTOM. I am not aware of any downside whatsoever.

Mr. NEUGEBAUER. You also noted that many producers in the area that are double cropping sometimes find it difficult to plant that second crop because they do not know exactly what their coverage might be for that second crop, and that second crop could be possibly peanuts if the growing season is still long enough. Do you feel like that the current program is hurting or discouraging farmers from planting peanuts as a second crop?

Mr. HIGGINBOTTOM. Really the double cropping that I am speaking of is something that the farmer at the first of the year does not plan on doing. The double cropping I am referring to is one that he is forced into. A good bit of it was done this year where the producers had two or three hails and they planted cotton and planted cotton and finally after their county cutoff date they could not plant cotton anymore, and some of them went in and planted a Spanish peanut which did have time to produce. A scenario such as this is what we would like to see addressed.

Mr. NEUGEBAUER. And so do you feel like if we changed that that more farmers would consider peanuts for that second crop in the event of a failure on the first crop?

Mr. HIGGINBOTTOM. Yes, sir. At least the ones that did do that would have some protection.

Mr. NEUGEBAUER. Thank you.

Mr. Rose, you mentioned in your testimony that there are concerns with the accuracy of the USDA baseline forecast. If this formula had been in effect this year, would that have been a better price selection for sorghum producers than the previous year's price selection?

Mr. ROSE. Yes, sir, it certainly would be. In three of the last 4 years sorghum prices have been equal to or higher than corn, and that fourth year it was, I think, 98 percent of corn. So certainly yes. I think one year it was like maybe 102 percent. So yes, it would be a benefit.

Mr. NEUGEBAUER. Thank you.

Mr. ROSE. That is the national national average sorghum price compared to corn.

Mr. NEUGEBAUER. The quality loss provisions for corn are hard to define. What are some of the concerns in Texas?

Mr. ROSE. Quality loss, principally test weight, moisture in areas where rainfall comes in the fall and the crop does not have a chance to dry down. There is not really a whole lot of quality issues with sorghum.

Mr. NEUGEBAUER. Thank you, sir.

Mr. Williams, what feedback has Plains Cotton Growers received from RMA with regard to the proposal that the deferral period be limited to the late planting period for crops put in before the final planting date and a set number of days for crops planted during the late planting period?

Mr. WILLIAMS. Well they have increased the number of days that you have to wait, which has caused a number of problems to our producers. It prevents you from going back with a second crop that is planted timely. We tried working with them to come with a more reasonable alternative to their way of doing it. We think the best way to do it is to give a producer seven days from the day he planted it rather than an artificial measure of so many days after the final plant date. We think that would be much more workable than their current way of doing it.

Mr. NEUGEBAUER. And that would give you an opportunity to get your second planting back in on a more timely basis and have a better success ratio on that crop?

Mr. WILLIAMS. That is right. That is exactly our point in the matter.

Mr. NEUGEBAUER. Thank you. In terms of quality loss adjustment, how would a bale-by-bale quality loss procedure benefit cotton producers?

Mr. WILLIAMS. Well, in many situations you have a situation where maybe part of a field has suffered from excess moisture or maybe it had a partial hailstorm and those bales have experienced a loss in quality. Under current procedure it is not recognized, but if you went to a bale-by-bale each bale would stand on its own. There has been a precedent for doing this. Such was done in the last disaster program. Each bale stood on its own, and we think that is a much better way of doing it than the way RMA currently does that.

Mr. NEUGEBAUER. Has RMA responded back to you about the feasibility of going to a program like that?

Mr. WILLIAMS. I am not aware of any feedback from RMA on that particular issue.

Mr. NEUGEBAUER. Mr. Chairman, I yield the balance of my time.

Mr. MORAN. Thank you very much.

The gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Higginbottom, this request here that you made to RMA to have them respond by November 30 on this issue. Have they given you a reason why they have not done that?

Mr. HIGGINBOTTOM. No, sir. I really was not aware of it until last week that we realized a lot of the new rules had been written and this was not included in them.

Mr. PETERSON. So you have not had time to talk to them?

Mr. HIGGINBOTTOM. No, I have not.

Mr. PETERSON. Well we, Mr. Chairman, should probably follow up on that and see what is going on with that.

Mr. Haas, this requirement that you provide 3 years of records, and now, as I understand it, they have extended that to 4 years?

Mr. HAAS. Yes, that is the proposal for 2004, that it would be 4 years of records, which we think really is unreasonable.

Mr. PETERSON. Has anybody actually been able to buy insurance?

Mr. HAAS. Not outside the 147 counties.

We do not have it. We are sitting naked as far as crop insurance goes in our area.

Mr. PETERSON. Have they explained to you why they went from 3 years to 4?

Mr. HAAS. Well, I think part of it has to do with the fact that we have seen losses in the last 2 years and those losses have been of course with the drought situation, and that is what they are saying we need to see some production. But not only has canola had losses in the last 2 years, we have seen all the other crops have losses. So it is really a weather-related thing in that area. But we would like to see that—being able to have a written agreement without having 4 years of history.

Mr. PETERSON. But, I mean, RMA did not lose any money, because you could not buy insurance anyway.

Mr. HAAS. Right.

Mr. PETERSON. So before they even——

Mr. HAAS. They would just deny the insurance.

Mr. PETERSON. Basically they are telling you they do not really want to write the policies.

Mr. HAAS. That is our understanding. They only write them in 147 counties.

Mr. PETERSON. Yes. So next year do you think they are going to go to 5 years or what?

Mr. HAAS. I am not sure. I really do not want to go that way again.

Mr. PETERSON. But they did not give you any real——

Mr. HAAS. No, they did not.

Mr. PETERSON. Just that they are concerned that this is going to be a high risk product, I suppose.

Mr. HAAS. Well, it is a new crop that we are trying to——

Mr. PETERSON. Have you tried to do a pilot program? We have done that in some other places I think where they have just taken a couple of counties.

Mr. HAAS. I am not aware of that. Four years ago, I worked with a crop insurance gentleman out of Topeka—well it was 5 years ago, I guess—and he came out. At that time, we could not buy insurance, and they were developing the program. They only had it for 1 year before they discontinued it. Of course, we did not have the opportunity to buy into it. So it has been there, but they have taken it away because of the drought and the losses involved in that.

Mr. PETERSON. Well, thank you.

Mr. HAAS. Thank you.

Mr. MORAN. The gentleman from Arkansas, Mr. Ross.

Mr. ROSS. Thank you, Mr. Chairman. I want to thank the panel for coming and being with us today. One comment and then one question. One, I am Mike Ross from Arkansas, and, of course, agriculture is a big part of our economy. We are No. in rice, No. 4 in cotton, No. 10 in soybeans. It is good to be in our new Member, Congressman Neugebauer's district. Randy, it is good to be here in your district with you today. Let me just say to the folks who are from this area, Larry Combest did a wonderful job as chairman of the House Agriculture Committee. We miss him. He is a Republican and I am a Democrat. That is one of the things I enjoy about the Agriculture Committee, most battles fall on geographical lines rather than party lines. I do not know about you folks, but I am sick and tired of all the partisan bickering that goes on in our Nation's Capital.

[Applause.]

Mr. ROSS. I just want to make the point that without Mr. Combest's leadership on the Republican side and without Mr. Stenholm's leadership on the Democratic side as ranking member of the full House Agriculture Committee we would not have a new farm bill today. Mr. Combest is not here. I do want to thank Mr. Stenholm, the ranking member. You all have got the best of both worlds. I mean you had—the two leaders of the Agriculture Committee lived about 30 minutes to an hour apart, or at least their districts were that close together.

As a tribute to my ranking member and his leadership in helping write a new farm bill, rather than ask questions, I am going to yield my time to Mr. Stenholm, Mr. Chairman.

Mr. MORAN. The gentleman from Texas, Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

Mr. Haas, you mentioned on the canola the need—and following up on Mr. Peterson's question somewhat, of using comparison—I am assuming comparison with wheat. What would be a comparable yield, canola to wheat, in the area that you are talking about?

Mr. HAAS. We would not use wheat, we would probably use sunflowers. That would be a comparable oil crop with canola, and a comparable yield would be—we look at sunflowers yielding 1,500 to 2,500 pounds in our area, and canola would be about in that same poundage per acre. We have had canola in research plots yield as high as 3,900 pounds. I think sunflowers would be the one that we compare with, not wheat.

Mr. STENHOLM. Sunflowers would be insured in the areas you are talking about?

Mr. HAAS. Yes, sir.

Mr. STENHOLM. OK, you were comparing grazing value of canola. That is where I was wondering if there was some possibility of comparing canola and wheat for the same purposes where you may not be raising sunflowers.

Mr. HAAS. Grazing wise, we can compare it. One fellow that I am familiar with, he took 235 pounds of beef off of canola in a 90-day period and then harvested a little over 1,200 pounds of seed afterwards. The canola is about double in the nutritional value of wheat. So it does have an effect there. The thing that we see with canola in the grazing program is that we can go back in and we can control the grassy weeds that you cannot control in wheat but you could control in canola.

Mr. STENHOLM. Mr. Higginbottom, I think your request for the single unit comparison for peanuts, as with cotton or other commodities, is a very reasonable request and one which I would hope that RMA would eventually treat peanuts like cotton, like every other commodity. It makes eminent good sense. I have to believe that is an oversight to this point.

Mr. Williams, you mentioned the cost of production. I, too, am not ready yet to give up on the theory of having cost of production insurance. I still believe that that is not only a theory, but eventually could be a practice which would make real good sense as far as an insurance program in which you basically take care of a lot of different problems with that. But as we all know now, the committee that had that under advisement, under instructions from the ARPA have said we cannot do it, it is not practical at this point. So we will continue to join with you in encouraging folks to stay at the drawing board to see if it cannot be someday done.

Many of you are talking about the APH. We will hear a little more suggestions along the lines of what might be done in that area from witnesses to follow. But clearly, where you have multiple years of disaster—and Mr. Peterson stepped out just now, but Minnesota, I know he has probably had as much—even as west Texas has had—of multiple-year disasters. The APH problem is one that we need to continue to look for a solution to.

Mr. Vaughan, not so much a question, but you mentioned the importance of not reopening the 2002 farm bill. As the chairman is probably one of the most consistent Members of the entire Congress regarding fiscal matters today knows the pressures that we are going to be under. Everything that costs money—and much of which you have asked for today will cost additional money in order to do that which you have asked us to do, for the very real purposes of which you have asked us to do it. I would be remiss here in this audience if I did not make the same observation that we make in every audience of this nature. With the fiscal pressures that we are now under with a $374 billion deficit last year, over $500 billion this year and deficits of over $400 billion as far as the eye can see, and now people over the weekend beginning to talk about the run-away Congress, the spending, all of the problems, we in agriculture have got to be on our toes and be prepared to make constructive changes to the farm bill to accomplish more benefit for our producers with less taxpayer dollars. That is going to be a challenge that we are going to have, and none of you, as none of the five of us up here, look forward to that. But I think we would be remiss, and you in your role of leaders would be remiss in not spending some time over the winter months to be prepared to assist us with some perhaps very difficult decisions that are going to have to be made next year.

My question that I will conclude with, Mr. Chairman, I understand the concern that all of you have expressed regarding the double insurance, insuring two crops. And as we will hear from a succeeding witness also on this endeavor—and you have each stated in your own way you understand why we did it. Give me some examples of double cropping on the High Plains that are routinely done every year. Is there any example of a routine double cropping in which a farmer goes to his banker and begins the year by saying we are going to plant two crops?

Mr. VAUGHAN. Mr. Stenholm.

Mr. STENHOLM. Yes, sir.

Mr. VAUGHAN. In our area, we do plant green beans behind wheat as a double crop.

Mr. STENHOLM. Mr. Higginbottom, you stated that it is not normal that we follow cotton with peanuts. That is a given. But is there any other—green beans—are there any other crops?

Mr. HIGGINBOTTOM. At the present time it is not widespread in our area because of the water situation. So really, the thing I was looking at is when you are put in that position by mother nature.

Mr. STENHOLM. As one of the authors of ARPA, one of the problems we were getting into is folks that were insuring not just two, but three and four crops and collecting on all four. So many times when we correct a problem legislatively we have unintended consequences. Instead of taking a surgeon's scalpel we take a meat ax approach to it. But here, unless you can help me with the basic thought process, why I lead by saying cost of production, what I want to see out of crop insurance is to where if you lose a crop for whatever, whether it is quality, yield, whatever reason that you lose the crop, that you as an individual farmer can come back and have another year. That is what it is all about. It was never intended to make money. It was never intended to make a profit out of insurance. It was intended to do as basically all insurance was. And so, as much as I would like to offer some encouragement about the elimination of the two crop, I would much rather make certain that where you plant your cotton, lose the crop, you recover the cost of what went into that, plant a second crop and hope you make the crop, which most farmers do. Hope you make the second crop. And if your total revenue from the second crop, plus what you collect from insurance on the first crop, should equal what you expect to make if you had made the basic crop that you and your banker set out to make that year. That has been the theory behind the insurance program that we have tried to do. Now we are not there, and your testimony today, and so many excellent suggestions of some of what I call the nuts and bolts of farm policy. You folks are experts. I am one that has benefitted from the knowledge of you and your associations now for 25 years, and we really appreciate it. I know I speak for all of my colleagues. Those that spend the time in helping, and then lobbying, educating, and then seeing that policy passed in the form of legislation, but then ultimately administered in a way in which it was intended. And so for that I thank you for your testimony.

On the double cropping, be careful what we ask for because we might get it. We have got some very serious other questions regarding double cropping, with hurricane insurance, earthquake insurance, et cetera, right now. I want to see that this insurance carries on in the way in which everyone of you have testified you want to see, but doing it within the confines of what is going to be possible with the budget restraints that we are going to have upon us.

Mr. MORAN. Mr. Stenholm, thank you.

Mr. Vaughan, you and Mr. Williams, I think, both mentioned disaster assistance. The Corn Growers in particular have been very active. I know that you have a task force developing a plan, a suggestion for Congress. Can you bring us up to date on where that process is?

Mr. VAUGHAN. Well in the 2002 crop year we did have the tremendous drought across all of the Great Plains that affected a great number of corn growers. We commissioned a task force to work on some type of disaster relief, maybe looking beyond the way we traditionally have done it in the past. As I stated, a lot of times disaster payments also cover the same portion of the crop that is covered by crop insurance, and we felt like—a lot of times the producer that gets in trouble is the guy that does not have that coverage on the top end, that 35 or 30 percent that is not insured. So we commissioned this and we came up with our companion disaster assistance. Representative Graves brought that forward last year.

Right now for the 2003 crop year we did not choose to pursue any kind of disaster legislation. There was weather problems in various parts of the country, but when you look at a 10.3 billion bushel crop, we have to acknowledge that by and large we had a good crop this year. So right now, we are not actively working on—other than pursuing—we think CDAP is a—would be a good long-term fix maybe for ad hoc disaster.

Mr. MORAN. Do you have some specific complaints or suggestions about the way the ad hoc disaster was implemented this time, 2002?

Mr. VAUGHAN. No, our main concern is just the fact that we feel like it is kind of double coverage of the bushels and we would like to see maybe broader coverage.

Mr. MORAN. Mr. Rose, you talked about a topic that I am very familiar with. RMA has attempted to address the issue between corn and sorghum. I was just wanting to flesh out a little bit more your satisfaction with their solution. Is this a wait and see how it is going to work or are you satisfied with what RMA has concluded as far as attempting to address your issue?

Mr. ROSE. I think the issue would be more clearly addressed if it was based on USDA's cash price data that we have seen over the last several years. We are confident that sorghum prices have been on a national average basis at or equal to corn. Their formula, like you say, may be a wait and see and see what they come up with. But we think it is maybe a step in the right direction.

Mr. MORAN. Did RMA give you a reason why they addressed—I just wonder why they chose not to follow the Grain Sorghum Association producers' suggestion.

Mr. ROSE. We visited with them in Kansas City and I cannot tell you exactly what they told us as far as really understanding it.

Mr. MORAN. We can find that out from RMA ourselves, but I was interested in knowing your reaction as to what they are about. I was pleased that they recognized there was a problem, it seems to me they are moving in the right direction, but there may be a few more steps we would like to see them take.

Mr. ROSE. Yes.

Mr. MORAN. And I would like to follow up just a bit on this issue of second crop. It is certainly a common complaint for my constituents and farmers in Kansas.

A broader topic than that, however, is do you all see abusive practices occurring by farmers who you know, who are your neighbors? Are there things that are occurring that we ought to be aware of?

As Mr. Stenholm indicated, we sometimes in trying to solve problems create new ones. Have we adequately addressed the issue of abuse occurring in the Crop Insurance Program?

Mr. ROSE. Many times, grain sorghum is viewed as a catch crop or a second crop in case a primary crop fails. And unfortunately we have seen much better success with grain sorghum producers where they treat grain sorghum as an intentional crop and farm that as a primary crop.

I know particularly in Oklahoma, you get about 40 miles west of I–35 and there virtually is no double cropping as a standard practice. In the higher rainfall areas of Oklahoma; yes, it is and it is a very productive practice. We have seen some very good double crop sorghum yields as an intended practice, but to more specifically address your question of practices that would not be necessarily good farming practices, after a wheat crop droughts out in the spring, there is not much soil moisture profile left and unless significant rainfall occurs to replenish that profile it is difficult to follow up with a summer crop.

Mr. MORAN. Let me just expand that to other members of the panel. Does anybody have some suggestions of issues we should be addressing with regard to abuse that occurs within the crop insurance system?

Mr. WILLIAMS. Well, Mr. Chairman, I see very little follow up by RMA or FSA on known instances of abuse. I mean, it does not seem like anyone—I know of some instances where guys have been turned in but nothing ever seems to happen. So I believe that does occur.

Mr. GIBSON. Mr. Chairman, coming up through the rolling Plains and back down through the central part of the State in the principal cotton area and wheat area, I see a lot of grazed out wheat and then I see them go back and plant cotton in there as a catch crop for the insurance on it. And we—it is not real prevalent, but as I go through there, I see it, and I know what they are doing because they get up and they get a bowl or two on it and then they draw their disaster insurance and that is the reason they planted it, was the disaster insurance, but that is about all that you can see on that. And any other crop, that would be just a catch crop and I do not expect that they could expect it to be insured. I know I have double cropped peanuts behind wheat and oats for 30 years, but I never did expect any insurance on either one of them. And that was just a common practice.

Mr. MORAN. Thank you very much. Let me ask just one more broad question of any or all of you. A theme that we have heard not only today but in past hearings is the desire for higher levels of coverage. And one of the suggestions is that we take the subsidy that occurs at lower levels of production and move it to the higher levels so that it becomes more affordable at higher levels. Is there anyone in Kansas, Texas or Oklahoma that would not find higher levels of coverage the economical way to go? If you actually moved the assistance, the additional subsidy, from low levels of coverage to high levels of coverage, is that a good thing for farmers in your association, your colleagues?

Mr. HAAS. Mr. Chairman, I think as we look—as we go into the office to look at the coverage that we are going to take over our crop—any way, in my own particular case I am going to speak about that because that is the one I am more familiar with—you look at where those breaks come and what you can afford and I have bought buy-up insurance up to a point, but to a point then it gets to where it is—the benefits is uneconomical because of the tremendous increase in the premium.

And I believe that producers would increase the percentage of coverage if it was logic financially. And I think farmers—really in our area, I have to think that farmers are doing a good job using the crop insurance that is out there. Many of them are buying up, going from 65 to 70, 75 percent. When you get over 75 percent, the economics of it do not work quite as well. And I think if we could make the economics work better, I think we would see buy up into the 80 to 85 percent, I really do. I think farmers are—they sharpen the pencil today very well and there are computer models out there that you can put these things into and make them work. That is what I see in Kansas.

Mr. MORAN. Thank you, John, very much.

For the final question of this panel, Mr. Peterson has a follow up question.

Mr. PETERSON. Thank you, Mr. Chairman. I should have probably asked this before. This is a question I asked at the hearing we had in Minnesota. I have introduced a bill to establish a permanent disaster program. One of the complaints I get, and I assume it is the same problem here, is that farmers do not know what we are going to do and they have got to wait around for a couple of years for us to move on a disaster ad hoc deal. And I am not sure we are going to be able to pass any of them in the future anyway, given what has happened.

So what my bill does is sets up an account kind of like FEMA, where the Secretary would have the authority to, if he or she declares a county a disaster county, they would have the resources like FEMA does to make the payments without having to have a bill go through Congress and so forth. Now obviously that is going to cost money and that is an issue. But one of the provisions I have in there I would like reaction to is that you would have to have some buy up coverage or you would not get this.

In my area, we have got 98 percent crop insurance coverage. We have some other areas where there is hardly any coverage and that becomes problematic in trying to use this to offset the pressure to get rid of it so we do not have these ad hoc bills and have pressure to build them, but maybe if we flipped this thing around, we can get those areas that do not have crop insurance to buy up crop insurance, knowing that they will not have disaster coverage if they do not.

In the hearing that I had in Minnesota, I think the corn growers, wheat growers, sugarbeet growers, there was five or six commodity groups there that all thought that this was a good idea. So I guess I would wonder, like to sorghum producers and cotton growers, peanut growers, are you guys interested in some kind of concept like that or have you talked about it at all?

Mr. HIGGINBOTTOM. Sir, how would this be funded?

Mr. PETERSON. Well, right now, it is funded out of the emergency the way I have got the bill drafted. So it would be—it is not out of the budget, it would be an emergency—the way we have been funding the ad hoc, those have all been funded on an emergency basis so they do not come out of the budget. Whether we could ever pass a bill with that provision, I am not sure, but that is the way I have got it crafted right now.

Mr. HIGGINBOTTOM. I cannot really see how any farmer would be against that.

Mr. PETERSON. What about the provision that they have to have insurance?

Mr. HIGGINBOTTOM. Personally, I feel like you need to have that.

Mr. PETERSON. How about the rest of you? Let me see you nod your heads.

What about if we had to take the money out of the higher buy up coverage and use that to fund a disaster?

Mr. HAAS. Personally, I think that you put the burden to the producer if you have the higher buy up insurance available. And I think that becomes a management decision and I like that personally much better than I do disaster programs, because then you have something—when you are planting a crop that you have taken say the 85 percent buy up insurance, where that is at. A disaster program, like you are talking, would be an after-the-fact type of thing. I think our financial institutions would be more interested in seeing it in front and personally I think the burden of management decisions like that need to be made by the producer. I will catch a lot of flack for that in places, but I really, honestly do. I think the producers have to get smarter and accept that responsibility or maybe they need to find something else to do.

Mr. WILLIAMS. Mr. Chairman, may I say something on that? On cotton, when you get to 75 percent, that coverage costs you—one dollar's worth of coverage costs you 1 dollar.

Mr. PETERSON. Right.

Mr. WILLIAMS. I cannot go to 75 or 80 percent at all. The only way I possibly could is if it was re-rated, as I mentioned in my testimony. Maybe the rates are not exactly right, I would encourage you to look at rates.

But as far as disaster payment goes, I think you need to have buy up insurance, but I also think you might look at something like the current catastrophic insurance policy to serve as the ad hoc— it would not be ad hoc in that case, but to serve as disaster assistance.

Now under my idea, you would pay for that catastrophic policy rather than have them give it to you like it is today. But when you do have an area-wide or even an individual loss, let a catastrophic policy come in on the top of your crop insurance to cover you. And I think you could do that at a much cheaper price than you could try to insure us up at that 75 or 80 where it cost a dollar for a dollar.

Mr. MORAN. Thank you very much, panel, we appreciate the information that you have provided us. We will take into account everything that we have heard today and we, again, value your input.

We are now ready to call the second panel to the floor and I would recognize the gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER [presiding]. Thank you, Mr. Chairman.

If the second panel would come forward, please.

It is my pleasure at this time to introduce our second panel. Mr. Lloyd Arthur, vice president, Texas Farm Bureau Federation, Ralls, TX; Mr. Alan Peter, president, Kansas Corn Growers Association, Tribune, KS; and Mr. Curtis Griffith, chairman and CEO of City Bank of Lubbock, Lubbock, TX.

Gentlemen, thank you for being here today and we will begin with Mr. Arthur.

STATEMENT OF LLOYD ARTHUR, VICE PRESIDENT, TEXAS FARM BUREAU FEDERATION, RALLS, TX

Mr. ARTHUR. Thank you. Mr. Chairman, and members of the committee, I appreciate the opportunity to testify before your committee regarding the needs for adjustment in the Federal Crop Insurance Program. My name is Lloyd Arthur and I am the vice president of the Texas Farm Bureau and I am a cotton farmer at Ralls, TX.

We recognize that Texas, and specifically this area of the State, is a high risk crop producing area. Return on premium dollar in Texas is significantly higher than the national average. Texas, however, is also a high production area, particularly for cotton. We lead the Nation in production of cotton and are also significant producers of wheat, corn and sorghum.

The Texas Farm Bureau supported to Agricultural Risk Protection Act of 2000 in its efforts to make crop insurance more affordable for producers. That legislation has been successful in increasing participation in the program. The Risk Management Agency has been successful in providing an increase in the number of insurance products for Texas producers, to meet various needs. The Crop Revenue Assurance Programs that have been piloted in Texas have benefitted producers during years of significant drought as well as the extended periods of low prices. Fortunately our price situation has improved this year.

We are here today to request that the committee consider several modifications to the current program to benefit producers from across the State. The RMA has had rules for some time that require producers to plant and harvest a crop one of every 3 years on a specific piece of ground to be eligible to produce crop insurance. While this works in many regions, the rice producing area of Texas commonly will plant rice only every 4 to 5 years on a particular piece of property. Your consideration of making a change to resolve this problem would be appreciated. The farm bill gives the producer flexibility to grow different crops, allow that producer the opportunity to insure that investment.

In 2001, five counties in Texas were severely affected due to karnal bunt in wheat. The detection was found only after the wheat had been commingled at the elevator. A provision allowing for a loss of value due to a quarantined disease similar to the Quality Loss Provision would have provided growers protection. Under current regulations, producers are ineligible for any insurance benefits.

In Texas, we continue to have problems with final planting dates. For some reason, the dates established with RMA do not seem to be applicable here in the State. We have tried many times to make adjustments in this area, but have been unsuccessful. Producers fail to understand why farms in adjacent counties, literally across the county line, will have different planting dates. A possible reduction in the size of area covered by each date and the inclusion of recommendations from local FSA committees and the State extension service would make these dates more germane to the area. Furthermore, changes are needed to address the release date of crops that have failed prior to final planting date established by RMA. This policy forces producers to be liable for boll weevil eradication assessments on production that has already been designated as failed.

In the south Plains area, we have a combination of both irrigated and dry land farms. Producers switch from dry land to irrigated production based on available rainfall as well as product prices. Current RMA rules discriminate against a producer's choice to make those decisions. At this time, a producer is required to use a particular farm method for 1 year before being eligible to purchase the insurance provided on the following year. There is also a significant variance in the kind of irrigation facilities. Drip or trickle irrigation is far more efficient and conservation oriented and should be recognized as such. We would urge the committee to make adjustments to allow different irrigation practices to use separate units for insurance purposes. Farmers' APHs are also being capped under these efficient irrigation practices because RMA states the yield is higher than the county's potential. Also allow producers to produce different levels of coverage for different types of production practices—examples, dry land versus irrigation.

I have stated previously we recognize that Texas is a high risk State. We seem to experience natural disaster declarations more frequently than many other areas of the country. We would respectfully request that the committee consider exempting productions in any year in which the area is designated as a natural disaster. Under the current program, any zero yield years will result in a reduction of the producer's production history.

Finally, we would urge the committee to initiate an additional type of insurance program for livestock producers. In Texas, we are in need of additional insurance products for sheep and goat producers as well as lamb producers. Also, not directly related, but hay producers are also in need of insurance coverage.

Mr. Chairman, we appreciate the opportunity to provide testimony today and will be happy to respond to any questions at this time. And once again, I would like to thank the committee for coming to Lubbock, TX.

[The prepared statement of Mr. Arthur appears at the conclusion of the hearing.]

Mr. NEUGEBAUER. Thank you, Mr. Arthur.

The next panelist is Mr. Alan Peter.

STATEMENT OF ALAN PETER, PRESIDENT, KANSAS CORN GROWERS ASSOCIATION, TRIBUNE, KS

Mr. PETER. First of all, I would like to thank Mr. Moran and the rest of the subcommittee for having this opportunity to speak today. As some of you know—Jerry Moran has stepped out, but I am from his district and unfortunately I have received some of this disaster that he has talked about, on insurance.

I am Alan Peter and I am the Kansas Corn Growers Association president. When I complete this year's fall harvest, I do also compete my career as an irrigated farmer. More than 3 years of drought with little relief in sight helped me come to the conclusion my chosen career could not support my family at an acceptable level. After this, my final harvest, I begin a new career at our local bank. I hope my comments from the perspective of a farmer as well as a main street businessman will give you some insight into many issues facing growers today.

The big question is why did I leave farming. For me, it came down to high input costs, declining water table and higher natural gas prices made it cost more and more to pump less water on fewer acres. In other words, the cost of farming went up and continues to go up and the net income returns went down. When that happens, with no prospect of change in sight, it is time to get out. I have three sons, none of them who I have encouraged to come home to the farm. I am also completing my final term as the president of the Kansas Corn Growers Association, and last year I served on the National Corn Association's Disaster Task Force that was mentioned earlier. We pushed and received some disaster package from Congress last year that provided help to many farmers. Although my farm suffered as much as most from the drought last year, I received little disaster assistance. Following the crop insurance guidelines, I continued to irrigate my crops. Even though the input costs were very high, I was successful in harvesting enough to make me ineligible for disaster assistance. However, my crop insurance payments did little to offset the amount of money that I put into irrigating my crops throughout the historical dry summer.

I think a grower would be better off if he could buy insurance for irrigated crops at a level that would work at his needed rate of return. Input costs are often simply too high in relation to the insurance payments you get back. Crop insurance does not consider how much money an irrigated grower has to put into a crop, it only looks at the end results.

The farm programs and crop insurance programs the Federal Government offers are vital to not only farmers, but for our rural communities whose economy is built around agriculture. Without programs, especially the crop insurance, main street businesses in our rural communities would really be suffering. As a person involved in the banking business, I can say that if it was not for crop insurance, many more farmers in my area would be forced to make the decision to quit farming. Insurance has really helped dry land growers in my area this year. But in an ironic contrast, in neighboring counties where growers were able to harvest little, those people are actually in worse shape financially.

But even with crop insurance, our local businesses are still suffering. When times get tough, producers tighten their belt as much as possible. They are not buying parts to repair the equipment and because it is so dry, they are certainly not buying new equipment. They are also not buying new vehicles, new clothes, they are not eating out or going to many movies either. Whether you are a merchant who sells tractor parts or toys, you are being hurt by the farm economy.

On another issue, a proposed program that is aimed at helping farmers and conserving the water aquifer is Senator Sam Brownback's Irrigation Retirement Program. I have mixed feelings about this program.

From a grower's viewpoint, farmers with small wells in my area could benefit. They could recoup some of their investments and help their bottom lines by entering into this program that would let them retire their irrigation on farmland.

From a main street viewpoint, taking irrigation out of the community will definitely hurt our local businesses. There is a lot of money spent in the communities that have businesses built around irrigation and farming. They say every dollar spent turns over seven times in a community and if you take those dollars away, it will hurt our rural communities. This is why I have mixed emotions about it. I can see it benefitting a grower and also hurting now in the business that I have decided on as a new career.

Until now, you could find me on a tractor working in a field or in my pickup driving from field to field checking my crops, my irrigation wells. My tools were my pliers and a grease gun. Now you can find me behind a desk at my local bank with a pen and a calculator, hoping to help my neighbors patch together a combination of finances, insurance, farm programs, to help them survive another year.

When you work on a broken down combine, you have to decide if it just needs some adjustments or a complete overhaul. If you know what you are doing and understand what the problem is, you can probably fix it with a few adjustments and a couple of new parts. I think that is the case with our farm programs and crop insurance. That is why I appreciate the opportunity to give testimony at this subcommittee hearing. I hope I have helped you understand what is broke and hope we can come up with some adjustments to fix it.

I do appreciate you for having the hearing today and thank you very much.

[The prepared statement of Mr. Peter appears at the conclusion of the hearing.]

Mr. MORAN [presiding]. Alan, thank you very much for being here and for your testimony. You may have come further than many of us. I think that is the case.

The final witness on this panel is Mr. Curtis Griffith, chairman and CEO of the City Bank of Lubbock. We are delighted to be in your community, Mr. Griffith. Please proceed.

STATEMENT OF CURTIS GRIFFITH, CHAIRMAN AND CEO, CITY BANK OF LUBBOCK, TX

Mr. GRIFFITH. Thank you, Mr. Chairman, members of the committee. I appreciate the opportunity to testify today before the committee and I especially appreciate the members taking time to travel here to better understand the challenging situation facing producers in our area. My written testimony contains comments about both commodity programs and crop insurance programs, but I will concentrate my oral presentation on the crop insurance issues, and appreciate the rest of it simply being included in the record.

City Bank is one of the largest lenders for crop production in Texas. The success of our institution has been driven largely by the ability of producers to repay each year's operating loans. The uncertainty of our weather, the increasing volatility of the market price of our major crops and the continuing squeeze of producers' profit margins has made this lending more challenging each year.

In addition to my duties at the bank, I am an active farmer and know first hand how hard it is to make ends meet in today's agricultural economy. First, I want to commend the members and staff of this committee that helped craft the Farm Security and Rural Investment Act of 2002. The provisions of this program do provide a good safety net for producers in times of ruinously low prices while significantly reducing the cost to taxpayers in times of better prices. As a lender, we can better predict the amount of revenue that will be available for loan repayment and be in a position to adequately fund good production practices for most borrowers.

The Crop Insurance Program is a very important component of farm policy for our area. Today's production practices require the producer to invest a substantial part of his operating budget in fertilizer, herbicides, irrigation and seed prior to his crop even emerging from the ground. If harsh weather causes the loss of that crop during the first few weeks of its existence, the producer will have a major financial loss with little or no opportunity to recoup it with a secondary crop.

As a lender, we calculate each year how much net proceeds a producer will receive in the event of a total crop loss, and rely very heavily on that number plus the producer's expected program payments when deciding how much we are willing to lend. Without this insurance, I assure you that we would greatly reduce the total amount of our farm lending at City Bank.

I would like to address three issues regarding crop insurance that are important to those of us who farm in west Texas.

First, we need some mechanism to allow a producer to insure based upon his cost of production. Several non-irrigated producers have been trapped in a downward spiral after several years of drought or other weather-related losses. They can only insure their crop at such low dollar amounts that we as a lender will not loan them enough money to make their best attempt at producing a crop. Therefore, even when they have good weather, their crops will noT-yield enough to bring up the production average enough to materially improve the amount of insurance they could obtain the following year. I am not asking for the ability to insure a profit for a producer, but I believe that many producers would purchase insurance, even at greater cost that would allow them to obtain enough financing to at least try to make a crop.

Second, there is concern about how RMA will treat insurance of crops planted after the loss of the primary crop. The Agricultural Risk Protection Act of 2000 requires that the loss payment on a first crop be limited to 35 percent of the total indemnity when there is a loss on the second crop on the same acreage. The producer may be required to purchase insurance on the second crop either by his lending institution or because of agreements with FSA related to receipt of prior disaster payments. RMA has stated that if the producer is not paid an indemnity on the second crop, there is no reduction of coverage on the first crop loss and that the producer can choose to forego an indemnity payment or withdraw a claim for second crop acreage. This statement is based on their interpretation of the intent of ARPA and as I understand it, not on any specific language in the statute itself. I would encourage the committee to support this interpretation and to incorporate it into any new legislation that may be developed in the course of revising or amending crop insurance programs. Otherwise, the attempt to prevent the receipt of full indemnity for two or more crops on the same acreage in the same year could have the unintended consequence of so drastically reducing the indemnity actually received that the producer is left in a worse position than if he had never insured the crop at all.

Finally, I urge this committee to maintain and strengthen the current system of private delivery of crop insurance with USDA oversight and support. If commissions paid to private companies are substantially reduced in the next standard reinsurance agreement, we face the risk of additional financial failures among those companies and a weakening of their efforts to reduce fraud and abuse by unscrupulous producers. We should all be working to increase the number of producers nationwide who participate in crop insurance. The perception that some providers are financially troubled and the perception that a small group of producers regularly abuse the system are both serious negatives in that effort.

Thank you again for your time and attention and I look forward to your questions.

[The prepared statement of Mr. Griffith appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much.

Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Curtis, I think you bring a unique perspective to our discussion today because you are a producer and a lender and also operate gins and so you are in some of the support functions of agriculture.

The new farm bill for 2002 has, from all reports we have got, changed agriculture in our area for the better. But we now hear more and more every day that our risk management program is less flexible in a lot of ways. With the farm bill, we tried to make agricultural production more flexible, giving farmers the ability to choose the crops that they felt like they could most economically produce.

So with the new farm bill, do we have an adequate risk management program in place today, or do we need to modify it or do we need to start over? What is your perspective on that?

Mr. GRIFFITH. Congressman, my perspective—and it does come from both being a producer and as a lender, as Mr. Peter is an example up here, I guess I can also say I subsidize my farming operations with salary from a bank. We certainly would not be able to survive, given what we have been through the last few years.

I am not in favor of scrapping things. I think we can do some modifications. In our area—and strictly in our perspective of things, I am not covering the rest of the country, I am not sure this applies everywhere—but we see two significant situations that current risk management programs do not properly address. They are kind of at opposite ends of the spectrum and Mark Williams did a good job of bringing up both of them up here.

But to reiterate, we have dry land producers who simply have been hammered year after year to the point that their APH numbers simply do not support enough coverage to allow them to farm decently. And I hate to say it, but I think that is where some of our instances of abuse of the programs, and at least allegations of fraud, may be coming in. You are putting people in a position that starting the year, they know they cannot borrow enough money to make a fair crop. They have got to figure out how to survive by some other mechanism. And we need to address that in having some way, even at additional cost, maybe it is through cost of production, maybe it is through some other mechanism like GRP, but give them a chance to have enough coverage to have decent protection for what they need to spend to make a crop.

At the opposite end of the spectrum, we are seeing some of our best irrigated growers who are adopting new production practices such as drip, perhaps they are moving into new crop production such as some of our northern areas that are switching to cotton that are not historical cotton producers, that need a method to cover substantially greater per acre input costs than they have had to address previously. The current system does neither of those. It works reasonably well for our middle-of-the-road situation, it has certainly been of great benefit in west Texas and we could not be here without it.

So please do not scrap things, but we do need to do some adjustment I think at each end of the spectrum.

Mr. NEUGEBAUER. Yes, in fact, I think we had some classic examples of what you are talking about this growing year. We had people that got weather-related disaster early on and then we had people just weeks, in some cases days prior to harvest that were completely hailed out or lost their crops. And yet we have a very large margin of difference in cost of producing some of those crops. A dry land farmer that gets hailed out on a day prior to harvesting his crop is much different input cost than the irrigated farmer that gets hailed out the day before he harvests his crop.

We have a lot of resistance from the policy people on the cost of production, implementing it. What are some of your suggestions on how that program might work?

Mr. GRIFFITH. I am sure that Congressman Stenholm could probably give you a much better proposal than anything that I could dream up on it. I understand that there has been a lot of resistance to it because it is an attempt to tailor insurance on what amounts to nearly an individual basis. And nearly any insurance person, actuary or otherwise, will tell you that is not how insurance works, cannot do that.

I think we simply need to look at some generic classifications of what kind of production practices in what area of the country are you wanting to pursue. And if you do that and do it to the best of your ability, I think we can get a reasonable projection on what you are going to spend to try to make that crop. Some percentage of that is the amount of coverage that we should be trying to put in place.

I do not think you need to have a situation in which myself as a producer simply comes in and says I think I need $350 an acre worth of production cost coverage. I think that is an open invitation to problems. But I do think that RMA can develop numbers that make sense for given production practices for specific crops in specific parts of the country.

Mr. NEUGEBAUER. In fact, the insurance industry does that in other areas. They can tell you from different parts of the country what it costs to build a house because they track those costs and they track those costs of repairing automobiles. So tracking the cost of certain type of practices does not seem to be an unrealistic thing.

Mr. Arthur, one of the things that has been brought up as another alternative to cost of production is going to a gross receipts program where you are not insuring a production, but your gross receipts calculated over a period of time. Some say that rewards the better farmers because they are producing the higher returns, the higher receipts. Does Farm Bureau have a position on that and do you have one personally?

Mr. ARTHUR. Well, there again, that is an avenue that I guess could be looked at. Texas is so diverse from one region to the other—cotton grown in the south versus what is up here on the High Plains, there are different practices as far as irrigation, as far as different land use, different soil types. I know it is not going to be a one fit all approach to that scenario on finding some kind of coverage to fit everyone. You would have to go back to some other regional planning I guess within a State like your property and casualty insurance is, that has different regions within the State, and fix something on a regional basis because, there again, even in Texas, even in Kansas or what-not, each State's production and techniques is going to be different and costs are going to be different. So one size fits all is not, but it would be something that would be highly recommended to look at.

As Mr. Griffith says, when I go into my banker, we are looking at different avenues on best case scenario and worst case scenario on revenue at the end of the year and we are trying to cover our bases on all aspects when we go in after that loan. There are too many things that can happen between day one of getting that loan to when the note is due. Mother nature just throws a kink in everything, so one size approach does not fit all, but I think we could do something like that on a regional basis.

Mr. NEUGEBAUER. Thank you, Mr. Chairman, I yield.

Mr. MORAN. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Arthur, in your testimony you stated that the participation in Texas is about 80 percent, is that——

Mr. ARTHUR. At one time, yes, and I think that has increased. That is why I omitted it today, I was not sure. We were trying to look up the numbers, but it has increased over the last 4 or 5 years. Most of my area is either required to our most farmers do carry insurance coverage of some kind.

Mr. PETERSON. That is what I figured. I was surprised it would be that low..

Mr. ARTHUR. I think it has increased. I think that was a number from a year ago. We were trying to update it and just were not able to get that updated number before testimony.

Mr. PETERSON. Most producers, the banker makes them have insurance.

Mr. ARTHUR. Yes.

Mr. PETERSON. Bankers, is that the case, that most of your producers——

Mr. GRIFFITH. Yes, sir. I certainly cannot speak for all lenders, but in the case of City Bank, it would be a very, very rare situation that we would not require a producer to have at a minimum, multiperil. We even have only a tiny percentage of our borrowers that utilize CAT and that is only in unusual situations and normally not on their major crop.

Mr. PETERSON. Is that the case in Kansas too?

Mr. PETER. Yes. I can tell you in our First National Bank, it is probably 95 percent that has insurance. Without it, we would not be surviving in our community. We have been hit just as bad as Texas.

Mr. PETERSON. There are some areas of the country, where the crop insurance utilization is really low. Are the bankers different in that part of the world than they are in Minnesota and Texas?

Mr. GRIFFITH. I certainly cannot speak with any authority, but just listening to comments from other bankers around the area, around the Nation, in some areas they simply do not perceive a risk of loss to a crop as an event that is going to occur often enough that they need to buy insurance. Some areas in the Midwest lose a corn crop on such an infrequent occasion that even at very, very minimal cost per acre, that banker simply argues that he cannot go to that borrower and insist that he spend the money because the borrower is going to say I have not lost a crop in 30 years, why should I expect to lose one now.

Mr. PETERSON. I had mentioned before having a permanent disaster program. Is that something you think would be useful? The Farm Bureau in my area thinks it would be.

Mr. ARTHUR. Yes, sir, I think it would. That would give another tool for that producer to go in with his lender in making those financial risk management tools.

We know that it is also harder to go back and ask Congress each year for an ad hoc. This would give one more tool to a producer on an individual basis to protect his investment at the levels that he would require or his banker would require.

Mr. PETERSON. With the bankers, is that part of exposure. Does that come into the equation when you are making loans to people, that they have got a certain amount of their production that is not covered?

Mr. GRIFFITH. Oh, absolutely. As an illustration, we began trying to make decisions back last year on what a disaster program would look like and what kind of revenue producers who had suffered major percentage crop loss might be looking for in some kind of Federal help, if there was any. It was a long, drawn out process, as we all know. So if the funding mechanism can be established without negatively impacting other parts of the program, I certainly think most folks in this area are going to be very much in favor of getting a permanent program in place. And I especially like the concept of being able to apply it on a county-by-county basis, because all other disasters tend to be designated by county. Why could we not have one for agricultural production losses on the same basis?

Mr. PETER. And I would have to concur. I would just like to add one thing to it. As in my area under irrigation, when you put 100 percent of what you own on the line to raise a crop every year, if you can insure it up to that 95 to 100 percent, coming from a lending institution, I would say that that would be excellent, as far as being able to come in and guarantee a note at that extreme level. The irrigation side of it is very costly and you do put almost everything you own on the line to raise that crop every year.

Mr. PETERSON. One last quick question. It has been suggested that maybe we should make people pay for this and given our experience in trying to get people to sign up for crop insurance, I have kind of wondered about that. But if we had a program that was there and we knew how it worked and it could be implemented, would the bankers help us? I would assume that you would be pushing your people to get into that if it was available at some reasonable cost.

Mr. GRIFFITH. Well, yes, sir, but without seeing exact numbers, it would be hard to make the decision, but if we are talking a relatively small portion of their overall operating budget; yes, I think you would see most of us encourage them to build that in just as we now encourage them to spend money on NPCI or in some cases GRP.

Mr. PETERSON. Thank you. Thank you, Mr. Chairman.

Mr. MORAN. Mr. Ross.

Mr. ROSS. A question more related to agriculture than crop insurance, and for Mr. Griffith. I am also on the House Financial Services Committee in addition to serving on the House Agriculture Committee, so it is interesting to hear your testimony today from the perspective of someone who loans money.

Everywhere I go across the country, I ask this question, and you do not have to be totally accurate but just an estimate. What percent of your farms in this area are large corporations versus family farms?

Mr. GRIFFITH. Perhaps I ought to ask for a definition of large corporation, just so we are on the same page.

Mr. ROSS. More than one family, extended family. What percentage of the farmers in this area are an extended family as opposed to a corporation with numerous owners?

Mr. GRIFFITH. In crop production—and I am going to have to exclude what may or may not be taking place in cattle feeding operations, because we frankly do very little lending in that area—I would say that your definition of large corporate farming would amount to somewhere less than one half of 1 percent and that is probably high.

Mr. ROSS. Good. And I did not present that as a pro or a con, I am just trying to get a feel as I travel the country how many farm families do we have left.

The follow-up question to that would be are you seeing farms continue to pass on down from one generation to the next in this area or are you seeing, as this gentleman testified, a lot of young folks that are now being forced off the farm?

Mr. GRIFFITH. We are obviously having trouble keeping young producers here. What we are seeing generally with land is it is more often than not staying in the family, but the heirs simply become landlords and where their dad or granddad may have been the operator out there, economies of scale have forced them into the situation of simply deriving a share rent or cash rent off of that property and they will no longer be out there trying to make a living themselves. That land is generally being rented by the extended family arm operations that have been able to achieve that operational efficiencies and are surviving through the tough times, but the way they are doing it is spreading out costs of machinery and management across more and more acres.

Mr. ROSS. I guess my point is that either through crop insurance or other commodity programs, I think we as a country have a duty and obligation to try and help our farm families. I have not met a farm family yet that wants to be an insurance farmer, they do not want to be a welfare farmer, they pretty much just want a good letting alone and be able to do their deal. Unfortunately, market prices and weather do not always allow them to do that and I just think that it is important, as members of the Agriculture Committee, that we consider these things because if we lose our farm families, sooner or later we are going to become dependent on other countries for our food and fiber, just as we have done for our energy. And I think that would be a critical mistake for our Nation's security.

Thank you for answering that.

Mr. MORAN. Mr. Stenholm.

Mr. STENHOLM. If I could follow on with Mr. Ross' commentary here, Mr. Peter, your statement why you left farming came down to high input cost and that is basically what we have heard talked about all day today and it is a given fact in agriculture that the cost of producing that which we produce and our ability to consistently get a price comparable with that is very difficult to do. And then when you operate in a high weather related area, as most of agriculture does, even—I found it interesting this last year that the biggest calls for a disaster program came from areas that traditionally have had no disaster. Had one disaster and it became a disaster, which again, anyone in banking that deals with financing farming knows what we are talking about. Even in areas where you have made good crops, prices, et cetera, have made the margins very difficult to get as rich as some think that farmers do today.

Mr. Arthur, you talked about two significant point. No specific question, but just to emphasize for the record, karnal bunt, and the resulting economic damage that occurred not only to wheat producers, but to grain elevators when we had a situation of karnal bunt.

And then you mentioned sheep and goat raisers need coverage. I would submit that beef producers are going to need coverage. As we continue to deal daily with the war on terrorism and we continue to have, as we had in one Senate subcommittee a couple of weeks ago, emphasis on bioterrorism and the potential threat to our Nation's food supply, we are going to find more and more interest among financial institutions in seeing that producers of all shapes and forms have some way of insuring against catastrophic risk. I shudder to think the answer to my own question, but if that one cow had been found in one State in the United States instead of Canada, where would the beef industry in the United States be today.

And so as we deal with this, I think Mr. Peterson has got a very intriguing idea of what he calls a permanent disaster program. I think that we are going to look very seriously at this concept that he has already put forward and introduced in bill form today. But the question that keeps being asked that I think should be a given is will producers pay for it. Absolutely producers will pay for something that you and your banker will agree is a good part of your overall financing operation for the year. Agree or disagree?

Mr. ARTHUR. Yes, sir, I agree to that.

Mr. STENHOLM. The bankers have already agreed to that. I mean that is a given. You look at every input cost and you decide is it worth it. Sometimes this is heresy to farmers to suggest that we might not ought to go for the 4 bales to the acre, we might ought to stop at 2, because of input costs. Well, that is a ridiculous comparison right there, but adding that 10 percent additional poundage that loses you money on the other 90 percent does not make sense. And that is a challenge that we have every year.

Mr. Griffith, your analysis of the double insurance is in my quick reading exactly what we intended when we passed the law, and I am glad to see that RMA is thinking of administering it that way, because that is the way we intended it. You plant your first crop, if something happens to the first crop, you go in and you plant a second crop. If you do not collect an indemnity on the second crop, you can collect the full indemnity on the first crop, but you should not expect to collect a full indemnity on the first crop and the second crop and the third crop and the fourth crop, unless a bird nest on the ground if you can do it, but that was causing us some problems.

But I think that is exactly what we intended. And to me, that gives the proper incentive to all of us. And if we can couple that with this when you destroy a crop, when do you consider a crop destroyed instead of forcing a cotton farmer to leave it out there another eight or ten days and then lose the opportunity for a peanut crop just does not make sense.

So when you have got that clearly delineated so you and your banker make a decision, I am going to plow it up, take my chances, insure the second crop and then you determine ultimately at the end, do you collect the second insurance or the first insurance, 35 percent of the first—you collect nothing or you collect all of it. That does not seem to be too complicated to me.

Mr. Griffith, you are both a producer and a banker.

Mr. GRIFFITH. Congressman, I certainly agree with you and I am just proud to see that that is going to be the interpretation of it because we certainly had concerns.

I guess the only clarification I would like to make, if it was possible for the producer to make the decision prior to planting that second crop that I am not going to insure it, I am not going to spend the premium dollars to insure it, and I have got the ability to go ahead and collect 100 percent of my indemnity on the first crop at that time, not wait nine more months to find out maybe I am not going to turn in a loss on that second crop, that is a big cash flow issue for a lot of our producers. And right now, we may find ourselves in a situation of telling that producer well, he has got to go insure that crop even though looking at the loss potential out there, there is no conceivable way he is going to ever claim the loss on it because it would not pay him enough to even think about giving up any portion of his available coverage on the first crop, that he could go ahead and get that full payment in hand and not be waiting until after harvest of the second crop to do it.

Mr. STENHOLM. Again, I think that is worthy of consideration. The only problem with that concept that occurs to me is folks that deliberately miss the first crop, collect the full insurance, plant a second crop and do better than their neighbor that did not miss the first crop, harvested the crop and did not do it. That is the problem that we constantly have to work to administer. And if somehow, some way, RMA, the private insurance industry and FSA could have gotten together 4 years ago and worked this out, we would not be having the problems we are having today.

Mr. MORAN. Mr. Stenholm, thank you very much.

Just a couple of follow-up questions. Mr. Arthur, Mr. Stenholm gave you the opportunity to highlight the karnal bunt problem in Texas. It is a problem also in Oklahoma and Kansas. And I would guess that if we thought about crop insurance, that is one of the kinds of things we would expect crop insurance to take care of, to address. Is there a distinction between post-harvest—if the karnal bunt was discovered prior to harvest, is it then covered by insurance?

Mr. ARTHUR. I do not think so because there is not a quality loss provision in there for wheat, and especially once it was harvested and commingled with the grain in the elevator. Those folks that did not have a karnal bunt problem, theirs too is also contaminated;

therefore, they did not have a loss either because it is not covered under the provisions.

Mr. MORAN. This subcommittee has heard this story because we also spent a lot of time in addition to the commodities that we produce here in this part of the country, with specialty crop producers who are looking exactly for this kind of coverage for disease-related problems. And it does seem to me that that is an area that one would expect crop insurance to provide some assistance.

And then the issue of livestock coverage and the potential damage that could occur in that industry with, in our case even in Kansas, a rumor of disease. This subcommittee is going to spend some time looking at livestock coverage. We have a number of States that are pilot programs in the livestock insurance side and we intend to kind of pursue how it is working and not working. You all in Texas have a dairy pilot program. Any suggestions any thoughts about how it has worked? Are you familiar with the dairy pilot program?

Mr. GRIFFITH. We have had no direct dealing with it, so I really cannot speak to it.

Mr. MORAN. Mr. Peter, you talked about—one of the issues that I tried to get a better understanding from the first panel is how drought assistance has and has not worked, and in my time in Congress, kind of our normal response has been to double the AMPTA payment. This time we did something different, we created a different disaster program. Your testimony was that it was of little benefit to you as a farmer and I just wanted to give you the opportunity to explain why that was, why disaster assistance was not working and my guess is it is related to irrigation.

Mr. PETER. Yes, Mr. Moran, it is related to irrigation. Any irrigator that I had spoke to in my area especially is we pumped the wells harder than we have ever pumped them in our entire lives and we tried to—some of them, I was one of the fortunate ones, I still had a crop—some of us tried to call the insurance company and we found out when it did not pollinate, we wanted to shut the wells off the save—the first part of August. We could not get adjusters out to look at it until the end of August and we were informed if we shut the wells off, that there would be no insurance payment. Scenarios like that really hurt.

In my area, I am in that top percent that we were talking about with the bill that is now being talked about. All that return on investment is that top 30 percent, that is where all the profit is, basically the top 15. So if you take a hickey at 70 percent, I have already lost my investment, I have already lost money at my current CRC revenue coverage and that is all I was able to attain, because by the conflicts of the disaster it was tied to, my insurance, which if I did not collect insurance, I could not collect on my disaster aid. I had higher input costs but I had no revenue coming back from the disaster through the drought. Even though I was able to produce a crop I lost money.

Mr. MORAN. You were able to produce a crop but it had I assume some loss, but not a sufficient enough loss, because you were irrigating it at a level that allowed you to produce, but you costs were higher.

Mr. PETER. Yes.

Mr. MORAN. Then let me just explore with all three of you your satisfaction with—just general satisfaction or dissatisfaction with the current farm bill. Are you satisfied generally with what we did in 2002?

Mr. PETER. Yes, since the mic is in front of me, I feel like for our community, I have no complaints on the current farm bill. I did like the past one a little better, but I was also involved with you and your office on drafting this farm bill and I feel like it was the best we could get for the economical time that we were through. So as far as main street in my small community, we would really be suffering if we did not have this current farm program. I am very satisfied with it.

Mr. MORAN. Any Texans have a different opinion?

Mr. ARTHUR. No, sir, I think we are real appreciative here in west Texas with the farm bill. I myself probably would not be here today if the passage would not be here because of the production cost. There is a lot of different things lurking around the corners that if we did not have this farm bill that folks would not be able to continue farming and our livelihood—it also trickles down to our rural communities. Our town is 2,000, we are so close to a larger Lubbock here that those folks are coming to Lubbock. If we are going to keep those rural communities as much as our farming communities, it was very needed. The risk management tool has been tremendous over what we have had before and very needed, so we are appreciative of it.

Mr. GRIFFITH. Mr. Chairman, I will just reiterate those comments. It has been certainly the best we could hope for, for what it does for our area. Everybody always wants more, more, more but in the political realities, I think it is great that we achieved what we did. As both a producer and as a banker, it gives us a reasonable amount of certainty out there when we try to forecast revenue for what we are doing. And in this day and time without some hope of that forecast, farming is just too uncertain to go out and spend the amount of money we have to spend today to make a crop.

Mr. MORAN. I thank you very much for your comments and testimony. We are very grateful for the time and effort that you made to be here and our subcommittee will take this information back to Washington.

Mr. Stenholm.

Mr. STENHOLM. Mr. Chairman, just one additional comment. I want to under line Mr. Arthur's comments regarding rice, the unique problem of Texas rice in regard to the 3-year rule. I think that is another area that falls within the common sense type of interpretation that I hope RMA will in fact, for this year's crop, recognize that. And I thank you for bringing that up.

Mr. MORAN. Thank you very much.

I will ask the final panel to come forward. The panel consists of Mr. Joe Brown of Joe Brown Insurance here in Lubbock and Dr. Thomas O. Knight, who is a professor at Texas Tech University.

While we are changing panels I also wanted to recognize a couple of folks who are in the audience today. Nancy Sharp, who is the West Texas Regional Director with Senator John Cornyn, has been with us today. And also perhaps of significant importance is Mr. Ronald Berryhill. Mr Berryhill is the Regional Administrator for the Risk Management Agency, Regional Director in Oklahoma City, and he is here on behalf of RMA and we are very grateful for it. RMA has participated in every hearing we have had and has, it seems to me, paid a lot of attention to the suggestion that our witnesses have made through a long series of hearings and we appreciate Mr. Berryhill of Oklahoma City joining us today on behalf of RMA.

Mr. Brown, I met you a few moments ago, nice to have you here as a witness and I would ask you to commence your testimony.

STATEMENT OF JOE BROWN, JOE BROWN INSURANCE, LUBBOCK, TX

Mr. JOE BROWN. Well, thank you very much, appreciate you folks coming.

Mr. Chairman, members of the committee, it is an honor for me to appear before you to provide my perspective on the Crop Insurance Program. Again, my name is Joe Brown and I have been a crop insurance agent here in Lubbock since the early 1980's, just after the program was delivered to be privatized in 1980.

I sell crop insurance to producers in New Mexico, Oklahoma and Texas, crops of cotton, corn, grain sorghum, soybeans, peanuts, wheat, grapes and sunflowers.

Like many farmers, my agency is family-owned and operated and my sons who are here today, and I would like to have the opportunity if there are any questions later, have them help me answer the questions, they will probably know the answers. They joined me in the 1990's.

For the last several years, I have seen the difference crop insurance has made for producers. Mainly, they have been able to continue farming after their crops were destroyed by natural disasters. The Crop Insurance Program is a very successful Government program delivered professionally by the private industry. It provides timely financial assistance to farmers who have experienced crop losses. And I want to emphasize, gentlemen, the program is working.

However, I wish to bring to the subcommittee's attention a few items regarding the Crop Insurance Program that concerns the producers and their lenders, crop insurance companies and many other agents like myself. First of all, lack of uniform guidance from RMA which frustrates all stakeholders. Threats to economic viability of industry. It threatens service to southwestern producers. RMA should use its current authority to counter fraud. Limitation on coverage of two crops puts producers at risk.

Concerning the uniform guidance, the most frustrating thing to my insured producers and me is the fact that RMA does not provide uniform guidance on policy interpretations or compliance requirements. RMA is quick to criticize that agents are not doing their job to properly deliver the program. I take exception to that, when RMA does not step up to provide clear directives. Many times agents and companies are caught in the middle of trying to understand how RMA will construe a term or policy provision when RMA will not provide uniform guidance. It is not unusual for different companies to explain the same provision to agents differently, leaving us agents confused and frustrated as we try to explain the rules to our insured producers who become bitter with the many rule changes and confusing interpretations.

As an agent, I have seen my errors and omissions, E&O, coverage soar due to the complexity of the program and the lack of upfront guidance from RMA to assure that all parties are on track—companies and agents. Sadly, usually the only time agents get any directive from RMA is when compliance comes down after the fact, usually several years later.

In order to maintain customer satisfaction, it is imperative that companies and agents be able to obtain timely uniform guidance from RMA headquarters and regional offices.

And then economic viability. Last November, as everybody knows, we lost the largest writer of crop insurance, American Growers, which wrote nearly $600 million in crop insurance premiums. In addition, Rural Community Insurance Services has taken over the crop insurance business of Fireman's Fund. So in less than 6 months, the industry has lost two of the top four companies servicing the program. Other companies are not lining up to jump in the business. They are certainly not moving into the southwest United States. In many areas, agents and producers have few choices for crop insurance companies. I am concerned, as the threat to the companies' economic viability continues, there will be even fewer choices. If there are fewer choices, service to farmers is going to decline.

In my opinion, the greatest reason for the loss of companies in the crop insurance industry is the uncertainty of dealing with government.

These reasons include: annual threats from the executive branch and Congress to cut the A&O expense reimbursement to companies or to cap the potential underwriting gains.

Two, the increasing complexity of the program. There are additional last-minute regulatory changes each year which are difficult to implement.

And No. 3, uncertainty each year as to whether the Government will attempt to change the terms of the SRA, in particular the profit/loss sharing parameters.

Annually, these factors bring financial uncertainty to companies and their reinsurers. These financial pressures are only passed on to the agents.

RMA has indicated it will renegotiate the SRA with the companies for the 2005 reinsurance year. Most of us in the industry are concerned that it is taking so long for the proposal to come from RMA. We fear that delay will face more financial pressures and uncertainties on the companies—making them rethink where they are going to do business.

As companies must purchase more than 50 percent of the reinsurance on the open market, it is imperative that terms of the proposed SRA contain terms that will provide financial stability to the industry. In addition, the SRA should include terms to encourage new companies to enter the program and provide terms which makes it attractive for companies to operate in high risk areas.

I also understand that there have been some signs that RMA is interested in capping agents' commissions and implementing a national certification for agents in the SRA. Since 1996, I have been performing increasing policy scrutiny and delivery and work for less money each year due to reductions in commissions, reduced premiums due to lower crop prices and higher costs to service the products. Crop insurance agents must meet the certification requirements of the States in which they operate. In addition, they are trained by the companies that they sell crop insurance. Another certification requirement is not going to enhance the program, if RMA continues to fail to provide agents and companies with straight-forward guidance to deliver the program. I recognize the SRA is the agreement with RMA and the companies, but I am very concerned if RMA starts making changes which directly impact the agents without input from all stakeholders impacted by the changes, not only we agents, but the producers and their lenders must be included in that as well. RMA has not informed the agents if we will have a voice in this negotiation process.

The crop insurance industry is not immune to fraudulent schemes by persons wishing to abuse the program. Fraud costs everybody. Companies, agents and loss adjusters work hard to crack down on those who wish to take advantage. The companies are actively training agents and loss adjusters on fraud detection. Furthermore, there is ample Federal authority to combat any fraud and abuse problems under current law. The Agricultural Risk Protection Act of 2000 increased sanctions that can be imposed on producers, agents and loss adjusters for program abuses. Not only can producers be barred from the program, but also RMA has the authority to disqualify agents and loss adjusters for up to five years from participating in the program. Unfortunately, I think there are a few bad apples that are giving the entire pool of agents a bad reputation. If RMA would utilize their enforcement tools and bar the abusive agents and loss adjusters, it would prevent them from transferring to unsuspecting companies every few years, thus perpetuating the problem.

The last issue I want to address is a change that is incorporated in the ARP, which RMA will be implementing for the 2004 crop year, the double insurance provision. I am not going into all that, that has been covered here already. Just let me say this ARPA provision makes a sound risk management tool riskier even to the best producers as it weakens their financial safety net.

This limitation on coverage will discourage many producers, as they will not know until the end of the crop year what their crop insurance coverage will be, or the cost of their premium.

And skipping down further, I recognize the reason behind the provision in the ARPA legislation was to curtail abuse of the program when three or four crops were insured. However, this provision will harm all producers who double crop. I strongly encourage the committee to modify this provision with legislation that would provide 100 percent coverage for two crops planted in one crop year. This would be an equitable solution, as it would provide the producer with some financial certainty regarding his crop insurance coverage while limiting the coverage to two crops.

And finally, crop insurance is a very successful program delivered by private industry. It is a very important risk management tool for farmers, but in order to provide them with financial certainty, the industry needs to be provided some level of financial stability to maintain service to all areas of the country. Just as important as financial strength, we need a strong RMA, an agency that will provide clear directives to assist with delivery of the program and will utilize its authority to enforce the rules against those who abuse the program.

Thank you very much, gentlemen, for the invitation to be here and if there is a question later, again, I would like to have my sons with me.

[The prepared statement of Mr. Brown appears at the conclusion of the hearing.]

Mr. MORAN. I do not think that is an unreasonable request, be glad to honor it.

Professor Knight.

STATEMENT OF THOMAS O. KNIGHT, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, TEXAS TECH UNIVERSITY

Mr. KNIGHT. Mr. Chairman and members of the committee, I would like to express my appreciation for the opportunity to appear before you today. As a university faculty member whose research is concentrated on crop insurance, I will focus my comments on issues relating to the Federal Crop Insurance Program, almost the exclusive issue that has been talked about today.

When I began conducting crop insurance research in mid–1980's, there was considerable frustration with the program. Two primary concerns were low program participation and high loss ratios. These concerns and other crop insurance issues were addressed by Congress several times between 1988 and 2000. The results have been generally positive. We have seen a substantial increase in participation rates, a marked improvement in loss ratios, a significant increase in products available on previously insured commodities and significant program expansion to additional crop and livestock products.

While I believe the program is now performing well in many areas and for most covered crops, there will always be new issues to be addressed. The problem of severe, multiyear disasters is what I will focus on today.

Before proceeding, there was a handout distributed and I would like to refer to the handout just to give you a notion of the extent of the current disaster that we are confronted with in the southern High Plains today. The first page of the handout shows Dawson County, TX, non-irrigated cotton yields for the period 1972 through 2002. In red, we have the 24-year average yield from 1972 through 1995. That average yield was 278 pounds per acre. In green, we have the 7-year average for the subsequent years between 1996 and 2002. That average yield is 143 pounds per acre, very substantial, incredible drop in average yields in this recent time period. If you will notice, 4 years between 1996 and 2002, we had yields below 100 pounds per acre. In a fifth year, we had a yield of 200 pounds per acre in Dawson County. In a sixth year, the yield was approximately equal to the 278 pound per acre average for the prior 24 years and in only one year in that 7-year period was the yield above the 7-year average for the preceding 24 years.

The second figure shows Lubbock County, TX non-irrigated cotton yields for the same time period. For 1972 through 1995, average yield was 271 pounds per acre, that again is in the red-dashed line. The 7-year period from 1996 to 2002, the average yield was 203 pounds per acre. Again, we have a cluster of yields very low, close to or below 100 pounds per acre and only one yield—actually two yields—in Lubbock County that were above the 24-year average for the preceding time period, during the last 7 years.

The third figure is for Martin County, TX. Again, non-irrigated cotton-yields. The average yield in a 24-year time period from 1972 through 1995 was 303 pounds per acre. The average yield for the 7-year time period from 1996 through 2002 is 120 pounds per acre. If you look at that cluster, we have five yields during the last seven years that were below 100 pounds per acre.

So that gives a notion of the severity of the disaster that we are currently confronted with.

And I might mention one thing. Someone looked at this figure and mentioned to me, could part of this be the result of crop insurance? With increased crop insurance participation, could crop insurance be leading to changes in behavior on the part of producers that would lead to these kinds of drops in yields. And my initial gut response to that was if that were the case, if you were going to sort of farm the Crop Insurance Program in a way that would drive county yields down to that extent, would you insure at the 5100 level? It just does not make sense to me. It would be like sneaking into the barn and coming out with the runt pig under your arm. The risks are the same and there is not much payoff there. I think this is truly a disaster. I do not think that crop insurance contributed much to this disaster.

While crop insurance indemnity payments have mitigated the effects of the current disaster, the effectiveness of the program during and after such a period is affected by the influence of the disaster on producers' APH yields. That has been repeated over and over today.

In my written testimony, I illustrate the steep APH yield decline that most non-irrigated crop producers in this region have experienced. In the remainder of my comments today, I will suggest some approaches that might be used to mitigate this problem.

Two approaches that I believe are worthy of consideration as ways to deal with multiyear disasters are yield indexing and disaster triggered premium subsidy enhancements.

First, I will discuss full yield indexing. Full indexing would involve calculating the relationship between historical yields for an insured unit and county average yields in the same years. A predicted county yield for the insurance year based on a longer county yield time series would then be adjusted to the unit level based on the relationship between the unit and county level yields.

When a county has experienced a multiyear disaster, the index could give the recent years less weight in determining next year's insurance yield.

An advantage of full indexing is that it is a systematic and comprehensive approach. Some disadvantages are its relative complexity, that producers would likely react negatively to the fact that their APH yields would be reduced in periods of above-average yields, and that incorporating such a change would require significant re-rating of the insurance products.

A second alternative indexing approach is a simpler disaster index. Such an index could trigger adjustments to current APH yields only when multiyear disasters occur. A long time series of county yields could be used to identify periods satisfying criteria for multiyear disaster treatment. The same data could be used in determining the adjustment factor to be applied to all producers' APH yields.

Some advantages of a disaster index are its relative simplicity, that it would not result in an APH yield reduction in periods of above-average yield experience and that it would be less likely to require comprehensive re-rating of the insurance products.

The final approach I will discuss is premium subsidy enhancements. The idea behind this is that the fundamental problem created by multiyear disasters is APH yields that are too low. This means insurance coverage offerings that are likewise lower than appropriate for the producer.

Premium subsidy enhancement could be structured to allow producers to purchase higher coverage levels at reduced costs in multiyear disaster periods. This could mitigate the effects of declining APH yields on the coverage producers could obtain at a given cost.

The primary strength of a disaster triggered premium subsidy enhancement is that it would require no change in APH yield calculation procedures or in insurance program rate structures. Thus it could provide a way to deal with relatively rare multiyear disasters while not affecting the functioning of the insurance program in periods of normal yields or in regions where such disasters almost never occur.

Again, Mr. Chairman, I appreciate the opportunity to appear before the committee. I will be glad to attempt to answer any questions about my comments or related issues. Thank you very much.

[The prepared statement of Mr. Knight appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much. I appreciate very much the specific attention on multiyear disasters because it has been a theme for this subcommittee, as you heard today, but also in almost every other hearing as well.

I recognize the gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Mr. Brown, one of the things that I have heard you saying is that the RMA-relationship maybe with the people out selling the product is somewhat strained. Is it just the complexity of the products that RMA has developing that makes it hard for them to get that information out on a timely basis? What are some fixes that you could recommend to this committee could forward to RMA that would at least begin to help that process?

Mr. JOE BROWN. That is a real good question, Congressman. I really do not know that I have the answer except that when you have a provision or a concept that is in the program and one company is saying it is done this way and they sell it that way and then I am told by my company no, it means this and so I tell my customers it means this. And then sometime down the line, my customers find out what the other guys are doing or the other agents, vice versa, all of this becomes complex and it becomes frustrating to find out that RMA has not given a concise answer to this particular program that they have given us.

I can give you probably several instances, but the premise is very simply that it is complicated and there is nothing concise about it. You can interpret it the way you want to almost and then when you do, 2 or 3 years later compliance comes in and says this guy owes that $50,000 indemnity that you paid him in 1998 because you did not do it right. And we find out 3 years later. That is the frustrating thing.

Mr. NEUGEBAUER. So better codification of the program so that everybody understand what——

Mr. JOE BROWN. Yes, it would be real nice if everybody understood the program.

Mr. NEUGEBAUER. You also pointed out something that concerns me and I think concerns others, and that is that we have lost two major providers of crop insurance in the last few years. How is that impacting your ability to provide adequate risk management policies for producers in west Texas?

Mr. JOE BROWN. Well, in my case, I was able to place my business with another company. Now I know of several agents that were not able to do that very thing. They could not go somewhere else because no other company wanted them as their agent, for some various reasons. But the point is I was able to do that, so it did not impact me personally that much. I just continued what I was doing.

I would like to say something here. I like what I am doing, I would like to continue doing what I like doing. And I think the program is good, I think it will work if we had, again, concise answers to questions.

Mr. NEUGEBAUER. And just a follow up to what you are saying, with the consolidation, did you notice any reduction in the kinds of products that were being offered or is everybody offering about the same products in the marketplace?

Mr. JOE BROWN. Yes, there were several things that were offered by the company that we had before that they produced themselves and RMA says we will take it over if we can let all the companies sell the same product and CRC was one of them.

Our company came up several years ago with what they called TLC, total loss coverage, and that is something that I would like to pass along to you and just put a little bird in your ear if you want to. Take another look at TLC and see how that might work as an extra coverage tool that goes beyond—for instance if I have got 65 percent coverage, it will help cover that other 35 percent. and depending on the amount of loss that I have, if I have got a 70 percent loss, then a percentage of that TLC will kick in. Do you hear what I am saying?

Mr. NEUGEBAUER. I do.

Mr. JOE BROWN. It is a tool that possibly RMA could look at. Now I probably have said too much, but for what it is worth.

Mr. NEUGEBAUER. Thank you, sir.

Professor Knight, one question for you. Of these three alternatives that you have presented to us today, can you kind of just one by one give me an impact on the premium structure of current products?

Mr. KNIGHT. Sure. Full indexing would essentially mean a different insurance product. It would mean a differenT-yield insurance product and that would carry over probably to the revenue insurance products also. So it would be a very substantial change in the primary insurance programs for the major crops.

A disaster index would probably require some adjustment to premium rates, but that adjustment would be something that could be incorporated into the current rate structure. The amount of the adjustment would depend on exactly what triggered the disaster, how often you are going to have disasters trigger, what criteria you are going to use for the triggering of a disaster.

That same triggering mechanism would probably be used, or a very similar triggering mechanism would probably be used for the third alternative, the subsidy enhancement.

So I think when it comes to the premium structure, the second two alternatives would probably require some modification to the premium structure, but a modest one. The first is just a comprehensive change in the insurance program.

Mr. NEUGEBAUER. And one of the things you mentioned about the premium subsidy enhancement was that it gave that producer the opportunity that had these four or five bad years, but felt optimistic about the following year, that he could in fact—and I think Mr. Griffith brought up the point that a lot of his farmers had low history for the last 3 or 4 years do not have any ability to farm to really enhance their yield because they are not going to have a sufficient amount of resources and they cannot get a sufficient amount of insurance for them to be able to get the loan proceeds to do that.

So what you are saying under your premium subsidy enhancement is that that would give that producer the ability to insure up a yield of up to 300 pounds or whatever the historical average of years other than disaster years.

Mr. KNIGHT. Right, within the limits of the range of coverage levels available, you could—for example, you might have 75 percent coverage essentially costing the producer the same as 65 percent coverage would cost in normal times or maybe 80 percent coverage costing the producer the same as 65 percent coverage in normal times.

Mr. NEUGEBAUER. And is the trigger mechanism on that that you propose is that that county was declared a disaster area or just a substandard yield?

Mr. KNIGHT. I think you would use a pre-determined set of criteria, probably based on a moving average, maybe a 5-year moving average, of yields and the decline in a 5-year moving average of yields.

In my written testimony, I talk abouT-yield cups. Yield cups place a maximum from year to year on the amount a producer's APH yield can decline. In this case, this is somewhat akin to a county level determined yield cup and you would use county data to determine—let us say you wanted to place a maximum decline over a 5-year period of 20 percent or 25 percent in the county moving average yield. If the actual moving average declined by 40 percent, then it is a fairly easy calculation to come up with the amount of the multiplicative factor you would use to multiply a producer's APH yield by to correct it upward to account for that disaster. So it is a pretty easy calculation process with the triggering mechanism being off of county yields, probably a moving average of county yields, perhaps leading to a single adjustment for all producers in a county or maybe, depending on the number of years of actual yields in their APH history. But that is essentially how I would envision it working.

Mr. NEUGEBAUER. Thank you, Professor.

Mr. Chairman, I yield.

Mr. MORAN. Professor, Mr. Neugebauer asked you about premiums. Would you anticipate that the additional exposure to RMA, to the program, would be paid for by additional premiums? And is there then a consequence to the subsidy?

Mr. KNIGHT. OK, I have heard some discussion about moving subsidy around across the coverage levels. This would be akin to the possibility or might be, if this were going to be done at zero additional cost to the Government, it might be done also through a moving of subsidy—this time moving the subsidy or some of the subsidy to this disaster, the treatment of the disaster situation.

Mr. MORAN. Moving it from?

Mr. KNIGHT. Moving it from one of the coverage levels or some of the coverage levels. That is a mechanism through which the offsets could sort of be moved inside the Crop Insurance Program, would be to modestly change—and I think it would, in the case of the second two alternatives, be a very modest change in the subsidy at either lower or higher coverage levels, to provide the funds necessary to cover disaster periods.

Mr. MORAN. So one of the stories, one of the requests that have been made to us is to move the subsidy to higher levels of coverage, to encourage or at least make more available higher levels of coverage, moving that subsidy away from lower levels of coverage. We have not had hearings in Indiana or Illinois, I am not sure whether they would reach the same conclusion that you would in west Texas. So there may be political difficulties in doing that.

But one of your at least potential suggestions to us is that if we are going to shift the subsidy levels, that rather than necessarily shifting it to encourage higher levels of coverage, we may want to put those subsidy dollars into this kind of program that assists this multiyear disaster circumstance.

Mr. KNIGHT. Right. And in fact those subsidy changes would only occur when disasters are triggered. And in it would be the case also that the effect would be that subsidies would move to higher levels of coverage in those periods of disaster.

Mr. MORAN. And you believe it would take a modest change in those subsidy levels to fund a program—I guess you have given us some alternatives, but to fund at least two of those alternatives?

Mr. KNIGHT. Two of those alternatives would take a modest change depending on where the trigger was set. If the trigger was set at only a 10 percent decline in the county yield, then you would often be paying—well, you would often be figuring a disaster and the cost would be higher. But if it were set at a level of say allowing only a 20 or 25 percent decline over a 5-year period, that would not trigger very often, and there are regions of the country where it would almost never trigger.

Mr. MORAN. Is that information, that data is available?

Mr. KNIGHT. No. The analysis would need to be done. I have done enough analysis to have a feel for it, but there would need to be an analysis of that.

Mr. MORAN. Mr. Brown, your testimony was very interesting to me. I do not have a lot of questions, I thought it was well laid out. You gave us a good story and kind of outlined the problems that you as an agent have in providing service to your customers, to your farmers.

I was interested in learning whether you have detected any change in the way RMA operates. Is your complaint about RMA a lack of certainty? Would that have been true 5 years ago, last month, last year, 10 years ago? And what I am getting at here, do you detect that it matters who manages RMA?

Mr. JOE BROWN. No, sir. Let me say it this way. When I first started there was not an RMA. I did not even know who the top fellow was. It did not make any difference for 5 years, 6 years and so on. As the program started changing and getting more complicated we began to see more difficulty in finding answers as to what exactly does this mean. So I am saying it has been probably in the last 5, 6 or 7 years that it has been getting more frustrating.

Mr. MORAN. And the trend is not in your favor. You do not see anything that you particularly like?

Mr. JOE BROWN. We do what we have to do with what we have got. That is my personal philosophy and Joey, my son over there, he is our policy guru, and he says it is what it is. We deal with it. We take it, run with it and if we get caught, we get caught. We will pay the consequences.

Mr. MORAN. Thank you very much for your testimony. Let me ask the professor one more question. You have heard us discuss the desirability of ad hoc disaster. Some of my questions have been how did it work, right criteria kind of thing. What is your opinion as to the effect of ad hoc disaster upon the Crop Insurance Program? My question, I guess more specifically, is, can we fashion a crop insurance policy that meets the needs of farmers without ad hoc disaster or is it always going to be necessary for Congress and the American taxpayer to step in in certain circumstances, whether it is ad hoc or it is a defined program as Mr. Peterson describes?

Mr. KNIGHT. That is a difficult question. The reason that is a difficult question is because as some of you are aware, since 1980—beginning at least in 1980, a stated objective of the Federal Crop Insurance Program has been to eliminate the need for ad hoc disaster programs. I cannot remember the exact years, but, of course, we had a string of years in the late 1980's when we had consecutive ad hoc disaster programs and then we had a period, if I am thinking correctly, in the early 1990's when we did not. But in the late 1990's, and in recent years, we have had ad hoc disaster assistance. So I would have great difficulty sitting here saying that we will structure a Crop Insurance Program that would eliminate the possibility of an ad hoc disaster program at some point. Certainly the crop insurance programs are reducing the need for ad hoc disaster programs. The higher coverage levels that producers are choosing are reducing the need for ad hoc disaster assistance, but I would have difficulty asserting that we could eliminate ad hoc disaster assistance with the Crop Insurance Program.

Mr. MORAN. Thank you very much for your answers.

Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Brown, I am a CPA. I used to do taxes for a living, and if you want to talk about being put in limbo, try to interpret the Tax Code because the IRS does not know the answer to half of their own regulations. We have simplified it now three or four times and every time we have a tax simplification it makes it about 100 times worse. So you might be careful of what you ask for.

Mr. JOE BROWN. I know it.

Mr. PETERSON. If we try to simplify this it could go like the IRS.

Mr. JOE BROWN. I am a firm believer that if it is not broke, you do not need to fix the durned thing. But still there may be some twists here and there we can use.

Mr. PETERSON. Yes, I understand. We get frustrated, too. We pass bills and by the time the bureaucrats get done with them they do not look like we thought they did sometimes. So we just take it under advisement.

This double cropping issue. We do not do that in Minnesota. I am just wondering if we had a deal where you could get covered 100 percent on two crops, we might have everybody in Minnesota double cropping.

Mr. JOE BROWN. Yes, it is not bad.

Mr. PETERSON. I doubt if we would get much of a crop the second crop.

Mr. JOE BROWN. It works for us.

Mr. PETERSON. Does anybody know what the rules—is there some requirement that you have to at least have the possibility of making a crop before you can qualify for that, or how would that work?

Mr. JOE BROWN. Most of the time what happens is you get hammered with hail, OK. You lose your crop.

Mr. PETERSON. Right. Now we get hailed on.

Mr. JOE BROWN. And your primary crop. Well by that time, if that happens, it depends on if it is in early June or late June. If it is early June, there is not quite as much input, but probably about half of your input is in the crop. By late June it is three-quarters.

Mr. PETERSON. Do they have a time—that after a certain time you cannot plant a crop?

Mr. JOE BROWN. That is right.

Mr. PETERSON. After a certain time.

Mr. JOE BROWN. That is right.

Mr. PETERSON. So with the double crops, is that time later then or what?

Mr. JOE BROWN. No. What I am saying is——

Mr. PETERSON. How do they get this coverage? Do they not get——

Mr. JOE BROWN. Well they have to have the crop in at a certain point. By the end of June, for instance, the second crop of grain sorghum, and then there is a late planting period after that. So in order to get that second crop insured, they have to have it on their policy, of course, to start with.

Now then, there is another angle here, if this goes in, FSA is going to have to give us a little grace I guess because if it is on the policy and you plant the crop and it is not insured because of this difficulty or whatever, then there may be some consequences for FSA to come up with. So there is a lot more to this than just a simple yes or no type answer.

Joey, come up here and sit by me for a second because I think I am getting over my head a little bit. The point is—this is my son Joey. He wrote something here about double cropping and what we have experienced. I would like for you to explain that briefly.

Mr. JOEY BROWN. Congressman, thank you for the opportunity——

Mr. MORAN. Joey, for the record, you ought to identify yourself so that we can get it down.

Mr. JOEY BROWN. All right, sir. I actually have the same name as my father. I go by Joey in order to get the phone messages right. Joey Brown, and I have worked with Dad since 1996 in the crop insurance agency.

My point was when I heard Congressman Stenholm's question, double cropping is not a reality here. That is true. It is not an intended practice. What happens is, when we have our first crop in—in our area, our first crop—our primary crop is our higher economic value crop. If it is lost early enough in the season for a secondary crop to be possible then the full crop insurance indemnity on that first crop basically recoups the expenses in it. So the landowner—the producer is merely able to have an opportunity now to then pursue a second crop in order to make land payments, property taxes and rents and what not. That second crop is not going to produce the profit. We do not want to insure that we produce a profit. We simply want to be able to plant a second crop in order to make a crop this year. We have merely recovered expenses so far. And if we are not able to insure that second crop, we will not be able to plant it because lenders will not advance the money in order to plant it.

Mr. PETERSON. I understand. It does not sound like we are going to be double cropping in Minnesota.

Dr. Knight, this chart here, I have had the same thing happen up in Minnesota, but it was the opposite. It was too much water. We had 100 years of tremendous crops and then the last 10 years we have been wiped out 8 of the 10. Probably the chart would look very similar. My first question is, what happened to the acreage during this time? When the yields were 300 pounds an acre and then they went down to—in Martin County they went down to 100 pounds an acre, that is a pretty dramatic difference. What happened to the acreage during that time? Have you got those numbers?

Mr. KNIGHT. I do not have the acreage numbers. That was the next thing I thought should be pursued, and I did not get to looking at acreage numbers. They have not changed dramatically. So I cannot tell you precisely, but it has not changed dramatically.

Mr. PETERSON. Well, up in my district when we had the hearing all we heard about was the multiple crop problem. One of the things that we get lectured about by some of our colleagues in other parts of the country, Mr. Lugar and others, is that if this is the situation, we got 8 years losses out of 10, then we should not be farming. We should turn it back into the Buffalo Commons up in our area—I do not know what you would do down here—so the tourists from Minneapolis could drive through the countryside and view the buffalo or whatever. But there has been reluctance on their part to go along with us on this because they think we are farming land that maybe should not be farmed or we are going to encourage people to farm in circumstances that are too risky and whatever. In our part of the country—I mean, I think for a while there because of the crop insurance, we brought land into production that probably should not have been in production, and we have had a lot of problems with that. Now that is back in CRP, so some of that problem has gone away. That is what I was kind of getting at. Have you had a similar kind of thing go on here where—I mean if you get a two-thirds drop in production, that has got—you would think that would have some impact on how much cotton was being produced in that county, I do not know.

Mr. KNIGHT. Right. But when you look at the—now Martin County has been very variable over the whole history, but yet this recent period is just an unusual period, and certainly in the other two counties, certainly in Dawson County. A string of 4 years like we see in that figure is remarkable. So I guess I think that producers are rationally believing that this disaster will end at some point in time. It just has not ended so far.

Mr. PETERSON. Well, I would imagine the crop insurance for a while kept these people in business, but as they lose their APH history eventually they are going to be put out of business. The bankers are not going to loan them the money. Are you going to do some work on that, the acreage?

Mr. KNIGHT. I think there is much work that could be done on that. One of the things that could be done on it is various—I mean there have been several ideas thrown out today aside from the three that I did about dealing with this multiyear loss situation. I think it needs to be studied, but it needs to be studied quickly.

Mr. PETERSON. Right.

Mr. KNIGHT. There is not 3 years for a study. I think it is something that needs to be investigated because I have heard ideas thrown out, several of which might be viable. But I do think we do need a mechanism to deal with this so that producers not only who have already suffered the injury of the losses during those time periods—even though they were insured, still there is a loss that they incur due to their deductible—effective deductible from the coverage levels they choose. Producers have suffered those losses and then that is followed by a period thereafter when the insurance offering to them is not very attractive. And that has ramifications in an area—we are talking about here sort of systemic risks. We are looking at a systemic problem where we have whole counties with these low levels of yields for this period. But the sort of idiosyncratic risks, the risk that is the risk of the hail storm that gets your farm but not someone else's farm is not countywide. That risk still exists, and if things return to normal in 2004, producers in this area would still be offered a very low level of coverage for those individual farm risks that are just as important as the systemic kind of risks that they have been dealing with. So there is an effect on out there in the future of——

Mr. PETERSON. My only point was, if you could get us some—I mean we are doing some work in our area. This is going to be a very uphill battle for us to get this fixed. You have got good formulas there, but the question is where are we going to get the money. We have got people against us because they think, they question whether this land should be farmed at all. And the more information that we can have about what is actually going on there in terms of the land and so forth will help us sell that. So if you come up with any information——

Mr. KNIGHT. We would love to do the study, and we will be looking at it some independently of that plug.

Mr. MORAN. Message receive, Professor.

[Laughter.]

Mr. MORAN. Mr. Stenholm.

Mr. STENHOLM. Thank you, Dr. Knight for helping us think outside the box. I just say ditto to Mr. Peterson's comments there and the chairman's.

Mr. Brown, on the double cropping question again. If, as a previous witness suggested, that we could have a decision made early—in other words, once a decision is made that your first crop is zeroed, then you come in with a second crop, not insured, but collect your premium immediately at that time. What would be wrong with that?

Mr. KNIGHT. I do not see anything wrong with that. To be truthful, at the level at which I deal with, I am very familiar with those provisions, but I was not aware of—if you elected not to insure the second crop, my assumption was that the indemnity on the first crop would be paid immediately. I do not believe——

Mr. STENHOLM. There seems to be some question in that. I was referring mainly to Mr. Brown. You all are more dealing with this question on a daily basis.

Mr. JOEY BROWN. That is our current understanding of the way it is written. In the basic provisions you have the option at the time of loss. One of the loss adjustment procedures will be that you will say I want to collect 100 percent of my indemnity on this first crop, and I will either not plant a second crop or I will plant and not insure a second crop. But I do have that option. According to the basic provisions right now that is our understanding. That is another one of those things that there is the potential out there that other companies are communicating that differently, so we are hoping that RMA will clear that up for us and make sure we all get the same message out. But we can take our first crop. Now that does raise the question of, well, if I plant a second crop, wildcat it, no insurance, I may be running afoul of some provision of the FSA office from a prior disaster payment that requires me to carry coverage, and here I am planting a crop and not because this other rule says I cannot. So that is some of the complexity of the——

Mr. STENHOLM. That is why it is so critical and so frustrating to me that over the last 4 years we have seemingly been incapable of having two agencies of the USDA talk to each other and have this question resolved in a way that would be clear to every agent and every farmer in the State of Texas, Kansas, Minnesota, et cetera. But we have been unable to do that and that is extremely frustrating.

Mr. JOE BROWN. Include crop insurance agents in that.

Mr. STENHOLM. I believe I said agent, but I did not leave crop in front of it.

You also pointed out the concern that you have, and you rightfully pointed out that we have lost a couple of companies and, how many more can we lose before we do not have anybody willing to write the coverage that you sell. That is a legitimate concern. And in doing so, you point out the—and again, the annual threats from the executive branch and Congress to cut the administrative and operating expense reimbursement to companies. Now that by law is 24.5 percent. According to my arithmetic, of the $3.4 billion that was total subsidies, $1.2 billion in premiums and $2.2 billion in subsidies, 24.5 percent is roughly $800 million that goes to the companies. What does the agent receive back from the company on a $5,000 policy that you sell, roughly? A $5,000, $10,000, $25,000, $50,000 policy that you sell to your customer, what do you receive from the company, roughly?

Mr. JOEY BROWN. Our commission varies on the type of policy that is written. A CRC policy will pay a different commission than a multi-peril and a CAT policy. CRC rates, the companies that we have talked to, we just deal with one company. Our current rate of commission from the one company is 14 percent commission on the base premium for a CRC policy. It is 15 percent on a multi-peril policy. On a CAT policy it is four percent of what they call the imputed premium. What the premium would have been if a premium had been charged. There is merely a fee that is charged. So it is 4 percent.

On a CAT policy—to give an example, we have a 10,000-acre entity insured in Hockley County upon which we make less than what it costs us to do the policy, but that is their choice of coverage. On a larger policy that we may gain 14 percent commission on, we will be compensated on it. When it goes into the whole mix, it levels out.

Mr. STENHOLM. If you write a $25,000 policy, not CAT. Let us forget the CAT. You write one of the other two policies that you mentioned, you are going to get 14 or 15 percent of the total premium paid by the producer?

Mr. JOEY BROWN. Actually no, of the total base premium.

Mr. JOE BROWN. Base premium.

Mr. STENHOLM. So it is the total. So if the producer pays $10,000, the subsidy is roughly twice that. So the payment would be?

Mr. JOEY BROWN. It depends on the level of coverage, but on a 50 percent level that would be about 1.5 times that. At the 65 percent level the subsidy is pretty close to what the premium is, maybe 55 percent. So if his premium was 5, the total premium would be 11.

Now in return for that, a point that was made was that since 1996 we have been doing more inspections of the farm. We have been increasing the amount of work that we have been doing on the APHs via the Internet as opposed to just handwritten records.

It simplifies communication speed, but it is a complex process that has required us to increase our investment in our business to be able to accommodate that, more work, while those percentages which used to be quite a bit higher have dropped down to what they are currently. At the same time the base premium upon which they are calculated has decreased due to just lower commodity prices and other factors in the farm economy. So it is less compensation. But the commission rate is, as we discussed, 14 and 15.

Mr. STENHOLM. And you are doing more today in checking the adjustments, spending more time out in the field than you used to?

Mr. JOEY BROWN. Yes, sir.

Mr. JOE BROWN. And we are getting less—I mean we are being—I am not griping about it. I like what we are doing, OK, but the point is it is happening.

Mr. STENHOLM. Well you are the exception to the rule in the State of Texas, and I believe I am safe to say in most of the United States if that is in fact happening today, based on the information that we have available to this committee. I commend you for it. I bring this up from the standpoint of there will be pressures to reduce it to the companies, there will be pressures to reduce it to you. Your producers are dealing on short margins and therefore it is important for you and other agents to furnish this committee with the information which you believe is necessary in order to continue to maintain the program, with substantiating evidence to us. If you can do that for the record, we would be very appreciative.

Mr. JOE BROWN. We appreciate the invitation.

Mr. MORAN. I appreciate very much this panel's testimony. I have been pleased and impressed with the information that our subcommittee has garnered here in west Texas. We are pleased by the hospitality that has been extended to all of us. A number of farm organizations and commodity groups were kind enough to host us at lunch. Your association I think has provided the soft drinks that has required me to leave the room more than once today. But we do very much appreciate the hospitality that we would expect to find in Texas. We have found it and we are grateful for that.

I would recognize our host, Mr. Neugebauer, for any concluding comments he would like to make.

Mr. NEUGEBAUER. Well thank you, Mr. Chairman, and thank you for having this hearing so that the people in west Texas can express their concerns about risk management. I want to say that the chairman originally scheduled this to be in his own district and I came to him and asked if there was an opportunity to have another hearing in my district and he said why do you not just take my slot. I really appreciated that. I also thank other Members for coming.

I think what we have heard today from the Members of Congress, I think it is pretty clear that ad hoc disaster programs are on the endangered species list. It is going to be more and more difficult in the future to get those kinds of programs approved in Congress, particular where we are moving into very tight budgetary constraints. What we have also heard is that the 2002 farm bill has provided some valuable tools and is a program that allows farmers to go out and to compete in a marketplace, but also to have a safety net should those market forces go the other direction. But I think the most important thing we heard today was that without an adequate risk management program many of our farmers are not going to be able to take advantage of the 2002 farm bill. And so I think it is incumbent upon this committee and on this Congress to work with the producers and work with RMA and come up with some solutions for some of these issues that have been brought forward today. One of the things that I think I noticed, and I know other Members did, is there is a repeating message here in several areas. So when there is a repeating message it means there generally is a problem out there that we need to address.

So I really appreciate the panel that testified today and the people that participated. I think you have given us some very valuable information. I know the chairman's commitment to move forward with this initiative and to come up with some solutions. I look forward to working with him in that respect.

Mr. MORAN. Mr. Neugebauer, thank you again very much for allowing us to be here. This is a subcommittee that I think takes its work very seriously. We will work hard as we try to improve crop insurance and also look at the commodity programs that we have in place. Our work is cut out for us. As I hope you have seen, we work well together. We would not be here but for the cooperation of Mr. Peterson, the ranking Democrat of this subcommittee. I appreciate very much the lack of partisanship that that Agriculture Committee in general and our subcommittee in particular exhibits throughout the year.

I do want to recognize a couple of members of our staff who have been with us today. Cathy Redding of Mr. Neugebauer's staff has been of great value to us in organizing this hearing today. John Riley is here as the minority staff member. My staff director, Kelli Ludlum, and we have two members of the full Agriculture Committee staff here, Dave Ebersole and Alan Mackey. Because of Mr. Combest's role in agricultural policy, many of our committee staff are Texans. So I wondered if they all came home for Thanksgiving and stayed an extra day. If that was the case, we are delighted to have them either way.

Also there is a sign-up sheet that is going around. If you have missed the opportunity of signing it, we would like to know who is here. That is now at the back table.

I also want to point out that Jerry Harris who is the chairman of the State FSA Committee has joined us today. I know in Kansas that is an awfully important person. I am sure it is especially true here in Texas. We appreciate all of the folks who have come here today to not only provide input but to listen and learn as we have today.

With that, let me make the formal remarks I need to make to conclude this hearing, which are these. Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from the witnesses to any question posed by a member of the panel.

With that, the hearing of this Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 4:20 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF TED HIGGINBOTTOM

Mr. Chairman, members of the committee, it is an honor for me to appear before you to discuss the status of the peanut industry. My name is Ted Higginbottom. I am President of the Western Peanut Grower Association of Seminole, Texas. The Western Peanut Grower Association has more than 1000 members in Texas who produce 75 percent of the peanuts grown in Texas. Peanut production, concentrated in the southeastern and southwestern regions of the United States, generates an annual crop value of about $1 billion. This afternoon I would like to talk about two concerns the producers of my association have regarding the Crop Insurance Program as it relates to peanuts:

- Crop insurance coverage is not equal for peanuts
- Reduced coverage for second crop provides uncertainty

FARM BILL CHANGED PROGRAM—CROP INSURANCE HAS NOT CHANGED

The peanut industry appreciates the committee's diligent work on the 2002 farm bill to provide legislation to convert peanuts from a production quota system to a regular program commodity. This was an important change for our commodity, to allow peanuts to be more competitive in the world market while providing financial assistance in times of low markets.

Under the 2002 farm bill, peanut producers are now entitled to the same safety net provisions enjoyed by other commodity producers such as marketing assistance loans, fixed decoupled payments and counter-cyclical payments. However, the loan provisions only assist farmers who have a crop. Crop insurance is the safety net that is important to our lenders. Without a sound Crop Insurance Program, many of our growers would find it difficult to obtain financing for their yearly inputs.

The 2003 peanut program significantly changed under the farm bill, but changes to the Crop Insurance Program have lagged behind. Producers of other program commodities have the ability to insure actual production history (APH) on acreage by section, based on irrigated and non-irrigated practices. Peanuts are still under a crop insurance policy that was written in 1999, which is more restrictive than the current crop insurance Basic Provisions.

Under the peanut policy, the producer can only have a separate unit if the acreage is given a separate FSA farm serial number. The peanut quota system established the producer's peanut acreage under a single FSA serial number. Therefore, without a change in the policy, producers are not permitted to utilize optional farm units—the entire peanut acres are covered under one policy, requiring a higher loss percentage in order to obtain any indemnity payment. This restriction also prevents the producer who has irrigated and non-irrigated land under the same FSA serial number from establishing actual production history for each section.

The Western Peanut Growers brought this issue to RMA's attention in March of this year during a meeting with RMA Administrator Ross Davidson and representatives from the RMA Oklahoma Regional Office. During this meeting RMA promised the optional unit structure would be changed for the 2004 crop year. The contract change date for peanuts was November 30. RMA did not release a new policy for the 2004 crop year with this modification—in fact we are still under the policy written in 1999.

The Western Peanut Growers urges the committee to prompt RMA to expedite the necessary policy changes to allow peanut producers to establish optional units, which would provide better insurance coverage, as the APH would be recorded for the individual acreage sections. This small change in the policy would make the policy more equitable in comparison to other program crops and it would make a vast difference to the peanut producers who want a meaningful risk management tool.

ARPA PROVISION CREATES PRODUCERS CERTAINTY

The second issue I want to address today was a change that was incorporated in the Agricultural Risk Protection Act of 2000 (ARPA), which RMA will be implementing for the 2004 crop year, the double insurance provision. This stipulation on coverage will have many unintended consequences; beginning with producers and lenders not having a clear understanding of the amount of insurance will be available to the producer during the crop year. This will cause cash flow problems for producers as they try to obtain operating loans for the entire crop year, when only 135 percent of two crops can be insured. This provision will force producers to decide which crop he will fully insure.

Under this ARPA restriction, if the producer has a loss on the first crop, he can receive 100 percent of the insured loss for the crop and not insure the second crop. The other choice for the producer is to calculate the loss for the first crop, receive 35 percent of the eligible indemnity, plant and insure the second crop. If there is a loss to the second crop he can receive a full indemnity for the second crop, but he has to forgo any additional indemnity for the first crop. If the producer is fortunate and has no loss to second crop, he can obtain the balance of the indemnity payment for the first crop, after he has harvested the second crop. At the end of the year, the premiums for the two crops will be adjusted according to percentage indemnity received for the crop.

This restriction will not harm producers who only farm one crop a year, but most producers here in Texas try to produce at least two crops in one crop year. When crops are hit with a natural disaster such as hail or drought, and if conditions permit, we want to plant another crop because we want to earn our living in the market place. It is very possible for a Texas cotton farmer to have his crop hailed out just after the final planting date for cotton and there would be able time left in the year for Spanish peanuts to mature if planted after the cotton. Furthermore, a producer's wheat crop could be destroyed by hail and a full growing season would be available for peanuts.

This ARPA provision will severely jeopardize our producers' financial security, as they will not know with any level of certainly what their income will be until the last peanut is marketed. Nor will he know what his crop insurance premium bill for the year will be until the second crop is completed, because the premium will be adjusted depending on the percentage election for first crop loss.

In addition, this provision will cause a great deal of problems for the insurance companies and agents, as they will have difficulty tracking and booking the appropriate premium as well as the additional costs to adjust the losses once the producer makes the election regarding the indemnity for the first or second crop.

We understand the reason behind this provision in the ARPA legislation was to cut down on abusive practices when three or four crops were insured. However, this provision will harm all producers who double crop. We urge the committee to modify this provision with legislation that would provide 100 percent coverage for two crops planted in one calendar year. This would be an equitable solution, as it would provide the producer with some financial certainly regarding his crop insurance coverage while limiting the coverage to two crops.

The Western Peanut Growers would greatly appreciate the committee's attention to these very important issues, which gravely impact our financial stability. We urge the committee to take action to change these provisions to make crop insurance a more viable risk management tool for peanut producers.

Thank you again for your invitation, I hope I have provided you with an informative snapshot of the challenges the industry faces and I will be happy to respond to your questions.

STATEMENT FLOYD GIBSON ON BEHALF OF DAVID L. MOORE

Mr. Chairman, the Texas Wheat Producers Association is pleased to have this opportunity to offer our thoughts on crop insurance reform. We applaud you, Chairman Moran, and the subcommittee members, for your diligent efforts to provide effective and affordable insurance for farmers.

Crop insurance needs reform. This fact was made evident by the need for disaster assistance legislation last year. The passage of the Agricultural Risk Protection Act was a major improvement in crop insurance and our proposals today build on ARPA's reforms. Nevertheless, the cost of higher levels of coverage and the inability of crop insurance to address the needs of disaster affected farmers has led the Texas Wheat Producers Association to list crop insurance reform as one of our top priorities.

We understand clearly the current budget environment. Our proposals intend to be cost effective, especially compared to disaster funding.

TWPA has four primary goals for crop insurance reform. They are, in order of priority, as follows:

1. More affordable coverage at higher levels.
2. Prevent or slow declining APH due to consecutive disasters.
3. Establish Farm Savings Accounts, which become available in the event of disaster.
4. Establish a minimum loss standard.

I would like to discuss each of these primary goals in turn.

COVERAGE LEVELS

The higher levels of coverage currently available are not affordable. The most cost-effective coverage for producers is either 65 percent MPCI (APH) or 70 percent CRC, therefore these are the levels most farmers purchase. Consequently, most farmers face a 30–35 percent deductible in the event of disaster. At 70 percent CRC, a farmer looses roughly 1 1/2 years of income before any claim is paid. An 85 percent coverage would cover some of this gap; however, higher coverage must be affordable. The availability of higher coverage is of little use if a farmer cannot afford the premium.

Therefore, in order to help producers reach higher coverage levels; the cost of higher coverage must be reduced.

ACTUAL PRODUCTION HISTORY

The Nation's wheat growers know all too well the effects of prolonged drought. Until this year, much of the Nation's Wheat Belt suffered from two to six years of drought. Here in Texas some areas have had below average rainfall for many consecutive years. Each year of crop failure reduces a farmer's APH, eroding the crop insurance safety net.

The minimum yield plug is an effective tool; however, the current 60 percent plug is too low. We suggest the level of coverage purchased by the producer as an appropriate yield plug factor. For example, if a farmer purchased 75 percent coverage, their yield plug would be 75 percent. This rewards the producer who buys up coverage. Another factor to consider is that a T-yield based on a short time frame is impacted more drastically by consecutive disasters. It is my understanding the current T-yield plug is based on NASS 10-year historical data per county. If the T-yield were based on a longer time frame, then the effect of consecutive disasters would be minimized.

Therefore, a more stable yield "plug" floor would help farmers through consecutive disasters.

FARM SAVINGS ACCOUNTS

TWPA and other farm organizations have supported the creation of these accounts in previous farm bills. Tax-deductible contributions with taxable distributions would be fundamental principles of these accounts. A USDA match, as well as tax deferred growth, would provide incentive for account establishment.

Therefore, Disaster Reserve Accounts held in local financial institutions would provide stability to farm income and security to rural communities.

MINIMUM LOSS STANDARD

The deduction of a salvage yield from a disaster affected crop obviously reduces crop insurance coverage. Currently a farmer with an APH of 40 bushels per acre and 70 percent coverage assumes a 28-bushel per acre guarantee. The custom harvest cost for wheat in Texas is around $14/acre. At this cost and a $3.00 per bushel price, a farmer with an appraised salvage yield of 4 bushel/acre couldn't economically justify harvesting the remaining crop. This effectively drops his coverage to 24 bushel per acre or a 60 percent guarantee instead of 70 percent.

Therefore, when the cost of harvesting a loss affected field exceeds the appraised salvage value, that field or insured unit should be assigned an appraisal of zero.

Mr. Chairman and members of the subcommittee, we thank you for this opportunity to testify, and we look forward to working with you on this effort. I'll be happy to respond to any questions you may have, and pledge the Texas Wheat Producers Association's assistance to you in developing, refining and implementing a more effective risk management product.

STATEMENT OF KENNETH ROSE

National Grain Sorghum Producers would like to thank Representative Moran and members of the subcommittee for calling this important hearing today. We welcome all of you to Lubbock, which also serves as headquarters for National Grain Sorghum Producers. My name is Kenneth Rose, and I am serve as president of the National Grain Sorghum Producers. I farm in a family operation near Keyes, Oklahoma in the Oklahoma Panhandle. Our diversified operation includes grain sorghum, wheat and cattle.

NGSP represents U.S. grain sorghum producers nationwide. Headquartered in the heart of the U.S. sorghum belt at Lubbock, Texas, our organization works to increase the profitability of grain sorghum production through market development, research, education, and legislative representation.

We would like to thank the committee members for their support in our efforts to have crop insurance price elections more accurately reflect the market shift that has occurred in recent years which has brought sorghum prices on equal footing with corn We are encouraged by a recent Federal Crop Insurance Corporation board resolution that recommends a new formula for determining price elections for sorghum.

Our recommendations to you today are focused on the specific needs of grain sorghum producers, and we appreciate your consideration of them. But, I would like the committee to be aware that Lubbock is at the South end of an area that has been in a disaster situation for at least the last five years. At this point, we are at least 8 inches below normal rainfall—a critical shortage in area that only gets 12 to 18 inches of rainfall per year. The indications are that it would take from twelve to 60 inches of moisture in the next six months to bring our moisture levels to back to normal.

SORGHUM INDUSTRY OVERVIEW

The United States grain sorghum industry is comprised primarily of nine states in the Great Plains, although grain sorghum is grown from California to New Jersey. Last year, the states of Kansas, Texas, Arkansas, Missouri and Nebraska accounted for the majority of production. Over the last 10 years grain sorghum acreage has ranged from 13 million to 9.3 million planted acres and production has ranged from 795 million bushels to 370 million bushels. Additionally, the forage sorghum industry utilized as silage, hay and direct grazing represents another 5 million acres of production.

The U.S. is the world's chief producer and exporter of grain sorghum, and the crop ranks fifth in importance as a U.S. crop behind corn, cotton, soybeans and wheat. Roughly half of the U.S. crop is exported, while the rest is used domestically for feed and an exponentially growing amount—a 57 percent increase in the last 2 years—going to ethanol.

With no less than 8 proposed ethanol plants under various stages of development in the sorghum belt, the ethanol industry holds tremendous promise to become the single largest user of grain sorghum in the United States if they can be assured a reliable supply of grain. Worldwide, approximately 50 percent of grain sorghum is consumed directly as a food grain, leaving a tremendous growth opportunity here in the U.S.

Additionally, the U.S. dominates world seed production in sorghum with a billion dollar seed industry focused on 250,000 acres primarily in the Texas Panhandle.

SORGHUM AS RISK MANAGEMENT

It is most appropriate that sorghum is represented here today, because we believe that grain sorghum in and of itself is a risk management tool. This is primarily due to its ability to withstand extremely dry and arid conditions better than any other grain crop. For instance, according to a Texas A&M study, sorghum uses one-third less water than corn. NGSP's members believe that Federal farm programs, like crop insurance, should be promoting the conservation of resources like water. Setting the sorghum price election equal with corn helps conserve water. More and more farmers have been planting less drought tolerant crops in the arid areas of the Sorghum Belt because farm programs like crop revenue coverage insurance (CRC) have encouraged them to do so. Farmers are experiencing crop failures because of the lack of water (which also has increased crop insurance claims) or they have turned to irrigation to produce a crop, thereby increasing the pressure on water usage.

However, sorghum's crop insurance track record is deceptive at first glance because, due to its stress tolerance, it is planted in the most marginal areas or as a catch crop during marginal planting periods after a preceding crop fails due to hail or drought.

The Agricultural Risk Protection Act passed by Congress effectively ended double dipping and planting a second crop when there was little hope for it. We hope that sorghum actuarial loss numbers can be refigured to reflect these changes in the law.

In fact, later in this statement, NGSP will detail how we believe that some current crop insurance provisions affect the planting choices that producers make. Perhaps if these issues are rectified by USDA, sorghum will be the first crop of choice more often, and its true risk-management characteristics will become more evident.

NGSP's primary concerns that we will detail today fall into two main areas. First, a level crop insurance playing field is needed for grain sorghum so that crop insurance will no longer distort planting intentions. We will detail needed changes—some of which can be made administratively. However, we also would like to urge this Sub-committee to keep the need for this level playing field in mind as it forms future crop insurance legislation. Additionally, NGSP will detail other concerns that we urge this Sub-committee to address based on a Crop Insurance questionnaire that our organization recently distributed to our leadership and entire membership.

LEVELING THE PLAYING FIELD

Price Elections: NGSP's efforts to change the manner in which price elections are determined are based on our belief that grain sorghum and corn should have equal treatment in government policy to help curtail government policy distortion of planting decisions, particularly on the heels of equal value and equal market prices for both commodities in recent years. When the CRC program was established, USDA based its price election for sorghum on a relationship to CBOT corn Beginning with the 2004 crop, NGSP has been informed that the sorghum price election will be based on the price relationship between sorghum and corn in the January 2004 WASDE price outlook factored with the USDA baseline projections and the December CBOT contract. Hopefully, this change will recognize the fundamental shift in markets and cash prices due to ethanol and other new uses.

We appreciate USDA and RMA's willingness to revise this formula, and we thank them for their work in this area. We also would like to thank members of this committee and many of your colleagues in the House and Senate for their assistance in this area.

However, we are concerned that the use of the USDA baseline projections in this equation may put us back to square one, because the track record for the USDA sorghum baseline projection is inaccurate compared with what actually happened—in terms of supply variables, demand variables, price variables, and (most importantly for insurance purposes) the ratio of sorghum farm price to corn. This is, in part, because the USDA baseline was originally intended as a budget guideline tool rather than to determine the value of a crop.

Ethanol plants and other end users price sorghum equally with corn because it performs equally for them. Crop insurance should not drive planting intentions, nor should it artificially distort them, and we are encouraged that this new manner of calculating price elections will help end these planting distortions.

However, NGSP will continue to monitor government data that will determine these price elections to ensure that the data is accurately reflecting market conditions and not further contributing to these market distortions that have resulted in a near collapse of industry infrastructure and the ability to provide a reliable supply of sorghum to meet market demands.

For example, USDA Sorghum Planting Intentions since 1996 (the year Crop Revenue Coverage came into being) have shown no increase in planted sorghum acreage, even during years when planting intentions for sorghum should have risen due to limited moisture and even this year since the sorghum loan rate was equalized with corn in the 2002 farm bill. In the past four years, market signals should have told farmers to plant more sorghum, given around a 50 percent jump in the high value food, seed and industrial uses from 2000 to 2003 that has led to higher cash prices for sorghum. However, it is NGSP's assertion (and many producers' own admissions) that government policy inequities discouraged these plantings.

In fact, a land management company that manages about one million acres in the Midwest this year advised its tenant farmers not to plant sorghum due to its lower crop insurance price elections and admitted as much in a letter to one of our State affiliates.

Here is an excerpt of the letter:

> Like many producers, we have sharply reduced the acreage planted to grain sorghum and even though it may make sense from an agronomic standpoint due to the drought to plant more acres to sorghum, it simply will not be done on our operations because of crop insurance.

These price election inequities mean more government payouts on higher-risk crops that lack the drought tolerance needed to grow in the drier areas that are traditional sorghum producing areas. Sorghum farmers are penalized $10 to $30 per acre when droughts hit, encouraging farmers to plant higher-insurance-guarantee rather than sorghum.

However, price data collected by USDA runs contrary to continued inequities in price election levels for sorghum. Averaged over the last 3 years, the price of grain sorghum was just higher than that for corn, according to the annual USDA Crop Values Report released in late February 2003. According to the USDA report, the price for grain sorghum averaged over the last three years was $2.08 per bushel, just above $2.06 per bushel for corn during the same period. Recent USDA-ERS numbers give further indication that a fundamental market shift is continuing to result in sorghum prices that are on par with prices for corn, both near and long-term, further making the case for a level crop insurance playing field. In its most recent monthly Feed Outlook report, the agency projected that by the end of the 2002/2003 marketing year, prices received by farmers for sorghum, forecast at $2.32 per bushel, would be equal with corn. Additionally, USDA also predicts that prices for sorghum in 2003/2004 will be even with corn.

Multi-peril Crop Insurance has also discriminated against sorghum. As you can see in the above graph, MPCI coverage for sorghum is less than corn. Sorghum farmers are confused and frustrated when they are paid a price equal to corn or a premium at the local point of sale and then are told by USDA that the sorghum cannot be insured at the price level they are paid.

In addition to this market shift, and to prevent the sorghum industry from complete elimination of its infrastructure; sorghum price elections should be equalized with corn because:

- Data shows that sorghum is equivalent to corn for ethanol use. Each bushel of sorghum produces the same amount of ethanol and Distillers Dry Grain (DDG) as corn. DDG's for the two commodities are typically priced the same, although sorghum's DDG could demand a premium because of higher protein levels. More and more sorghum is being used in ethanol.
- Sorghum is a water conserving crop. By eliminating the incentive to plant higher-water-use crops due to higher CRC price elections, water can be saved in Texas, Nebraska, Kansas, and South Dakota. Hypothetically, by switching from irrigated corn to irrigated sorghum in 21 Texas Panhandle counties, over 50 years enough water could be saved annually to provide water each year for the city of Austin, which has 294, 400 households.

It should be noted that NGSP has been told that some lenders are being asked to document crop insurance cash assurances to bank examiners as part of documenting a loan's soundness. As a result, some lenders are making the planting decisions for their borrowers and requiring their borrowers to plant some other crop besides sorghum due to sorghum's lower crop insurance guarantees. Business is business, and NGSP understands the position that lenders and examiners are in, given current economic conditions.

As an example of this, here is an excerpt of an e-mail NGSP received from a concerned Great Plains banker who is also a farmer:

To: Mr. Tim Lust
Subject: RE: Disaster Hearing

. . .This drought could bring a lot more interest in milo. If we get some moisture, milo will be better than corn. Milo may be better than corn on some irrigated ground with limited water.

However I have had to tell customers that for 2002, dryland corn is better than dryland milo. Milo has a lower "T-yield" on MPCI/CRC. CRC milo price [price election] is 95 percent of corn. Finally, almost all dryland corn in this area is appraising at zero bpa. My milo has heads. I don't know how it will appraise. If it appraises at 3 bushels per acre, my CRC payment will be reduced by $8 per acre (based at $2.80 Dec CBOT x 95 percent). . .What I get for planting a moisture saving crop is a lower CRC payment. Based on my APH information (with 2 years of T-yield), Dec CBOT of $2.80, and 3 bpa appraisal, milo will net $35 per acre less than corn.

[Corn: 68 bpa APH x 70 percent x $2.80 = $133

[Milo: 57 bpa APH x 70 percent less 3 bpa appraisal x $2.66 = $98]

This is just one of several examples that have been strongly communicated to NGSP regarding the unintended consequences of Federal crop insurance.

Product Access and Availability: Currently, sorghum producers have no access to Revenue Assurance products, and many of our members tell us that they would like this product for grain sorghum. Sorghum farmers like this program. They use it on other crops and want Revenue Assurance for sorghum as well. This program can be a valuable risk management tool for farmers that are looking to protect their profits. Additionally, sorghum has not been included in Cost of Production pilot projects. Current new-product-development efforts have largely ignored or been ineffective for this Nation's sorghum producers. NGSP has been told that RMA is reviewing a new combined revenue insurance product for 2006, but until then, sorghum remains the only program crop that does not have Revenue Assurance. Further, we have been told that RMA will not allow Revenue Assurance to be sold to sorghum farmers until changes are made in 2006.

Finally, for six years, NGSP has been working toward insurance coverage for sorghum silage. To date, sorghum silage is not insurable, while corn silage can be insured, and we have been told by RMA that it will not be insurable until at least the 2005 crop year. The sorghum industry continues to struggle with the ability to insure the production of sorghum silage. According to data released from the Texas A&M University Extension Center, Bushland, Texas, in 2001, sorghum silage outyielded corn silage in both tonnage and pounds of quality product while using approximately half the irrigation water required for corn silage. Despite all the time and energy that the House Agriculture Committee, National Grain Sorghum Producers and Risk Management Agency have put into understanding, researching and documenting the merits of sorghum silage insurance, farmers currently cannot insure the crop in the U.S. today. At a time of multiyear droughts when producers need water-saving options, government crop insurance policy is dictating that farmers grow corn silage with insurance in order to get financing by their bankers. It is unacceptable to any agricultural commodity that it should take eight years to get new insurance products in place. Therefore, we ask that the ag committee instruct RMA to make the sorghum silage policy a rider on the sorghum grain insurance provisions for the 2004 crop year.

Producers in the arid regions of the U.S. Sorghum Belt continue to wait for coverage that will allow them to grow a water-conserving silage crop with the assurance of an equal insurance safety net.

Crop Insurance Yields & Premium Subsidies

As part of information gathering for this hearing, NGSP surveyed its membership about concerns and improvements regarding insurance. While inequities in price elections topped the list of concerns, APH yield guarantees and the high cost of premiums followed closely.

Throughout much of the U.S. Sorghum Belt, multiple-year droughts on the Plains have destroyed guaranteed yields for crop insurance purposes, unfortunately making the program largely ineffective. Due to the continued threat of drought, we are concerned that, in the face of these disasters, farmers are not adequately or realistically protected.

We urge this subcommittee to consider changing the manner in which actual production histories (APH) are calculated. NGSP suggests this subcommittee order a study of various alternatives such as what adjustments could be given to either APH or premiums in counties that have been declared disaster areas. After all, it is the widespread disasters that have the greatest impact, not only on producers, but on the rural communities that are dependent upon a healthy farm economy.

We would like to thank this subcommittee for convening this hearing today, and we would be happy to provide any further input or information at any time. Thank you.

Statement of Dee Vaughan

Good afternoon. Mr. Chairman, members of the committee, I first want to thank you for traveling to Texas and conducting this important field hearing. I also appreciate the opportunity to appear before you on behalf of the Corn Producers Association of Texas and the National Corn Growers Association (NCGA). I am Dee Vaughan, a corn, soybean, sorghum, and wheat producer from Dumas, Texas and am currently serving as president of NCGA.

One of the most difficult tasks for any corn grower is management of the risks that confront a farm operation day in and day out. The kinds and levels of risks farmers face can vary considerably between commodities and regions. As President of NCGA, I understand well the uniquely different risk management needs across the corn belt from east to west. What might be a critical program or insurance policy to our grower members in Iowa or Minnesota may not the case for another grower member here in Texas or hundreds of miles away in Maryland. So, I want to assure you that I recognize and appreciate the enormous difficulty of crafting farm policy and legislation that can adequately meet the diverse needs of U.S. farmers and ranchers and ensure that the interests of the American taxpayers are well served.

In our view, the Congress has listened to U.S. producers and taken positive action in recent years to address some of our more pressing needs. One of the first major steps to improve the farm safety net was the adoption of reforms to the Federal

Crop Insurance Program with the passage and enactment of the Agriculture Risk Protection Act of 2000 (ARPA). By committing significantly greater financial resources to premium subsidies, we have seen increases in producer participation, percentage of acres covered, and purchases of higher levels of buy-up coverage.

Another example of what additional premium subsidies can do for Federal crop insurance participation can be found in the Agriculture Management Assistance section of ARPA. A decision earlier this year by the Secretary of Agriculture to change the program's direction and make available $15 million in supplemental subsidies to 15 underserved states for buy up coverage resulted in a remarkable increase of $131 million in liability protection. Following consecutive years of drought, this financial assistance was welcome relief to producers hurt by severe, repetitive crop losses. NCGA is extremely disappointed that the Fiscal Year 2004 Agriculture Appropriations Conferees have taken away the Secretary's authority and flexibility to provide this kind of help when producers most need it. We believe allocating $17 million of the authorized funding of $20 million exclusively for risk management conservation projects and organic certification is neither prudent nor fair.

Over the past few years, the Federal Crop Insurance Program has enabled many producers to continue farming who otherwise would not have been able to withstand the financial losses that have resulted from ongoing drought conditions and other weather related disasters. Indemnity payments in excess of $7 billion for the 2001 and 2002 crop years have made a real difference to growers who are already operating with slim profit margins. Add the $3.5 billion in premium support that enables growers to purchase this protection and you can understand why Federal crop insurance has become such an important component of the farm safety net.

The Texas Corn Producers and NCGA appreciate the progress of Federal crop insurance, but we also recognize that even with recent reforms, too many growers who have exited farming often point to the lack of effective insurance coverage as a contributing factor. It is a reminder that we need to continue our efforts to build on the successes and focus on how we can further refine the program to address its shortcomings.

Among the primary concerns for Texas Corn Producers and NCGA is adequate protection against repetitive years of crop losses. We have recognized for some time now that many crop insurance participants who experience shallow, but significant crop losses in back to back years can find themselves in no man's land. For example, growers with typical buy-up coverage who have lost 15 to 25 percent of their crop most likely cannot file a loss claim nor would they qualify under today's traditional crop disaster program. In Texas, our high variable costs of production have been particularly acute in recent years due to rising natural gas prices. The margins are thin that any weather problem impacting yield has dramatic consequences. Although a grower would normally be able to sustain a shallow crop loss for one year, two or three consecutive years with similar yield results can seriously erode net farm income and equity.

NCGA has also noted along with other farm groups, that repetitive and multiyear crop losses adversely impact a grower's average production history, and consequently the value of liability coverage. However, we want to strongly encourage the consideration of innovative solutions that go beyond artificial adjustments to T-yields and the APH. We believe that addressing this chronic problem in such a limited manner is short sighted, risks ill-advised planting decisions, and invites the unintended consequences of higher premiums for producers where the incidence of crop losses has a much lower probability.

The failure to address erosion of indemnity benefits caused by multiyear losses undermines the growth in crop insurance participation as well as the long term goal of reducing the need for ad-hoc disaster assistance. One potential solution would be a supplemental insurance product that covers a producer's deductible when two years of consecutive years of crop losses exceed a predetermined percentage of average production history. Another recommendation is expansion of the Group Risk Income Protection (GRIP) that until recently, was limited to five states; Illinois, Indiana, Iowa, Michigan, and Ohio. The Texas Corn Producers and NCGA are very pleased that corn growers in those counties in Texas and Wisconsin where Group Risk Protection is currently available will now be able to purchase GRIP. The Federal Crop Insurance Corporation Board has also improved the GRIP plan by approving the Harvest Revenue Option (HRO). GRIP-HRO provides "upside" price protection by valuing crop losses at the harvest price in addition to the GRIP plan's coverage. By offering more producers the option of more affordable protection against widespread area losses, the Board's actions represent a real step in the right direction. NCGA intends to look at a number of new concepts to enhance Federal crop insurance and will be conducting a national survey of corn growers on these ideas and other risk management topics later this year.

Realizing that the changes to Federal crop insurance we advocate may be difficult to achieve in the near term, the Texas Corn Producers and NCGA urge the members of this subcommittee to consider major reforms to traditional crop disaster assistance that address widespread catastrophic crop losses. NCGA first addressed this issue last year in response to last year's drought by proposing a new program that would deliver aid more effectively and equitably without penalizing participants in the Federal Crop Insurance Program. Our Disaster Task Force recognized that the Agriculture Risk Protection Act approved three years ago is now part of a comprehensive, but very different farm safety net because of the new counter cyclical payment program. Secondly, the Task Force observed that traditional disaster aid programs have targeted disproportionate payments to growers with large, insurable yield losses, but growers could still lose up to 35 percent of their expected crop, sustain significant financial losses, and not qualify for any assistance.

NCGA applauds Rep. Sam Graves for introducing legislation earlier this year to reform ad hoc crop disaster aid. The Companion Disaster Assistance Program Act (CDAP) would compliment Federal crop insurance by providing payments more proportionate to the severity of crop losses and covering a portion of the uninsurable deductible rather than duplicating insurance coverage. Under the CDAP plan, disaster payments can be delivered sooner and in a more targeted way because most growers who collect indemnity payments on their insurance policies would be eligible to collect a disaster payment.

Mr. Chairman, I began my remarks by acknowledging the positive impact of Congress' support for Federal crop insurance reforms in 2000 and what it means for the farm safety net. The Texas Corn Producers and NCGA again want to recognize the work of Congress and the commitment it made to U.S. agriculture in passing the 2002 farm bill. This landmark legislation provides farmers a far more reliable and predictable safety net for farmers with the adoption of the counter cyclical payment program, greater investments in value added opportunities, and even a new energy title. We cannot overemphasize the importance of staying the course and the need for Congress to refrain from reopening the farm bill. The 2002 farm bill is a carefully balanced policy that addresses a myriad of pressing needs from adequately funding nutrition programs to expanding conservation efforts. We ask you for your continued support and commitment to this legislation.

Finally, I want to thank you and the members of this subcommittee again for visiting our great State and taking the time to listen to the issues and concerns that I raised on behalf of the Texas Corn Producers and the National Corn Growers Association.

STATEMENT OF LLOYD ARTHUR

Mr. Chairman and members of the committee, I appreciate the opportunity to testify before your committee, regarding the need for adjustments in the Federal Crop Insurance Program. My name is Lloyd Arthur; I am vice president of the Texas Farm Bureau, and am a cotton farmer from Ralls.

We recognize that Texas, and specifically this area of the state, is a high risk crop producing area. The return on premium dollars in Texas is significantly higher than the national average. Texas however, is also a high production area, particularly for cotton. We lead the Nation in the production of cotton, and are also significant producers of wheat, corn and sorghum.

The Texas Farm Bureau supported the Agriculture Risk Protection Act of 2000, and its efforts to make crop insurance more affordable for producers. That legislation has been successful in increasing participation in the program, with now more than 80 per cent participation from Texas producers. The Risk Management Agency has been successful in providing an increase in the number of insurance products for Texas producers to meet various needs. The Crop Revenue Assurance programs that have been piloted in Texas have benefited producers during years of significant drought as well as the extended periods of low prices. Fortunately, our price situation has improved significantly this year.

We are here today to request that the committee consider several modifications to the current program to benefit producers from across the state.

The RMA has had rules for some time that require producers to plant and harvest a crop one out of every three years on a specific piece of ground to be eligible to purchase crop insurance. While this works in many regions, the rice producing area of Texas commonly will plant rice only every 4 or 5 years on a particular piece of property. Your consideration of making a change to resolve this problem would be appreciated. The farm bill gives the producer flexibility to grow different crops, allow producers the opportunity to insure the investment.

In 2001, five counties in Texas were severely affected due to Karnal Bunt in wheat. The detection was found only after the wheat had been commingled at the elevator. A provision allowing for a loss of value due to a quarantined disease, similar to the Quality Loss Provision would have would have provided growers protection. Under current regulations, producers were ineligible for any insurance benefits.

In Texas we continue to have problems with final planting dates. For some reason, the dates established with RMA don't seem to be applicable here in the state. We have tried many times to make adjustments in this area, but have been unsuccessful. Producers fail to understand why farms in adjacent counties, literally across the county line, will have different final planting dates. A possible reduction in the size of areas covered by each date and the inclusion of recommendations from local FSA Committees, and the State extension service could make these dates more germane to their area. Furthermore, changes are needed to address the Release date of a crop that has failed prior to the final planting date, established by RMA. This policy forces producers to be liable for Boll Weevil Eradication assessments on production that has already been designated as failed.

In the South Plains area, we have a combination of both irrigated and dryland farms. Producers switch from dryland to irrigated production based on available rainfall as well as product prices. Current RMA rules discriminate against a producer's choice to make those decisions. At this time, a producer is required to use a particular farm method for one year before being eligible to purchase the insurance product the following year. There is also a significant variance in the kind of irrigation facilities. Drip or trickle irrigation is far more efficient and conservation oriented, and should be recognized as such. We would urge the committee to make adjustments to allow different irrigation practices to use separate units for insurance purposes. Farmer's APH are being capped under these efficient irrigation practices because RMA states the yield is higher than the county's potential. Also allow producers to purchase different levels of coverage for the differing types of production practices, example dryland vs. irrigation.

I have stated previously, we recognize that Texas is a high risk state; we seem to experience natural disaster declarations more frequently than many other areas of the country. We would respectfully request that the committee consider exempting production in any year in which the area is designated as a Natural Disaster. Under the current program, any zero yield years will result in a reduction of a producer's production history.

Finally, we would urge the committee to initiate an additional type of insurance program for livestock producers. In Texas, we are in need of additional insurance products for sheep and goat producers, as well as lamb producers. Although not directly related, hay producers are also in need of insurance coverage.

Mr. Chairman, we appreciate the opportunity to provide testimony today, and I will be happy to respond to your questions at this time.

STATEMENT OF ALAN PETER

My name is Alan Peter. When I completed this year's fall harvest, I also completed my career as a farmer. More than three years of drought, with little relief in sight, helped me come to a conclusion—my chosen career could not support my family at an acceptable level. After this, my final harvest, I began a new career at our local bank. I hope my comments from the perspective of the farmer as well as a main street businessman will give you some insight into many of the issues facing growers today.

Why did I leave farming? For me, it came down to high input costs. A declining water table and higher natural gas prices made it cost more and more to pump less water on fewer acres. In other words, the cost of farming went up and continues to go up and the net economic returns went down. When that happens with no prospect of a change in sight, it's time to get out. I have three sons, none of whom I have encouraged to stay on the farm.

I am completing my final term as President of the Kansas Corn Growers Association, and last year I served on the National Corn Growers Association Disaster Task Force. We pushed for and received a Disaster Assistance package from Congress last year that provided help to many farmers. Although my farm suffered as much as most from the drought last year, I received little disaster assistance. Following crop insurance guidelines, I continued to irrigate my crops, even though input costs were very high. I was successful in harvesting enough to make me ineligible for disaster assistance. However, my crop insurance payments did little to offset the amount of money I put into trying to irrigate my crops throughout that historically dry summer.

I think a grower would be better off if he could buy insurance for irrigated crops at a level that would work at his needed rate of return. Input costs are often simply too high in relationship to the insurance payments you get back. Crop insurance doesn't consider how much money an irrigated grower has to put into a crop. It only looks at the end result.

The farm programs and crop insurance programs the Federal Government offers are vital to not only farmers, but for our rural communities whose economies are built around agriculture. Without farm programs, especially crop insurance, Main Street businesses in our rural communities would really be suffering. As a person involved in the banking business, I can say that if it wasn't for crop insurance, many more farmers in my area would be forced to make the decision to quit farming. Insurance has really helped growers in my area this year. But in ironic contrast, in a neighboring county where growers were able to harvest a little, those people are actually in worse shape financially.

But even with crop insurance, our local businesses are suffering. When times get tough, producers tighten the belt as much as possible. They're not buying parts to repair their equipment, and because it's so dry they're certainly not buying new equipment. They're also not buying new vehicles, new clothes and they're not eating out or going to as many movies either. Whether you're a merchant who sells tractor parts or toys, you're being hurt by the farm economy.

A proposed program that is aimed at helping farmers and conserving water in the aquifer is Senator Sam Brownback's Irrigation Retirement program. I have mixed feelings about the program.

From a grower's viewpoint, farmers with the small wells in my area could benefit because they could recoup some of their investments and help their bottom lines by entering into a program that would pay them to retire irrigation on farmland.

From a Main Street viewpoint, taking irrigation out of a community will definitely hurt local businesses. There is a lot of money spent in communities that have business built around irrigated farming. They say that every dollar spent turns over seven times in a community, and if you take those dollars away, it will hurt our rural communities.

Until now, you could find me on a tractor working in a field, or in my pickup, driving from field to field checking my crops and my irrigation wells. My tools were pliers and a grease gun. Now you can find me behind a desk at my local bank, with a pen and calculator, hoping to help my neighbors patch together a combination of financing, insurance and farm programs to help them survive another year.

When you work on a broken down combine, you have to decide if it just needs some adjustments, or a complete overhaul. If you know what you're doing and understand what the problem is, you can probably fix it with a few adjustments and a couple of new parts. I think that is the case with our farm programs and crop insurance. That's why I appreciate the opportunity to give testimony at this subcommittee hearing. I hope I've helped you understand what's broke. I hope we can come up with some adjustments and a few new parts to fix it.

Statement of Curtis Griffith

I appreciate the opportunity to testify today before the committee and I especially appreciate the members taking time to travel here to better understand the challenging situation facing producers in our area.

City Bank is one of the largest lenders for crop production in Texas. The success of our institution has been driven largely by the ability of producers to repay each year's operating loans. The uncertainty of our weather, the increasing volatility of the market price of our major crops and the continuing squeeze of producers' profit margins has made this lending more challenging each year. In addition to my duties at the bank, I am an active farmer and know first-hand how hard it is to make ends meet in today's agricultural economy.

Today, I will direct my comments to both the commodity programs and the Crop Insurance Program. First, I want to commend the members and staff of this committee that helped to craft the Farm Security and Rural Investment Act of 2002. The provisions of this program do provide a good safety net for producers in times of ruinously low prices while significantly reducing the costs to taxpayers in times of better prices. As a lender, we can better predict the amount of revenue that will be available for loan repayment and be in position to adequately fund good production practices.

I know that the current program is under attack from those who believe that payment limits are set too high. As a banker and a producer of irrigated cotton in West Texas, I can assure you that if more stringent limits are imposed, the program will be unworkable for a significant portion of producers in this area. Cotton is an expensive crop to produce and the necessary equipment costs from ten to even fifty times what it cost when I began farming. Because of these costs, a workable farm program for cotton must offer much higher per acre support levels than for some other crops. Several of our bank customers are impacted by the current limits and these are not corporate-owned mega-farms depicted by some program critics. They are family-owned farms that have been well-managed in prior years and grew by both adding land and, more importantly, improving production practices on the land for better yields and better conservation of land and water. Even with the best management, these producers are not "getting rich." In many if not most cases, the wife is working at a non-farm job and often the husband is also working at some part-time or seasonal job to bring in extra income. I cannot emphasize enough that a significant restructuring of payment limitations will not just reduce the profitability of these family farms, it will probably put them out of business.

I also know that the entire U.S. farm program is under attack by foreign interests and others who believe that it is morally wrong for our government to subsidize crop production in this country while low commodity prices in developing countries make life difficult for their farmers. The cotton program has recently been a favorite target for some in the media. Those who hold this view are seeking an overly-simplistic solution to a very complex problem. They believe that without subsidies, U.S. producers would significantly reduce the amount produced in this country, other major producing countries would not increase production in response to the hoped-for price increase and the state-controlled marketing organizations in the poorer nations would pass the price increase on to their producers. History indicates that none of these are likely outcomes. Perhaps in a perfect world no government would pay subsidies to producers of any product or restrict in any manner the importation of any product from any other country. We obviously do not live in a perfect world. I believe that a strong farm economy is necessary for both the economic well-being of this country and for its long-term security. We must not be apologetic for our efforts to maintain that strength.

The Crop Insurance Program is a very important component of farm policy for our area. Today's production practices require the producer to invest a substantial part of his operating budget in fertilizer, herbicides, irrigation and seed prior to his crop even emerging from the ground. If harsh weather causes the loss of that crop during the first few weeks of its existence, the producer will have a major financial loss with little or no opportunity to recoup it with a secondary crop. As a lender, we calculate each year how much net proceeds a producer will receive in the event of a total crop loss and rely very heavily on that number plus the producer's expected program payments when deciding how much we are willing to lend. Without this insurance, I assure you that we would greatly reduce the total amount of our farm lending at City Bank.

I would like to address three issues regarding crop insurance that are important to those of us who farm in West Texas. First, we need some mechanism to allow a producer to insure based upon cost of production. Several of our non-irrigated producers have been trapped in a downward spiral after several years of drought or other weather-related losses. They can only insure their crop at such a low dollar amount that we, as a lender, will not loan them enough money to make their best attempt at producing a crop and therefore, even when they have good weather, their crops will noT-yield enough to bring up their production average enough to materially improve the amount of insurance they can obtain the following year. I am not asking for the ability to insure a profit for a producer, but I believe that many producers would purchase insurance, even at a greater cost, that would allow them to obtain enough financing to at least try to make a crop.

Second, there is concern about how RMA will treat insurance of crops planted after the loss of the primary crop. The Agricultural Risk Protection Act of 2000 requires that the loss payment on a first crop be limited to 35 percent of the total indemnity when there is a loss on a second crop on the same acreage. In most cases, the producer will be required to purchase insurance on the second crop, either by his lending institution or because of agreements with FSA related to receipt of prior disaster payments. RMA has stated that if the producer is not "paid an indemnity" on the second crop, there is no reduction of coverage on the first crop loss and that the producer can choose to forgo an indemnity payment or withdraw a claim for second crop acreage. This statement is based on RMA's interpretation of the intent of ARPA, and I would encourage the committee to support this interpretation and to incorporate it into any new legislation that may develop. Otherwise, the attempt to prevent the receipt of full indemnity for two crops on the same acreage in the same year could have the unintended consequence of so drastically reducing the indemnity actually received that the producer is left in a worse position than if he had never insured his crops at all.

Finally, I urge the committee to work to maintain and strengthen the current system of private delivery of crop insurance with USDA oversight and support. If commissions paid to the private companies are substantially reduced in the next Standard Reinsurance Agreement, we face the risk of additional financial failures among those companies and a weakening of their efforts to reduce fraud and abuse by unscrupulous producers. We should all be working to increase the number of producers nationwide who participate in crop insurance. The perception that some providers are financially-troubled and the perception that a small group of producers regularly abuse the system are both serious negatives in that effort.

Thank you again for your time and attention.

Statement of Joe Brown

Mr. Chairman, members of the committee, it is an honor for me to appear before you to provide my perspective on the Crop Insurance Program. I am Joe Brown. I have been a crop insurance agent here in Lubbock, Texas since 1980, when delivery of the program was privatized. I sell crop insurance to producers in New Mexico, Oklahoma and Texas for the crops of cotton, corn, grain sorghum, soybeans, peanuts and wheat. Like many farmers, my agency is family owned and operated; my son joined my business in 1996.

Over the last several years I have seen the difference crop insurance has made for producers. Mainly, they have been able to continue farming after their crops were destroyed by a natural disaster. The Crop Insurance Program is a very successful government program delivered professionally by the private industry. It provides timely financial assistance to farmers who have experienced crop losses. I want to emphasize the program is working. However, I wish to bring to the subcommittee's attention a few items regarding the Crop Insurance Program that concerns the producers and their lenders, the crop insurance companies and many other agents, like myself:

- Lack of uniform guidance from RMA frustrates all stakeholders;
- Threats to economic viability of industry threatens service to Southwestern producers;
- RMA should use its current authority to counter fraud;
- Limitation on coverage of two crops puts producers at risk.

Lack of Uniform Guidance from RMA Frustrates All Stakeholders

The most frustrating thing to my insured producers and me is the fact that RMA does not provide uniform guidance on policy interpretations or compliance requirements. RMA is quick to criticize that agents are not doing their job to properly deliver the program; I take exception to that position when RMA does not step up to provide clear directives. Many times agents and companies are caught in the middle of trying to understand how RMA will construe a term or policy provision, when RMA will not provide uniform guidance. It is not unusual for different companies to explain the same provision to agents differently, leaving us agents, confused and frustrated, as we try to explain the rules to our insured producers who become bitter with the many rule changes and confusing interpretations.

As an agent, I have seen my errors and omissions (E&O) coverage soar due to the complexity of the program and the lack of upfront guidance from RMA to assure that all parties are on track, companies and agents. Sadly, usually the only time agents get any directives from RMA is when Compliance comes down on them after the fact possibly a few years later.

In order to maintain customer satisfaction it is imperative that companies and agents be able to obtain timely uniform guidance from RMA headquarters and the regional offices.

Threats to Economic Viability of Industry Threatens Service to Southwestern Producers

Last November we lost the largest writer of crop insurance, American Growers Insurance Company, which wrote nearly $600 million in crop insurance premiums. In addition, Rural Community Insurance Services has taken over the crop insurance business of Fireman's Fund. So, in less than six months, the industry has lost two of the top four companies servicing the program. Other companies are not lining up to jump into this business they are certainly not moving into the Southwestern U.S. In many areas, agents and producers have few choices for crop insurance companies. I am concerned as the threats to the companies' economic viability continues, there will be even fewer choices. If there are fewer choices, service to farmers will suffer.

In my opinion, the greatest reason for the loss of companies in the crop insurance industry is the uncertainty of dealing with the government. These reasons include: (1) annual threats from the Executive Branch and Congress to cut the administrative and operating (A&O) expense reimbursement to companies or to cap the potential underwriting gains, (2) the increasing complexity of the program—there are additional last minute regulatory changes each year which are difficult to implement and (3) uncertainty each year as to whether the government will attempt to change the terms of the Standard Reinsurance Agreement, in particular the profit/loss sharing parameters. Annually, these factors bring financial uncertainty to companies and their reinsurers. These financial pressures are only passed on to the agents.

RMA has indicated it will renegotiate the SRA with the companies for the 2005 reinsurance year. Most of us in the industry are concerned that it taking so long for the proposal to come from RMA. We fear that delay will place more financial pressures and uncertainties on the companies making them rethink where they want to do business.

As companies must purchase more than 50 percent of the reinsurance from the open market it is imperative the terms of the proposed SRA contains terms that will provide financial stability to the industry. In addition, the SRA should include terms to encourage new companies to enter the program and provide terms, which makes it attractive for companies to operate in high-risk areas.

I also understand there have been some signs that RMA is interested in capping agents' commissions and implementing a national certification for the agents in the SRA. Since 1996, I have been working for less money each year, due to reductions in commissions, reduced premiums due to lower crop prices, and higher costs to service the products. Crop insurance agents must meet the certification requirements of the States in which they operate; in addition they are trained by the companies they sell crop insurance. Another certification requirement is not going to enhance the program, if RMA continues to fail to provide agents and companies with straightforward guidance to deliver the program. I recognize the SRA is the agreement between RMA and the companies, but I am very concerned if RMA starts making changes which directly impact the agents, without input from all stakeholders impacted by the changes, not only we agents, but the producers and their lenders. RMA has not informed the agents if we will have a voice in this negotiation process.

RMA HAS SUFFICIENT AUTHORITY TO COUNTER FRAUD

The crop insurance industry is not immune to fraudulent schemes by persons wishing to abuse the system. Fraud costs everyone. Companies, agents and loss adjusters work hard to crack down on those who wish to take advantage of the system. The companies are actively training agents and loss adjusters on fraud detection. Furthermore, there is ample Federal authority to combat any fraud and abuse problems under current law. The Agriculture Risk Protection Act of 2000 (ARPA) increased sanctions that can be imposed on producers, agents and loss adjusters for program abuses. Not only can producers be barred from the program, but also RMA has the authority to disqualify agents and loss adjusters for up to five years from participating in the program. Unfortunately, I think there are a few bad apples that are giving the entire pool of agents a bad reputation. If RMA would utilize their enforcement tools and bar the abusive agents and loss adjusters, it would prevent them from transferring to unsuspecting companies every few years, thus perpetuating the problem.

LIMITATION ON COVERAGE OF TWO CROPS PUTS PRODUCERS AT RISK

The last issue I want to address today was a change that was incorporated in the Agricultural Risk Protection Act of 2000 (ARPA), which RMA will be implementing for the 2004 crop year, the double insurance provision. Under this ARPA restriction, if the producer has a loss on the first crop, he can receive 100 percent of the insured loss for the crop and not insure the second crop. The other choice for the producer is to calculate the loss for the first crop, receive 35 percent of the eligible indemnity, plant and insure the second crop. If there is a loss to the second crop he can receive a full indemnity for the second crop, but he has to forgo any additional indemnity for the first crop. If the producer is fortunate and has no loss to the second crop, he can obtain the balance of the indemnity payment for the first crop, after he has harvested the second crop. At the end of the year, the premiums for the two crops will be adjusted according to percentage indemnity received for the crop. This ARPA provision makes a sound risk management tool risky even to the best producers as it weakens their financial safety net.

This limitation on coverage will discourage many producers, as they will not know until the end of the crop year what their crop insurance coverage will be, or the cost of their premium. In addition, the producers lenders will be disturbed; they will not have a clear picture of what their security interest will be when providing the producer with operating loans, as they also will not know if the crops will be fully insured. This will cause cash flow problems for producers as they try to obtain operating loans for the entire crop year, when only 135 percent of two crops can be insured. Producers who have a loss on their first crop will likely find it difficult to plant the second crop, without funds from harvesting the first crop, a reduced indemnity payment and uncertainty if the lender will back a second crop with out full insurance.

Furthermore, this provision will be a nightmare to administer I'm not just talking about explaining it to the producer, but also the difficulty it is going to cause for the insurance companies and agents, as we will have to track and book the fluctuating premiums. It will create an enormous accounting complexity for companies and agents as we try to properly classify the premiums. I anticipate there will be additional costs to service this provision, as the producer determines after the second crop which crop will receive the full indemnity.

I recognize the reason behind this provision in the ARPA legislation was curtail abuse of the program when three or four crops were insured. However, this provision will harm all producers who double crop. I strongly encourage the committee to modify this provision with legislation that would provide 100 percent coverage for two crops planted in one calendar year. This would be an equitable solution, as it would provide the producer with some financial certainly regarding his crop insurance coverage while limiting the coverage to two crops.

Crop insurance is a very successful program delivered by private industry. It is a very important risk management tool for farmers, but in order to provide them with financial certainly the industry needs to be provided some level of financial stability to maintain service to all areas of the country. Just as important as financial strength, we need a strong RMA—an agency that will provide clear directives to assist with delivery of the program and will utilize its authority to enforce the rules against those who abuse the program.

Thank you again for your invitation, I hope my perspective has been informative and I will be happy to respond to your questions.

This written statement is offered as additional testimony for submission to the subcommittee for further consideration of my position on crop insurance.

It is my understanding that testimony is accepted 10 days after the hearing date. The positions discussed here concern (1) second crop insurance, (2) A & O disbursement, (3) crop insurance agent's compensation and other matters of importance for consideration:

The current rule indicating that second crops, planted after the primary crop is lost, should not be insured is further eroding the farmer's ability to stay alive. Both crops should be fully insured. This will help the farmer have a better cash flow situation with his lender. Primary crop expenses are generally all that is being recovered by its indemnity. In some parts of the country double cropping is standard procedure such as wheat and soybeans or wheat and peanuts. Insuring the second crop will allow a farmer to obtain loans in an attempt to make his one and only crop for the year. A suggestion here would be to pay losses on only two crops per year on the same ground. This it seems to me would alleviate a great deal of angst by those who feel there has been misuse of second crop insurance.

I don't intend to cover the same ground as my oral testimony but if the intentions of government are followed as indicated in 1980 to turn delivery of crop insurance over to private industry, then compensation to companies should be adequate to assure successful delivery. It seems that more competition, not less, would be better. Because congress decided that private industry was the way to go, it should be noted producer participation has brought tremendous success to the program. Further reductions to A&O expense will only drive more companies out of this program, further weakening it and reducing creativity of new products for the producers.

It seems there has been considerable hue and cry about crop insurance agent's compensation around the halls of congress. I'm sure every Congressman has been fed considerable fodder indicating agents are getting rich. The average size policy is approximately $3,100 in gross premium here in the Southwest. There are many of my colleagues receiving only single digit commission on their policies. Each policy has three stages of data collection at different times of the year, plus field inspections, mapping at agent's expense and other services to support FSA office requests for information on each insured. In addition we make virtually nothing on a CAT policy for all the same work. The accuracy of the data collected is so paramount that one mistake can result in denials of claims and other punitive actions. As a consequence our E&O premiums have greatly escalated. Also, the expense in keeping up with regulatory burdens is another facet of business in which we are involved just to make sure we deliver the best service to producers. Whereas, standard insurance mistakes for houses or cars simply result in corrections to the coverage. When the agent is charged to deliver a product that is ambiguous at times and explain to the farmer what he can or cannot do, it can be arduous and expensive. When underwriting gains for companies are more flush then agents commissions may rise in areas where loss ratios are low. Conversely, where loss ratios are high the agent may be paid less because the gains are less. Nationwide, agents are not being overpaid to deliver the product congress gives us and to make sure the producer is in compliance in case of a claim.

Fraud is the byword used for rule changes and laws passed to make the product "better". RMA has the tools to take care of fraud. Protecting the honest agent and farmer from the dishonest ones should be done with the surgeon's scalpel and not a meat cleaver. There have been some successes in getting rid of some bad apples. But agents in general get painted with the broad brush and lumped in with the bad ones. There have been instances where wrongdoing has been reported but has not been investigated. Again, let the system work. It may need tweaking but not a complete overhaul. If you have any questions please give me a call.

STATEMENT OF THOMAS O. KNIGHT

Mr. Chairman and members of the committee, I would like to express my appreciation for the opportunity to appear before you today to address a set of issues that are important to agricultural producers in the Western Plains and other regions of the U.S. As a university faculty member whose research over the past fifteen years has concentrated almost exclusively on crop insurance, I will focus my comments on issues relating to the Federal Crop Insurance Program.

When I began conducting crop insurance research in the late 1980s there was considerable frustration with the program. Two primary concerns were participation rates far below anticipated levels and excessively high program loss ratios. These concerns and other crop insurance issues were addressed by Congress in the Federal Crop Insurance Commission Act of 1988; the Food Agriculture, Conservation, and Trade Act of 1990; the Crop Insurance Reform Act of 1994; and the Agricultural Risk Protection Act (ARPA) of 2000. The results of this legislation and related administrative actions have been a substantial increase in participation rates, marked improvement in program loss ratios, and a significant expansion of the range of product offerings for major commodities, specialty crops, and livestock. The Risk Management Agency is currently pursuing the implementation of sections of ARPA directed toward further expansion to more specialty crops, better tailoring of products to meet the needs of producers in underserved states, and providing effective risk management educational programs for producers throughout the country.

While I strongly believe the Federal Crop Insurance Program has achieved its intended mission of serving as the cornerstone of federal risk management programs for the Nation's farmers and ranchers, there will always be new issues to be addressed. The problem of severe, multiple-year disasters is the one I will focus on today. Before moving to a discussion of possible program modifications to more effectively mitigate the effects of such disasters, I think it is important to provide some perspective on the magnitude of the regional disaster with which we are currently confronted. In doing so, I will use non-irrigated cotton yields in three Texas Southern High Plains counties for illustrative purposes.

The counties I examined are Dawson, Martin, and Lubbock. All are major cotton producing counties. Roughly 80 percent of total cotton acreage in Dawson county is non-irrigated, compared with 90 percent for Martin county and about one-third for Lubbock county. In Dawson county, the average non-irrigated cotton yield during the 24 year period from 1972-1995 was 278 pounds per acre. The average yield during the seven-year period from 1996-2002 was 143 pounds per acre. In Martin county the 1972-1995 average yield was 303 pounds per acre, compared with a 1996-2002 yield of 120 pounds per acre. Non-irrigated yields in Lubbock county were 271 pounds per acre for the 1972-1995 period and 203 pounds per acre from 1996-2002. What these average county yields illustrate is that the multiyear disaster we are confronting in this region is of long duration and truly catastrophic magnitude.

I think it is important to recognize that the Federal Crop Insurance Program has helped mitigate the financial consequences of the current multiyear disaster in the Southern High Plains. One measure of the Program's effect is net crop insurance payments (indemnities-producer premiums) on all crops during the period 1996-2002. The net cash inflow from crop insurance into the sixteen Southern High Plains counties was $80 million in 1996, $152 million in 1998, $61 million in 1999, $121 million in 2000, $198 million in 2001, and $50 million in 2002. In one year, 1997, producer premiums exceeded indemnity payments by $3 million. Over the seven year period these net payments total $659 million, with producers receiving $3.12 in indemnity payments per dollar of premium paid.

While crop insurance indemnity payments clearly can and have reduced the effects of a multiyear disaster, the effectiveness of the program during and after the disaster period is affected by the influence of the disaster on producers' APH yields (i.e., the yields upon which their insurance coverage offerings are based). I will use Dawson County, Texas average NASS yields for non-irrigated cotton to illustrate this effect. A producer insuring in Dawson County in 1996, who provided yield records based on 10 years of actual yield history equal to the county yields for the period, would have had an APH yield of 281 pounds per acre. By 2003, the same producer's APH yield (again assumed to be equal to the county average) would have declined to 193 pounds per acre. This represents a 31 percent decrease in the yield upon which the producer's insurance coverage offerings would be based. Clearly, such a reduction in insurance coverage offered to the producer at any coverage level significantly diminishes the effectiveness of crop insurance as a risk management tool. In the remainder of my comments I will address the strengths and weaknesses of mechanisms already in place to dampen the effects of such yield declines, and some additional approaches that might be incorporated into crop insurance programs to further reduce these effects.

The primary mechanisms currently in place to mitigate the effects of catastrophic years on producers' approved APH yields are yield cups, yield floors, and yield substitution. A yield cup places a maximum on the amount by which a producer's approved APH yield can decline from one year to the next. The current cup limits that decline to 10 percent. A yield floor places a minimum on a producer's approved APH yield. The currenT-yield floor depends on the number of years of actual yields in a producer's APH records. In most regions the floor is 70 percent of the county T-yield for producers with one year of actual yield records, 75 percent of the county T-yield for producers with 2-4 years of records, and 80 percent of the county T-yield for producers with five or more years of records. Yield substitution procedures were established in the ARPA. This provision allows substitution of a yield equal to 60 percent of the county T-yield for any year when a producer's actual yield is below that level. Clearly, yield cups, yield floors, and yield substitution all reduce the effect of catastrophic years; however, the relevant questions are whether changes to any of these mechanisms would afford significant additional protection against multiyear disasters and whether the protection offered would provide reasonably equitable treatment to all producers.

In my opinion, the primary advantage of yield cups, yield floors, and yield substitution is simplicity. The procedures for implementing these provisions are fairly straightforward and easily understood by all involved in the program. However, I believe all three have significant weaknesses as tools for addressing the problem of multiyear disasters of long duration. Analysis I have done indicates thaT-yield cups are most useful in reducing the effects of crop disasters of two or three year duration. When a disaster is of longer duration the current 10 percent cup has little effect on the long-term APH yield decline. Further, my analysis suggests that raising the cup to a maximum 5 percent annual decline would have modest additional benefit. In an extended disaster, the effectiveness of both yield floors and yield substitution would be undermined by declines in county T-yields. Also, I believe there are important equity considerations relating to yield floors and yield substitution. It is clear that the benefits of both of these mechanisms are greatest for producers whose normal or expected yields are low, and that the benefits may be very limited for high-yield producers in the same county. For example, an 80 percenT-yield floor has great benefit for a producer whose expected yield is 60 percent of the county T-yield, but likely very little benefit for a producer whose expected yield is 50 percent above the county T-yield. Similarly, the protection offered by yield substitution, at the current 60 percent level or some alternative higher level, is greatest for low-yield producers and least for producers with high normal yields. Therefore, I believe other mechanisms for dealing with multiyear disasters are worthy of consideration.

Two alternative approaches that I believe are worthy of consideration as alternative mechanisms to deal with multiyear losses are yield indexing and premium subsidy enhancements. These approaches are related in that the premium subsidy enhancements would be structured off of a yield index. In discussing these issues, I will first treat what I will refer to as full indexing. Then I will discuss a disaster index that could be used in either of two ways—to support corrections to APH yields in periods of multiyear disaster or to support premium subsidy enhancements in those periods.

Full indexing would constitute a significant change to the APH yield insurance program. It would involve calculating the relationship, in absolute difference or proportionate form, between historical yields for the insured unit and county average yields in the same years. A predicted county yield for the insurance year, based on a longer county yield time series, would then be adjusted to the unit level based on the relationship between the unit and county level yields. If the county has truly experienced a string of bad luck, the index should give the recent disaster years less weight in predicting next year's expected yield. Several approaches could be taken in constructing such an index, and it would appear inappropriate to institute such a change without first carefully examining which method would provide the most accurate measure of a unit's expected yield. Further, it would be critical to determine the extent to which such an approach would mitigate the effects of extended multiyear disasters. While this approach has considerable appeal, there would be significant disadvantages. First, the approach is relatively complex and difficult to understand. Second, producers would likely react negatively to the fact that this approach would actually reduce their approved APH yields in periods of above average yield experience. Finally, incorporating such a change into the APH yield insurance rates, or into the revenue product rates, would likely necessitate significant adjustments to the product rates.

A simpler indexing approach could be formulated to trigger adjustments to current APH yields only in multiyear disaster periods. A long time series of county yields could be used to identify periods satisfying predetermined criteria for multiyear disaster treatment and to determine the appropriate adjustment factor to be applied to producers' APH yields. It might be possible to use the rate of decline in GRP program county yields to formulate an appropriate index. An advantage to this approach is that it would be simpler and more easily understood than full indexing. Further, it would not result in a reduction in approved APH yields in periods of above average yield experience. Finally, though some rate adjustments would be appropriate, it is less likely that this type of index would require a comprehensive re-rating of the APH yield product or of the revenue products. Thus, it should be possible to implement such an indexing procedure more quickly than would be feasible for full indexing.

The final approach I will discuss for dealing with multiyear disasters is premium subsidy enhancements. The idea behind this is that the fundamental problem created by multiyear disasters is that producers' APH yields are driven down such that the yield coverage obtained at any given coverage level is much lower than before. A premium subsidy enhancement could be structured to allow producers to purchase higher coverage levels, at reduced cost, in multiyear disaster periods. This could mitigate the effects of declining APH yields on the coverage a producer could obtain at a given cost. Predetermined criteria could be established for the triggering of a subsidy enhancement and determination of the amount of additional subsidy on the basis of a county-yield based disaster index as described above. A strength of this approach would be that it would require no change in APH yield calculation procedures or in insurance program rate structures. Thus, it could provide a mechanism for dealing with relatively rare multiyear disasters of long duration that would not affect the functioning of the insurance program in periods of normal yields and in regions where such disasters almost never occur. Clearly, such a mechanism would involve increased government cost when subsidy enhancements are triggered. The amount of those costs would depend on the exact design and approach taken.

Again, Mr. Chairman, I appreciate the opportunity to testify before the committee. I will gladly attempt to answer any questions about my comments or related issues.

Monday, December 1, 2003

Testimony Before the House
General Farm Commodities and Risk Management Subcommittee on Agriculture

Review of Crop Insurance and Commodity Programs

John Haas, Vice President
U. S. Canola Association

Thank you Chairman Moran, for this opportunity to appear and testify before the subcommittee regarding crop insurance issues. My name is John Haas. I operate a small grains farm near Larned, Kansas where we grow winter canola, winter wheat, grain sorghum, soybeans and alfalfa. I am also the Vice President of the U. S. Canola Association (USCA).

Canola is an important emerging crop that has a proven record of offering an agronomically sound rotation alternative that decreases disease pressure in small grain crops, thus reducing the chances of crop failures the following year. Canola is also the source of the healthiest of all vegetable oils in that it contains only 6% saturated fat, but is rich in beneficial oleic acid. Canola oil is an important option for consumers seeking a diet low in dangerous fats.

Congress has also recognized the importance of canola by funding the National Canola Research Program to develop and establish the crop in many regions of the country beyond those counties currently eligible for coverage.

Here in the Southern Plains, we are making a concerted effort to increase winter canola acreage. USCA co-hosed a growers meeting in Hutchinson, Kansas on August 5th that generated renewed interest in planting winter canola in south Kansas and northern Oklahoma. About 35 producers attended the meeting. Enough canola seed was sold to plant 3,000 acres, which is a ten-fold increase in canola acreage from last year. Presently, the young canola crop is off to a great start in most areas.

Since winter canola can be grazed and still harvested for seed similar to winter wheat (and has twice the relative feed value of wheat) it will make a great addition to the region's rotation. One grower from Oklahoma who planted canola this year told us, "this region has a two crop rotation - wheat and cattle... we need another crop to throw in the mix, and if this grazing thing works for canola, there'll be 600,000 acres in north central Oklahoma in a few years." Indeed, some predict winter canola has the potential to grow to 2.5 million in the coming years.

One large impediment to this promising scenario is the limited availability of crop insurance for canola.

Potential new U.S. canola producers need access to the risk management tools available to other established crops, such as crop insurance. Currently, canola is an insurable crop in only 147 counties. In other counties where canola acreage has great potential to increase, such as here in the Southern Plains as described above, canola can only be insured through written agreements. Very few producers can risk growing a new crop for three years without crop insurance. Indeed, lending institutions are reluctant to finance production costs without crop insurance coverage.

In 2002, RMA, began to deny written agreements for producers with "poor" history – 2 or more losses and a loss ratio of $3.00 or greater – on written agreements. This seems quite arbitrary since extended drought in some regions of the country has been the cause of these losses. Furthermore, major crops with crop insurance coverage in these same regions are establishing equally "poor" history due to the same weather patterns, yet coverage for these crops remains available. Canola should not be singled out as the only bad apple due to adverse weather.

In 2003, RMA began to require producers to provide three years of records in order for a written agreement to be considered for canola. Also, the use of similar crops was not allowed when compiling records for cropping history. A proposal for 2004 to expand the history requirement to four years was not implemented.

The USCA believes these changes are unduly restrictive for emerging alternative crops such as canola, and have combined to severely limit the expansion of canola acreage.

One of the goals of the Agriculture Risk Protection Act of 2000 was to expand the number of crops available for crop insurance coverage.

The USCA strongly urges the use of "similar crops" when compiling records for history, as was done in the past.

The USCA also urges reversing the decision to deny written agreements because of "poor" history if it is determined that other major crops in that region are also suffering similar losses and establishing resulting "poor" histories.

Thank you again for the opportunity to raise these concerns to the Committee.

John Haas, Vice-President
U. S. Canola Association

Testimony Presented by
Mark Williams, President
Plains Cotton Growers, Inc.
Before
General Farm Commodities and Risk Management Subcommittee
December 1, 2003

Good afternoon. Mr. Chairman, my name is Mark Williams, I am a cotton farmer from Parmer County Texas. I would like to take this opportunity to welcome you and the other Committee members present to Lubbock for this hearing of the General Commodities Subcommittee. We appreciate your willingness to be here. I am here today to present comments on behalf of the cotton producer members of Plains Cotton Growers, Inc. PCG is the certified producer organization representing the 25-county cotton production region surrounding Lubbock, Texas. Over the past 15 years this region has produced, on average, 60 percent of the cotton grown in Texas and 15 percent of the cotton grown in the United States. We have maintained this level of production in perhaps one of the most difficult and volatile production regions anywhere. At any moment, weather patterns can change and deal devastating losses to producers. That is why today's topic is so important to the cotton growers of West Texas.

Today's focus on the federal crop insurance program underscores the important role this program plays to growers in West Texas and across the nation. I will begin by expressing Plains Cotton Growers strong support of the federal crop insurance program and our commitment to continually work to make it successful. The availability of affordable insurance coverage is critical to the producer's ability to obtain financing and is perhaps the most important crop management tools that we invest in each year.

In order to fulfill its intended purpose the federal crop insurance program must continue to evolve. Whether it is developing new and innovative products or creating new combinations of those already in the pipeline, the progress we make in refining the insurance options available to producers is critical to our ability to maintain flexible risk management tools. The concept of flexibility also extends to the rules that govern the program. Producer needs are often fluid and the rules governing insurance programs need to be constantly reviewed to insure that the delicate balance between customer responsiveness and program integrity are maintained. My comments today will include suggestions for new product development and also touch on some specific issues that we have been working on as an organization for several years.

New Product Development

As I stated previously, development of new forms of coverage is key to providing producers with suitable options upon which to base their risk management program. In recent years prolonged drought and depressed market conditions have shown that a one-size fits-all yield based insurance product cannot adequately protect the interests of a diverse agriculture industry. The increased use of products such as Crop Revenue Coverage (CRC) and the Group Risk Plan (GRP) is a direct result of growers utilizing new solutions that can provide them better coverage than the traditional MPCI product we are most familiar with. Much of the interest by producers is fueled by the adverse impact that drought, multiple losses, declining APH's and increased premium costs have had on their ability to utilize traditional yield-based products.

First let me address Cost of Production insurance. I believe PCG would be remiss if we did not urge this committee and RMA to continue to develop a workable COP-based insurance product. We appreciate the efforts that have been made in this area to date and understand the tremendous challenge that it represents. Even though none of the currently proposed COP products have been able to pass muster, PCG believes that work should continue toward development of this type of policy.

One concept the PCG membership is interested in is finding ways to combine existing products to provide better coverage for producers. In this regard PCG proposes two possible product combinations, both involving the Group Risk Plan (GRP) of insurance. In recent years GRP has become an increasingly useful alternative for growers who have been affected repeatedly by the weather patterns that have dominated the past 5-6 years. Prolonged drought has created an untenable situation for many growers due to dropping Actual Production History (APH) yields. The positives of the GRP policy are that coverage is based on dollars per acre and allows growers to purchase higher coverage at an affordable price. That affordability however, is derived from the fact that they give up protection against individual loss events. PCG believes that there are two possible improvements that could be made to the GRP program to provide growers increased individual protection.

The first suggestion is to include with the GRP plan an additional subsidy amount, either in the form of a voucher or some other mechanism, that can be applied towards purchase of privately offered hail insurance. PCG believes that the overall cost to the government would not be increased. We envision a program that would essentially provide subsidies equal to what the grower would receive if they selected an APH-based insurance program. This option would give GRP participants the ability to have some individual risk protection in addition to the lower cost coverage provided by GRP.

The second possibility is a GRP / CAT (Catastrophic Risk Protection) combination policy. Currently the government provides a 100 percent premium subsidy on CAT insurance. Bundling the GRP plan with a

CAT policy would allow the grower to purchase more dollars of coverage to protect against a wide-spread loss event (GRP), and still provide a small amount of individualized protection against a random, localized loss event through the CAT policy.

Another area that would make the program more responsive to producer needs would be allowing a producer to insure irrigated and non-irrigated production practices at different coverage levels. The current requirement that everything must be insured at the same level keeps many growers from purchasing adequate coverage for the irrigated practice portions of their operations due to the cost drag associated with the lower input, higher risk dryland units. Allowing producers to purchase higher coverage levels on irrigated units and less coverage on dryland units is one way the program could help producers better tailor their insurance coverage to reflect their specific operations.

PCG would also like to encourage Congress and RMA to develop some way to provide insurance coverage to key industry infrastructure such as cotton gins, elevators or other primary processing and storage facilities. When widespread crop destruction occurs these critical industries are often left with little or no income for the growing season while still having to meet significant fixed expenses. Several products are in the early stages of development in this regard. We encourage the Congress and RMA to determine what level of government support could be developed and how it could be offered through the Risk Management Agency.

Secondary Crop Coverage and Deferred Appraisals

PCG appreciates RMA's efforts to develop and implement a workable secondary crop coverage rule as mandated in the Agriculture Risk Protection Act of 2000. In its initial form this rule was not something that PCG or the rest of the cotton industry could support. After considerable work by RMA and the industry the new rule is a compromise that at least puts the decision back in the hands of the producer. Beginning with the 2004 crop, the rule will allow him to keep 100 percent of a primary crop indemnity by opting out of insurance coverage on any secondary crop he may plant.

An offshoot of the secondary crop issue is the deferred appraisal of non-emerged seed, following the end of the late planting period. Since this situation is most commonly associated with dry soil conditions at planting, it is particularly important to cotton producers in Texas. Since the rule change was first initiated PCG has worked diligently to have it removed, but have been frustrated over RMA's unwillingness to seriously consider alternatives that would meet their needs and the interests of producers. For RMA it appears to be much easier to write a "one-size-fits-all" rule instead of focusing on the perceived problem area and developing a rule that addresses it specifically. We understand the need for rules to prevent abuse, but in this case the producer that follows the rules is the one unfairly impacted.

As producers we have no problem with the concept that seed planted into dry soil should be given a reasonable time period to emerge. Both the producer and RMA have an interest in giving dry-planted crops a chance to receive moisture to establish a crop. We would assert however, that a reasonable waiting period should not arbitrarily disregard the declining productive potential of the crop, nor should it extend past a point that RMA would normally decline to insure the crop (the end of the late planting period). Simply put, we believe a much better alternative is a rule that would allow appraisals after the end of the late planting period for crops planted on or before the final planting date. For crops with no late planting period or that are planted during a late planting period, RMA should enforce a minimum deferral period from the date of planting for acreage planted during the late planting period. This would give both RMA and the producer a fair and reasonable timeframe under either scenario to evaluate non-emerged crops and provide for their timely release.

Program Procedures

One of the most important aspects of maintaining a sound crop insurance product is to ensure that all aspects of the program be designed and implemented with the highest degree of reliability and integrity. PCG strives to work with RMA personnel to solve procedural problems as they arise, and also to provide input on new or proposed procedural changes to improve program integrity. PCG has been working closely with RMA to develop improved rules and procedures that will give the current program a perception of higher value to the producer. The overall goal in regard to each of the issues I am about to discuss is to improve the integrity of the program.

In 2002 RMA changed the manner in which producers could obtain crop insurance for crops in counties where coverage is not readily available or offered on a particular crop. Prior to 2002 under written agreement rules, a producer could prove experience on a similar crop and then enter into a written agreement with RMA for coverage on the new crop. In 2002 RMA changed their procedure to require that the producer must have three years of growing experience on the specific crop before a written agreement for crop insurance could be agreed to. This has become a particular problem for producers in the northern Texas Panhandle who are facing increasing energy costs, declining water supplies and are seeking economically viable alternative crops. Cotton has become a crop many are successfully producing on limited acres, but bankers are becoming increasingly uneasy about larger acreages without risk management options being readily available. While most of these counties can show successful production of cotton in recent years, new growers are unable to meet the new experience requirement in order to obtain a written agreement for insurance on cotton. PCG believes that when a producer decides to change their crop mix insurance coverage should be available to them when there is sufficient evidence that the crop can be successfully produced in their county. The requirement that producers must have multiple years of personal experience producing a crop on a farm before insurance can be offered through a written agreement creates a chicken and egg situation. As it stands today without experience a producer cannot get insurance coverage, but without insurance the producer cannot get financing necessary to get the experience. Additional testimony concerning acres and yields in the counties of concern will be submitted and we encourage the Committee to look further into this issue so that an equitable solution can be developed.

The Agricultural Risk Protection Act of 2000 included language that directed RMA to study the feasibility of a bale-by-bale quality loss adjustment procedure for cotton in lieu of the current unit based approach. RMA has received the results of the study they requested to look into this issue, but only minor changes to the current Quality Adjustment procedure have been made to date. Improving the cotton quality adjustment procedure is important to cotton producers. Our number one suggestion to RMA in this regard would be to look closely at the bale-by-bale cotton Quality Loss Program (QLP) procedures originally included in the current 2000 Crop Loss Assistance Program. PCG and the rest of the cotton industry are ready to work with RMA and continue working towards this goal together.

Development of an improved Upland Cotton Boll Count Appraisal methodology has been a focus for Plains Cotton Growers since 1998. That year, this area's non-irrigated acreage was severely impacted by drought and resulted in significant number of acres being evaluated using the current Boll Count Appraisal methodology. Our main concern at the time was whether the procedures reliance on the predominate width of open cotton bolls could provide an accurate estimation of yield. After many discussions with RMA staff about the procedure a study was conducted to establish whether the current procedures were statistically valid. The results confirmed our suspicion that there was little correlation between the width of a boll and yield and ultimate yield. Our recommendation that a new boll count procedure be devised was embraced by RMA and efforts to produce and implement, a new method have been ongoing.

Since that time PCG has worked closely with Texas Cooperative Extension and Texas Agricultural Experiment Station scientists, the National Ag Statistics Service and RMA to put together an alternate Boll Count Appraisal methodology. Our ultimate goal has been to develop an accurate, statistically valid method to estimate yield. After considerable work a new procedure was submitted to RMA in 2002 that we believe is more accurate, quicker and easier to perform than the current method. Unfortunately, RMA has reversed it stance on implementing the new method for Texas, New Mexico and Oklahoma only in 2004 and have recently indicated that they now intend to put out a contract to do a nationwide, multi-year study to compare the current method to the proposed procedure. We have expressed our strong disagreement with this decision and have again requested that the new system be implemented FOR TEXAS, NEW MEXICO and OKLAHOMA ONLY based on sound statistical evidence that the proposed procedure is a significant improvement over what is currently in the AUP Cotton Loss Adjustment Standards Handbook and that the procedure has the most applicability in this region. We have provided each member of the Committee a copy of the data package we furnished to RMA and ask you to consider its merits and provide feedback to PCG and RMA.

That concludes my testimony this afternoon. In closing, I would like to thank each of you for taking the time to come to Lubbock to discuss this very important topic and for the opportunity to present these comments on behalf of the cotton producers of West Texas. I would be pleased to answer any questions you may have.

Thank You.

Testimony

By

Monty Henson

Before the Subcommittee on General Farm Commodities and Risk Management Committee on Agriculture U.S. House of Representatives

December 1, 2003

Mr. Chairman, Members of the Committee, it is an honor for me to present my testimony to you and to discuss the status of the guar industry from a producer-grower-processor perspective. My name is Monty Henson. Kathy, my wife, and I reside and own a farming-ranching operation in Terry County, Texas. Our home is located 2 miles west of Brownfield at Route 4, Box 5 on US Hwy 62-380. We grow cotton, peanuts, wheat and guar and have a one hundred head cow-calf operation that is raised on improved irrigated pasture and winter wheat. As you can see, our operation is somewhat more diversified than most of the farming-ranching operations in the West Texas area. We have diversified our operation in order to minimize the exposure and risk of the farming-ranching industry today. We are also very involved in the community, serving on many producer oriented Cooperative boards and also as President of the Brownfield Independent School District. During the past two and a half years, I have been a stock holder and board member of Southwest Guar Cooperative. At this time, I would like to share with you four major concerns of producers in West Texas and Oklahoma regarding the crop insurance program as it relates to guar:

1. Guar is not eligible as an insurable crop under Multi-Peril Crop Insurance.

2. It is vital to producers and the Guar industry to add Guar to the insurance crop list for the spring seeded crops in 2004.
3. NAP insurance does not provide adequate risk protection for non-program crops and most of the NAP losses that were reported in the 2002 crop year have not been paid as of this testimony in my county.
4. NAP insurance is ineffective as a risk management tool for producers who see a need to diversify their operations.

THE FARM BILL HAS CHANGED -

CROP INSURANCE HAS NOT CHANGED

On behalf of myself and the Agricultural community of West Texas, may I express my sincere thanks and appreciation to the Committee for all of its diligent work on the 2002 Farm Bill to provide legislation to meet the needs of cotton, peanut and wheat producer's in the West Texas area.

I began producing guar in the late 1970's as a secondary – alternative crop to cotton. I continued to plant guar after some of my cotton had been totally destroyed by wind, or hail, as a secondary crop. Then in the late 90's I began to plant guar as a primary crop because of the poor marketing conditions for cotton. It became very difficult to make cotton cash-flow and guar seemed to be a very good alternative crop. However, my banker would only allow me to plant a very limited amount of guar acreage as a primary crop because it was not an insurable crop under Multi-Peril Insurance.

Crop insurance is the safety net that is important to our lenders. Without a sound crop insurance program, guar growers find it very difficult to obtain financing for their yearly inputs. In almost all cases, Multi-Peril Insurance guarantees are used as a very important tool to collateralize many low working capital operating loans for producers. Guar is a lower input crop than cotton. Many times, guar will cash flow better than cotton but there is no effective safety net for guar production when the natural perils of weather cause crop failure or disaster. Therefore, lack of Federal Crop Insurance coverage is the biggest detriment and obstacle to expanding and increasing guar acreage in the West Texas and Oklahoma region.

Guar is a considered a legume crop that returns nitrogen back to the soil. It is a very good crop to be used in any cotton rotation program. When cotton is planted following guar the next year, without exception, we almost always see increased cotton yields because of the previous guar crop and the nitrogen it returns back into the soil. Because of the declining Ogallala water aquifer, guar is becoming more attractive as a main cash crop, and has performed very well under very limited irrigation practices and under dry land scenarios.

Today, guar gum is the most cost effective natural hydrocolloid known in the United States. Guar gum is used to add viscosity to a liquid, such as ice cream, whip cream, cream cheese, cosmetics, bar-be-cue sauce, orange juice, and cat and dog foods. Guar is an excellent substitute for paper pulp and is also used in oil well drilling mud, (Frac gel), explosives, and many other applications. Halliburton is one of the largest consumers of guar gum internationally.

The United States imports over 100,000,000 pounds of guar gum each year from India and Pakistan. Less than 10% of the U.S. demand for guar gum is grown domestically in Oklahoma and Texas. Domestic production of guar beans is essential to provide some type of stability to the current increase and decrease in the overseas markets.

Since September 11, 2001 and the constant threat of world-wide terrorism, one would come to believe it to be unhealthy not only politically, but also economically to rely so heavily on 2 foreign sources for 90% of the United States guar gum requirements. Should we not try to increase our domestic grower base, with RMA working toward providing a safety net here at home to entice more farmers and producers to grow guar on U.S. soil?

There is a big demand for American farmers to grow guar domestically with major emphasis on food safety, trackability, security, stability, and reliability as a supplier of guar gum to the end users of this commodity in the United States. In May of 2001, a group of farmers in Terry County, Texas contributed capital and formed Southwest Guar Cooperative Association because they realized that a guar bean processing plant was required and necessary for the American Farmer to compete with the 100 million pounds of guar imported into the U.S. annually. In October of 2001, Congressman Larry Combest presented Southwest Guar Cooperative Association with a $500,000 value-added product market development grant from the United States Department of Agriculture (USDA) Rural Development director Bryan Daniel. This value-added commodity grant was used to build one of only two guar splitting plants is the United States, one being in Brownfield, Texas and the other being located in Vernon, Texas. Farmers in Texas and Oklahoma are serious about growing guar domestically. USDA is dedicated to helping producer-cooperatives with start-up costs to develop value added commodity products, but like any business, volume is the name of the game.

RMA's help is desperately needed from the producers' perspective to provide a safety net which can be used as a tool to obtain adequate financing for the production costs of guar. It is also needed to expand the producer-grower base which will insure an adequate supply of guar beans to the processor and then onto the guar gum powder manufacturers.

RMA plays a vital role in the success of the guar industry. It is my urgent request that

RMA would be instrumental in qualifying guar as an insurable crop under MPCI in West Texas and Oklahoma. I have access to the actual guar production records, by county, in West Texas from 1999 to 2003. Please contact me if these records can be used to establish APH's, actuarials, and various price levels.

The guar industry would greatly appreciate the Committee's attention to these very important issues which gravely impact our financial stability. We urge the Committee to take action to add guar as an insurable crop under Multi-Peril Crop Insurance for 2004 crop year, making crop insurance a more viable risk management tool for guar producers.

Thank you again for your invitation to present my testimony, I hope I have provided you with an informative picture of the challenges the industry faces. Please contact me if I can be of any further assistance.

Sincerely,

Monty Henson

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Multi-Peril Crop Insurance on Cotton for Moore and Sherman Counties in Texas

Presented by: Larry Turner, Crop Insurance Solutions

Proposal Objectives

It is the objective of this proposal to ask for change and modifications to the guidelines for Written Agreements on cotton in Moore and Sherman Counties in Texas. Currently these two counties do not have cotton in their crop actuarial and there have been a significant number of acres planted in 2003 and more planned for 2004. In addition to seeking Multi-Peril Crop Insurance for cotton, a fair and equitable T- Yield is needed. The long term objective is for the Risk Management Agency to provide fair and functional rules and guidelines for producers to obtain Written Agreements on alternative crops.

Current Situation

Under the current Written Agreement Requirements for Counties with no actuarial documents for the crop, producers are required to provide actual yields for the crop for at least the most recent three consecutive crop years *(exhibit A from the 2004 Crop Insurance Hand Book, pages 83&87 published by The Risk Management Agency)*. Prior to Crop Year 2003, producers could provide actual yields for the crop and/or similar crops for at least the most recent three consecutive crop years.

Based on the change for 2003 and future crop years, producers needing to change to alternative crops, in this instance cotton, are unable to obtain Multi-Peril Crop Insurance for crops not in their County Actuarial's, solely due to the lack of three years actual yields of that crop. Producers unable to obtain Multi-Peril Crop Insurance for alternative crops (cotton) may be forced to produce crops that are not economically viable and face the inability to procure adequate financing from lenders to produce crops that are economically viable.

Another problem with the inability to obtain Multi-Peril Crop Insurance on cotton for these two counties, directly affect the Ogallala Aquifer. The depletion of the Ogallala Aquifer may be the single most important factor necessitating alternative crops, such as cotton. Having to continue to produce high water usage crops, such as corn will only hasten the depletion of the Aquifer.

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Proposed Strategy

To provide flexible guidelines for Written Agreements to facilitate producers needing Multi-Peril Crop Insurance for alternative crops (cotton) to procure the needed coverage. Requiring a producer to have three years of actual production of a specific crop, hinders, if not prohibits a producer from changing crops for economic and/or environmental reasons. There are numerous way that the current Written Agreement Guidelines could be modified that would be fair and equitable to all parties involved. The usage of the word " specific" in the proposals refers to cotton. Listed below are a few suggestions from area producers:

Proposal One

Provide producers with a fair and adequate T-Yield that is reflective of the production from other producers of cotton in Moore and Sherman Counties. A minimum T-Yield of 500 pounds is economically feasible

Proposal Two

Producers with no production history of specific crop- limit irrigated insurable acres to 250 acres
Producers with one year of actual production history- limit irrigated insurable acres to 500
Producers with two years of actual production history- limit irrigated insurable acres to 750
Producers with three or more years of actual production history- no limit on irrigated acres

Proposal Three

Create a Pilot Program for two years on the specific crop if there has been University and/or Test Plot Data in their County
Use the actual yields from the Pilot Program to determine future requirements, adding the specific crop to the County Actuarial and setting an accurate T-Yield for that crop and county

Proposal Four

Allow producers to plant up to 50 percent of their base corn or grain sorghum acres to the specific crop for two years and determine future coverage and/or requirements from this data

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In the above proposals, there is no request for non-irrigated cotton. In the future Written Agreement Requirements for non-irrigated cotton in areas with no County Actuarial , should read as follows:

" Three years of actual production history of specific non-irrigated crops and for the last two consecutive years have had harvested at least 50 percent of their planted acres."

The proposals listed above are a few of numerous scenarios of how to provide adequate Multi-Peril Crop Insurance for cotton in Moore and Sherman Counties in Texas. The producers of this area are concerned with producing crops that are economically viable and not collecting an insurance check.

Proposal Rational

To substantiate this proposal, rational on actual production, economic factors and the Ogallala Aquifer impact will be addressed. In addition the original assumptions on the lack and inability to produce cotton in Moore and Sherman Counties will be proved no longer valid.

There has been actual production of cotton in Moore, Sherman and surrounding Counties for numerous years. Taking into account the last three crop years (2000-2003) cotton acres in Moore and Sherman Counties have gone from 537 acres in 2000 to 2,863 in 2003. The 4 year average for cotton acres is 1,207.9 acres and of these 1,207.9 acres only 137.7 acres were failed in 2000. In comparison Potter County (next county south) had a 4-year average of 619.4 acres and Potter County has cotton in its County Actuarial with a T-Yield of 545 pounds. Please refer to *exhibit B* for acres reported to the Farm Service Agency and *exhibit C* for counties surrounding Moore and Sherman with cotton in their actuarial. There are five counties that surround Moore and Sherman Counties and their collective average T-Yield for irrigated cotton is 507.4 pounds to the acre. By comparison to surrounding counties with cotton in their actuarial 's Hartley County is an anomaly. In addition to the increase in acres in the area, production has increased as well. Producers averaged 750 pounds of cotton per acre in 2001 and increased their yield 18 percent in 2002 to an average of 886 pounds in 2002.

The production for 2003 from 11 producers on 2,820 acres will be submitted at a later date as harvest and/or ginning is not complete at this time. We want to submit complete and factual information, not partial information. The yields for 2003 are incredible considering that for the month of June there were only 295 heat units accumulated, as opposed to an average of 407 heat units. In addition for the 2003 growing season for cotton there were only 1870 total heat units accumulated and the 5 year average is 2002 total heat units.

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Please refer to *exhibit E* from the North Plains Experiment Station for data on weather conditions affecting crops in the area. The production increase, as well as the increase in acres is a clear indication that cotton can be produced in Moore, Sherman and surrounding counties to rival the cotton producing acres in the rest of Texas.

The economic factors of changing to cotton from corn are largely influenced by the escalating cost of energy (natural gas) required to produce corn. In 2002 irrigation fuel cost averaged just over $ 3.00/MCF, while in 2003 the average irrigation fuel cost was $ 5.47/MCF, a 82 percent increase in one year. For the 2002 crop year producers would have spent an average of $ 77.00 per acre to apply 22 inches of irrigation water on corn, this cost rose to in excess of $ 125.00 per acre. In comparison fuel cost for cotton producers was an average of $ 63.00 per acre. Based simply on irrigation fuel cost corn production is an economic threat to producers, while cotton is <u>a very economically viable alternative crop</u>. If irrigation fuel cost rise to $ 6.00/MCF, corn producers will spend over $ 135.00 per acre in fuel cost only, while cotton producers will spend $ 69.00 per acre in fuel cost. The difference is $ 66.00 per acre, viewed from a profit perspective on a 120 acres of cotton the potential for profit increases $ 7,920.00. To switch to cotton to produce an economically viable crop, producers must have Multi-Peril Crop Insurance to secure the financing necessary for production. Lenders are requiring producers to provide crop insurance as security for the loans made. Asking lenders to lend money for crop production without adequate crop insurance is a direct conflict in lending practices. Clearly a producer is caught in a "Catch 22" position here, a lender requiring crop insurance for security and risk management and the Risk Management Agency requiring three years of actual production before they will offer insurance on the crop. The burning question, " How do you get one without the other"? Please refer to *exhibit F* for area lenders for their requirements for crop production loans.

<u>Water is fast becoming a key issue in crop production, if not the single most important factor in necessitating alternative crops</u>. There are 4 million acres irrigated out of the Ogallala Aquifer in Texas alone and 93% of the panhandle's water is used for irrigation. Irrigated water usage is estimated to reach 1.76 million acre feet a year before declining as the water table subsides to a projected 1.23 million acre feet in 2050. Currently Dallam, Moore and Hartley counties are exceeding their draw-down rate as outlined in their water plan. Their alternative: move away from corn to lower input crops such as cotton; or quit pumping water, but that has a negative economic impact. It clearly would cut crop production by 50 to 60 percent as well as the associated dollars generated from crop production. In reviewing information from the Texas Extension Service on crop production per inch of water, you will see a drastic difference between corn and cotton.

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As an example in their test it took 23.4 inches of irrigation combined with natural rainfall to produce 223 bushels per acre of corn and it took 11.21 inches of irrigation water combined with natural rainfall to produce 922 pounds of cotton per acre.

Placed into economic terms, the corn produced gross revenue of $ 490.00 (using $ 2.20 per bushel) and cotton produced gross revenue of $ 461.00 (using $.50 per pound). Cotton produced 94 percent of the corn revenue with 52 percent less irrigation water. Lets carry this one step further; one inch of water is 27,152 gallons and by saving eleven inches of water, there is 298,672 gallons of water saved per acre. This equals 35,840,640 gallons of water on a one hundred and twenty acre circle or 109.9 acre feet of water. Just imagine the impact on the Ogallala Aquifer if several thousand acres went to cotton, the savings in ground water would be mind-boggling. Simply put, water is the key to the survival of not only the farmers, but to the population of this area and the state. The key to water conservation and prolonging the Ogallala Aquifer is alternative crops like cotton and to produce cotton there is a need for adequate Multi-Peril Crop Insurance.

Current assumptions by the Risk Management Agency place cotton acres for Moore and Sherman Counties at less than 500 for 2003, when in fact there were 2,863 acres of cotton planted. While cotton acres have been less than 1000 acres prior to 2003, the increase in acres is due to the reasons presented above. While the Department of Agriculture Office of Inspector General (OIG) concluded that providing Written Agreements based on yield history from a similar crop and not the insurable crop was an excessive risk, may be true in theory and past experiences, it is not based on current factual data and/or producers needs. During the crop years 2001-2003 the Risk Management Agency received 43 total written requests for cotton, of which 13 were accepted. The reason for the low number of accepted written agreements is quite simple: unreasonably low T-Yields and subsequent coverage (using Hartley County's T-Yield of 203 pounds/acre) and the high insurance cost per acre. Listed below is a quote based on 1) T-Yield of 203 pounds in Hartley County and 2) T-Yield of 542 pounds in Potter County.

MPCI COTTON QUOTE- REFERENCE COUNTY

Hartley County	Potter County
65% Level of Coverage	65% Level of Coverage
203 # T-Yield Irrigated	545 # T-Yield Irrigated
Guarantee – 132 #	Guarantee- 353 #
Price - $ .52	Price - $ .52
Coverage - $ 68.64	Coverage - $ 183.04
Cost/Ac - $ 15.47	Cost/Ac - $ 12.41

Two facts stand out when analyzing past written agreements offered using Hartley County as a reference county- 1) excessively low coverage and 2) excessively high premium to coverage ratio. The premium represents 22.5 percent of the coverage, while if Potter County is used as a reference county the premium represents 6.78 percent of the coverage. It is financially unfeasible to accept coverage when the premium is over 22 percent of the coverage. By using Potter County as a reference county, producers are able to obtain adequate crop insurance at an affordable rate.

Actions Needed

Provide the ability for producers in Moore and Sherman Counties to obtain adequate Multi-Peril Crop Insurance on cotton for the 2004 crop year. This action needs to take place in a timely manner, as production and lending plans are currently being made for the 2004 planting season. The action taken needs to review all aspects of the issues and should include: the most recent 3 years of production (2001-2003), current trends in planted and intended acres, economic viability of current crops (corn), and impact on the Ogallala Aquifer, as several counties in this area are exceeding their draw-down rate from the Aquifer. While the Risk Management Agency is always ahead on writing its rules and regulations, it is behind on its actual data and statistics. Two years ago, no one could have foreseen the increase in cotton acres for this area or the rapid escalation of energy cost; consequently some extra ordinary changes need to be implemented immediately.

Crop Insurance is designed to protect the producer, not hinder the producer. Based on current Written Agreement Regulations, producers are hindered, if not excluded from planting alternative crops. The Risk Management Agency must have the latitude to modify and change its regulations based on the current needs of a specific area and/or region, if there is significant data provided to support such modifications and/or changes. This latitude has to be immediate, not two-three years down the road. Producers have a very small window of opportunity to react to changes in their business and need their insurance coverage to react accordingly!

Producers in Moore and Sherman Counties are seeking fair and equitable Multi-Peril Crop Insurance for cotton for the 2004 crop year. One suggestion would be form a committee of key area producers, key House and Senate Agriculture members, crop insurance representatives and the Risk Management Agency Office of General Council to review these concerns and implement the necessary changes.

Exhibit A

TYPE OF AGREEMENT	DEADLINE[1]	AUTHORIZED BY	MINIMUM SUPPORTING DOCUMENTATION3
Unrated Land Request Type: UC	Initial: Acreage Reporting Subsequent Years: Sales Closing	RMA RO	Completed Request for Actuarial Change/Written Agreement and aerial photos. Completed crop inspection report.2 Evidence of adaptability of the practice or type for the area. APH for the P/T/V.
As authorized in Crop Policies or Special Provisions of Insurance Request Type: PE	Initial: Sales Closing Date or Date Specified in Crop Provisions or Special Provisions of Insurance. Subsequent Years: Sales Closing	RMA RO	Contact Applicable RMA RO
Unrated Rate Class Option Request Type: OP	Sales Closing	RMA RO	Completed Request for Actuarial Change/Written Agreement. Aerial Photos and Completed Crop Inspection Report2. Evidence of adaptability of the practice or type for the area. & APH for P/T/V.

1 Exception: If there is no cancellation date for the county for the crop, the request deadline for a fall planted crop will be the fall cancellation date for similar fall planted crops. The request deadline for a spring planted crop will be the spring cancellation date for a similar spring planted crops.

2 Initial WAs requested to establish insurability after the Sales Closing Date require an inspection the same day the WA would be offered to the insured, if the crop has been planted.

3 Additional documentation may be required on individual requests. In certain instances, the RMA RO may issue additional guidelines used to determine adaptability. Additional time may be granted if additional documentation is not listed under "MINIMUM SUPPORTING DOCUMENTATION."

4 a Completed APH form and acceptable records (pre-acceptance inspection as required by Category B or C crop procedures) of actual yields for the crop for at least the most recent three consecutive crop years (for forage seeding, use acceptable records of forage production to meet the three-year requirement) during the base period [If the producer expands the farming operation across a county or state line into a local producing area, RMA may consider existing production reports (assigned yields not acceptable) from the current crop production sufficient]. Landlords, with operators that meet qualifications and also submit requests, may qualify with less than the most three consecutive crop year, by providing supporting documentation.

Exhibit A

G(8) (NACAT→**Deadlines, Approval Authorities, and Documentation**.The following chart indicates the types of written agreements (WA) and for each type the deadline for the request, approval authorities and required documentation.

* Insured must sign and date the written agreement request by the deadline specified for the crop as indicated below. The request and all required supporting documentation must be postmarked by the Insurance Provider within 20 calendar days after the deadline and received by the RMA RO within 10 calendar days after the 20th day.

WRITTEN AGREEMENT DEADLINES AND DOCUMENTATION

TYPE OF AGREEMENT	DEADLINE*	AUTHORIZED BY	MINIMUM SUPPORTING DOCUMENTATION3
Counties with no actuarial documents for the crop Request Type: XC	Cancellation date (for the crop in the area) specified in the crop endorsement for which coverage is requested.1	RMA RO	Completed Request for Actuarial Change/Written Agreement, aerial photos. Evidence of adaptability and producer's production history.4
Unrated Nursery Plant Materials Request Type: NL	New Insured: With Application Carryovers/subsequent years: Cancellation date	RMA RO	Completed Request for Actuarial Change, which contains a typed list of exact names of genus, species, subspecies, cultivars, common name (if applicable), plant and container size, number of plants to be insured, practices, container or field grown, and nursery grower's published wholesale price catalog or price list that includes the name of the nursery and price information for the requested plants.
Class (type) of Dry Beans not on actuarial documents (including Chickpeas/Garbanzo Beans) Request Type: TD	Sales Closing	RMA RO	Report prices received for the specific class (type) and either (1) two years of university test plot data and its recommendations, or (2) two years of seed company data supplemented by university data. If items (1) or (2) are not available, then two years of production data for the requested class and prices received. The variety of the specific class (type) that will be planted. Current year's APH form certifying all dry bean records (including Chickpea/Garbanzo Bean records for those classes/types). Completed request for Actuarial Change/Written Agreement.

Exhibit B

		FSA	FSA	NASS	FSA	FSA	NASS	FSA	FSA	NASS	FSA	FSA	NASS
Cnty Code	COUNTY	2000 Planted	2000 Failed	2000 Prod. Bales	2001 Planted	2001 Failed	2001 Prod. Bales	2002 Planted	2002 Failed	2002 Prod. Bales	2003 Planted	2003 Failed	2003 Prod. Bales
11	Armstrong	0	0	0	834.9	255.9	600	738.8	585.6	0	1426.8	794.5	
65	Carson	1,045.50	0.00	1,000.00	6676	326.00	9100	9006.8	582.2	14100	16841.2	1758.9	
87	Collingsworth	19176.4	8630	11300	17826.3	27.8	16200	33754	138	28500	64324.4	9281.3	
111	Dallam	0	0	0	1916.5	0	500	324.0	0.0	0.0	0	0.0	
117	Deaf Smith	45772.3	13153.2	37600	34094.4	4023.3	42500	52764	24134	53300	56003.1	39459.3	
129	Donley	14921.1	5347	7500	17769.15	188.4	10700	10948.1	404	9500	12458.4	3421.4	
179	Gray	187.8	0	0	68.9	0.0	0.0	1662	946.7	800	5531	811.8	
195	Hansford	0	0	0	0	0	0	0	0	0	100	100	
205	Hartley	10585.7	7379.8	3800	5620.7	2976.5	3400	6974	2184.5	1100	4165	0	
211	Hemphill	39.3	0	0	82.9	0	0	43.8	0	0	82.9	0	
233	Hutchinson	0	0	0	0	0	0	0	0	0	0	0	
295	Lipscomb	0	0	0	0	0	0	0	0	0	0	0	
341	Moore	138.2	137.5	0	758.74	0	0	505.8	0	0	2820.25	0	
357	Ochiltree	0	0	0	0	0	0	0	0	0	155.9	0	
359	Oldham	468.6	438.6	0	80	0	0	573.2	573.2	0	155.20	155.20	
375	Potter	224.60	0.00	0.00	345.35	0.00	0	1185.7	37.9	1300	724.3	57.1	
381	Randall	2027.2	582.3	1500	4198.9	432.3	4000	5108.6	879.7	3300	3333.8	2225.5	
393	Roberts	0	0	0	0	0	0	0	0	0	0	0	
421	Sherman	389.30	0.00	0.00	196	0.00	0	0	0	0	43.5	0	
483	Wheeler	6044.8	0	2100	4883.9	0	4000	5496.8	0	5700	11322.1	82.5	

Exhibit C

Cotton Acturials for the North Plains & Surrounding Areas

County	Irrigated	Non-Irrigated
Armstrong	542	206
Carson	542	206
Dallam	0	0
Gray	374	374
Hansford	0	0
Hartley	203	113
Hemphill	0	0
Hutchinson	0	0
Lipscomb	0	0
Moore	0	0
Ochiltree	0	0
Potter	542	206
Randall	542	206
Roberts	0	0
Sherman	0	0

Exhibit E

Texas Cooperative
EXTENSION
The Texas A&M University System

Cotton Accumulated Heat Units
Dalhart Weather Station '95- '03
Actual Minimum Plus Maximum Temp., Base 60° F
May 15 Planting Date

Dalhart Weather Station

Year	May	June	July	August	Sept.	Oct.	Total
'95	40	266	443	500	228	11	1487
'96	141	406	420	379	171	37	1553
'97	81	322	475	403	273	82	1636
'98	169	358	540	384	335	46	1833
'99	82	302	487	452	189	30	1543
'00	158	356	542	524	320	49	1948
'01	102	388	585	460	237	31	1813
'02	118	498	506	477	222	20	1841
'03	141	262	552	486	185	60	1686
Avg.	115	351	507	452	240	40	1704
Progressive	115	466	973	1424	1664	1704	1704

Cotton Accumulated Heat Units
Etter Weather Station '95- '03
Actual Minimum Plus Maximum Temp., Base 60° F
May 15 Planting Date

Etter Weather Station

Year	May	June	July	August	Sept.	Oct.	Total
'95	51	300	491	535	257	28	1662
'96	167	435	482	430	208	68	1790
'97	104	384	554	458	334	102	1937
'98	218	468	610	480	444	83	2302
'99	134	403	530	563	262	52	1944
'00	173	385	618	617	402	80	2275
'01	125	464	657	519	300	82	2147
'02	136	532	573	542	285	25	2094
'03	155	295	587	533	205	95	1870
Avg.	140	407	567	520	300	68	2002
Progressive	140	547	1114	1634	1934	2002	2002

Exhibit F

Sun Bank

Larry Turner
Crop Insurance Solutions
Box 940
Dumas, Texas 79029

Dear Mr. Turner,

The farmers of Moore County, and the Texas Panhandle are in the midst of the most difficult economic conditions they have faced in the past 15 years.

Higher natural gas prices combined with a decrease in the saturated thickness of the underground aquifer have caused irrigation pumping costs to escalate to the point that our normal irrigated corn, grain sorghum and wheat crops are no longer profitable. Our local water district has proposed new water conservation rules that will further limit the amount of irrigated corn, grain sorghum and wheat acres.

The production of irrigated cotton continues to be a profitable and viable alternative to our normal cropping patterns. Cotton makes an excellent rotation crop with corn and uses less water that any of our present cropping situations. Our farmers need a viable multi-peril insurance product in Moore County that will cover irrigated cotton production. Moore county farmers have had two or three very successful years raising this crop. The establishment of yields based on the past years production for multi-peril insurance purposes would enhance the possibility of this crop becoming a mainstay in our farming practices, while allowing the producer a safety net in case of a natural crop disaster.

With a safety net of multi-peril insurance for cotton production in Moore County our farmers will have another choice in crop selection. The irrigated production of cotton in our area will be another diversification in our agricultural economy that should provide an economic stimulus to our farmers and our communities.

We need a multi-peril insurance program for this crop in place for the coming crop year.

Thank you for your time and attention.

Alvia Calvert
Branch President

DUMAS
500 DUMAS AVENUE
P.O. BOX 1117
DUMAS, TEXAS 79029
PHONE: (806) 935-7788
FAX: (806) 935-8361

SUNRAY
416 MAIN
P.O. BOX 130
SUNRAY, TEXAS 79086
PHONE: (806) 948-4103
FAX: (806) 948-5217

PANHANDLE
201 EUCLID
P.O. BOX 990
PANHANDLE, TEXAS 79068
PHONE: (806) 537-3551
FAX: (806) 537-5234

Exhibit F

Great Plains Ag Credit

700 East First ■ P.O. Box 1267 ■ Dumas, Texas 79029
(806) 935-6851 ■ Fax (806) 935-3850

Offices in Amarillo, Plainview, Dalhart, Dimmitt, Dumas, Floydada, Friona, Muleshoe, Olton and Tulia.

November 20, 2003

Larry Turner
Crop Insurance Solutions
PO Box 940
Dumas, Texas 79029

Dear Mr. Turner:

My name is Johnny Schmucker and I am Vice-President of Great Plains Ag Credit. My office is located in Dumas, Texas. I am writing to inform you of the need for a good multi-peril crop insurance program on cotton for the northern Texas Panhandle in order for a financial institution in this area to consider financing cotton on a large scale.

Great Plains Ag Credit offers a full line of agricultural loans and services to farmers and ranchers in 20 counties within the western two-thirds of the Texas Panhandle and upper South Plains. My office serves Moore, Hartley, Sherman, Dallam, Hansford and Hutchinson counties. The primary summer crops in this area have been and remain to be irrigated corn and milo. These crops require a considerable amount of water especially corn. This area has been affected by dry conditions and high natural gas prices for the past four years. Groundwater has depleted and continues to deplete in parts of this area to the point where corn is not as viable as cotton even if natural gas prices decreased. These factors have reduced the farmers' ability to produce positive net returns; therefore many farmers are looking to alternative crops such as cotton, which requires less water, in order to make profits and stay in business. Groundwater regulations that will soon implemented may also have an effect on the number of acres of corn that will be grown in this area, which in turn mean we need another viable crop such as cotton to be grown on the excess acres.

Cotton has been grown in this area for the past couple of years on small tracts in order for farmers to gain experience in growing the crop and to determine whether it is a viable crop for this area. Farmers have determined this to be a viable crop and are looking to replace some and possibly all their summer crop acreage with cotton, but in order for a financial institution to finance cotton on a large scale they are going to have to some reassurance that their loaned funds will be repaid. Without a good multi-peril insurance program in place in the above counties, it will be difficult for a farmer in this area to obtain financing to grow cotton on a considerable amount of acres, which in turn reduces their chances to make profits and stay in business.

If I can be of further assistance, please don't hesitate to call.

Sincerely,

Johnny Schmucker

Johnny Schmucker
Vice-President

Plains Cotton Growers, Inc.

4517 West Loop 289
Lubbock, Texas 79414
Phone: 806-792-4904
Fax: 806-792-4906

Date: December 1, 2003

To: House Agriculture Committee Members

From: Steve Verett, Executive Vice President

RE: Upland Cotton Boll Count Appraisal Background Information

Dear Agriculture Committee Member:

Please find enclosed supplementary materials regarding recent efforts to develop and implement a new Boll Count Appraisal Method for Upland Cotton. This material was referenced in Plains Cotton Growers, Inc. testimony presented to the House Agriculture Committeeês General Commodities subcommittee at the December 1, 2003 field hearing in Lubbock, Texas. Your review and comments on this material would be appreciated.

Plains Cotton Growers first became involved in this issue in1998, at the beginning of the current drought cycle. That year our non-irrigated production was severely impacted and the result was a large amount of cotton acreage having claims filed and yield estimates calculated using the current Boll Count Appraisal method. Our concern at the time was if the procedureês reliance on determining an average boll size based on the width of open cotton bolls could provide an accurate estimation of lint yield. We were also concerned by the lack of any published research illustrating how the different boll sizes specified in the RMA appraisal method were matched to the assigned number of bolls necessary to produce one pound of cotton lint. After many discussions with RMA staff in Washington and Kansas City, a study designed to determine the correlation between the size of an open boll and its ultimate yield was conducted. The results of this study proved that the values in the table were not reflective of yield. It also showed that there was very little correlation between the width of a boll and yield. The researchers who conducted the 1998 boll count study recommended that RMA devise a new boll count procedure that could more accurately estimate cotton yield in the field.

Since that time, PCG has worked closely with scientists from Texas Cooperative Extension and the Texas Agricultural Experiment Station, the National Ag Statistics Service and RMA to develop an alternative boll count appraisal methodology. Our efforts began by researching how the current table was developed and included discovering an RMA email document that included the pre-1998 current boll count table and showing that it was initiated by RMA in 1990. We also learned form this document that the table used to assign the average number of bolls per pound was actually interpolated from an EIGHT boll sub-sample (four bolls classified as small and four bolls classified as large) of cotton collected in one year at various locations in the Rolling Plains of Texas. The RMA message also shows that while the developers believed that the procedure was adequate it also clearly states that they felt it should be retained for succeeding crop years ONLY until çsomeone refutes this method with a technique supported by greater evidence of accuracy and/or simplicityé. This wording further convinced us that the effort to develop a scientifically and statistically valid procedure for estimating cotton yields late in the season was needed.

After considerable work a new procedure was submitted to RMA in 2002 that we believe is more accurate, quicker and easier to perform than the current method. The proposed procedure was also evaluated at a number of dryland sites during the 2002 harvest season since its most common application is the estimation of yield potential in severely drought stressed crops. After including the new procedure in the proposed 2004 Cotton Adjustment Standards Handbook for implementation in Texas, New Mexico and Oklahoma, RMA asked that the data collected in 2002 be submitted to corroborate the effectiveness of the procedure and to answer questions about how specific components were derived. This analysis was done and the results submitted in October of 2003.

The good news about this effort is that, once analyzed, the data showed a remarkable degree of accuracy in the procedures computed estimate and the actual machine harvest results for each location. In fact, when evaluated across all locations the proposed method estimated yield with approximately 99 percent accuracy compared to the machine harvest results. The bad news is that, despite the fact that we only sought implementation of the new procedure in Texas, New Mexico and Oklahoma, RMA has back-tracked from their initial position and have reversed their earlier decision to implement the new Boll Count appraisal method for this area in 2004. Instead their intention is to put out a contract to perform a nationwide multi-year study comparing the current procedure to the new proposed procedure. We have expressed our strong disagreement with this decision and have gone so far as to request that the new system be implemented FOR TEXAS ONLY, if necessary. Our position is based on the fact that there is sound statistical evidence showing that the proposed procedure is a significant improvement over what is currently in the AUP Cotton Loss Adjustment Standards Handbook and that the procedure has the most applicability in Texas. We have no problem with RMA having others evaluate the proposed procedure in other regions before implementing it elsewhere, but we strongly disagree with delaying its use in Texas.

Your review of this material and comments would be of great interest and could help bring this issue to a conclusion. One of the primary reasons PCG has been so adamant about keeping this process moving forward stems from our commitment to ultimately improve the integrity of the program and eliminate wherever possible ineffective program components. Your support of this effort would be greatly appreciated.

Thank you.

Texas Cooperative
EXTENSION
The Texas A&M University System
South Plains - District 2 ■ Route 3, P.O. Box 213AA ■ Lubbock, TX 79403 ■ (806)746-6101 Fax (806)746-4057

October 27, 2003

Ms. Tara Ponds
Risk Management Specialist
Product Development Division
Risk Management Agency
6501 Beacon Drive
Mail Stop 0812
Kansas City, MO 64133

Dear Ms. Ponds:

I hope things are going well. I also hope that you enjoyed your visit to Lubbock and the training at the International Cotton School at Texas Tech University.

Per your comments to Shawn Wade with Plains Cotton Growers, we have summarized the work we conducted last year concerning the proposed cotton boll count appraisal method. We have addressed the concerns noted by some in the industry. Please find enclosed our report on the project and the additional comments we have made.

If you have any questions or comments, please advise.

Sincerely,

Randy Boman, Ph.D.
Associate Professor and
Extension Agronomist-Cotton
Texas Cooperative Extension

John Gannaway, Ph.D.
Professor and Cotton Breeder
Texas Agricultural Experiment Station

Proposed Cotton Boll Count Appraisal Method

To the best of our knowledge, the current Cotton Boll Count Appraisal Method was established about 1990. In 1998, we experienced a very severe drought and producer concerns were raised regarding the ability of the current method to accurately ascertain yields under these conditions. After discussions with RMA personnel (Donita Daniels, Michael Hand, and others) Texas Cooperative Extension and Texas Agricultural Experiment Station personnel undertook a highly detailed survey of cotton produced at 19-sites from across the High Plains region. These sites included 8 dryland sites and 11 irrigated sites. A final report for this project entitled *1998 Texas High Plains Cotton Survey* (Boman and Gannaway, 1999) was generated and provided to RMA.

Significant disparity was observed between our boll size data from 1998 and the table used in the AUP Cotton Loss Adjustment Standards Handbook (FCIC 25090) and FCIC Cotton Handbook (FCIC 30090-1). Regression analysis data from 1998 indicate that there is no statistically valid relationship between diameter of open boll (either from lint tip to lint tip or bur tip to bur tip) and number of bolls per pound of lint. These data also demonstrate that boll diameter (whether defined as lint tip to lint tip or bur tip to bur tip) is a very poor indicator of boll size (and thus yield) for cotton produced in the Texas High Plains region. The analysis also strongly suggested that the amount of variability in observed data (as reflected by the 95 percent confidence intervals) could lead to differences ranging from 40 to 60 percent of the regressed mean value. Because of these findings, in 1999 we recommended that this disparity be addressed by eliminating the table in the FCIC manuals.

According to documents provided to us, the original Cotton Boll Count Appraisal Method was established using a subsample of only 4 bolls each for 2 size groups from an unspecified number of total bolls obtained in the Rolling Plains of Texas region in 1990 (see copy of FAX transmittal sent from Donita Daniels to Shawn Wade at Plains Cotton Growers dated October 5, 1998). A Mr. F. Crouch and Dr. Bob Metzer (Texas Agricultural Extension Service Extension Cotton Specialist based at College Station) acquired these bolls. A subsample of ONLY 4 bolls, we repeat, ONLY 4 bolls, from each of two boll size groups was used (small – approximately 1.25 inches "across the top of the bur; and large – those greater than 2 inches). From each sample of 4 bolls, the seedcotton was pulled and weighed. Then an ESTIMATED turnout factor (which is called picked lint percentage) of 37% was used to convert the amount of seedcotton to lint. For the small boll size a thus estimated number of bolls per pound of lint was established at 465 bolls. For the large boll size, the estimated number of bolls per pound of lint was established at 220 bolls. Thus the original table was based on ONLY 4 bolls from 2 boll size groups obtained from the Rolling Plains region of Texas in a SINGLE year and the bolls were NOT EVEN GINNED. We must then infer that the other boll size groupings in the table MUST HAVE BEEN

INTERPOLATED from the existing "data" from the small and large 4-boll samples.

Therefore, any suggestion that a minimum of 3 years of research be conducted before adopting new methodology could also call into question the reliability and accuracy of to the ORIGINAL table – which again is based on only 4 bolls from 2 boll size groupings collected in ONE YEAR in the Rolling Plains. Our data are much more reflective of the extreme crop conditions encountered in the High Plains in 1998 and encompassed a total of over 3000 bolls from the 8 dryland sites and over 9000 bolls from the 11 irrigated sites. In addition to the much greater number of bolls and sites, these bolls were ginned and an actual lint turnout was obtained for each set of 50-boll samples.

In the FAX document, Mr. Crouch noted: "Unless someone refutes this method with a technique supported by greater evidence of accuracy and/or simplicity, I further recommend that this deviation be retained for succeeding crop years or until superseded." Since the original table was based on somewhat poor methodology, it is suggested the Proposed Cotton Boll Count Appraisal Method which does not rely on this data be seriously considered for adoption.

Based on our suggestion that a different, more accurate appraisal methodology be developed, RMA (through Donita Daniels) continued to work toward the development of an alternate boll count appraisal method. This effort included investigation of the methods used by the National Agricultural Statistics Service to perform USDA's objective yield surveys on cotton. This federal agency has, through decades of effort, developed guidelines for their crop yield surveys that are "statistically sound" and which provide an excellent basis to develop a new Cotton Boll Count Appraisal Method. With that in mind, a proposed procedure was developed and submitted to RMA for consideration. This procedure was evaluated at Lubbock in 2002 by Extension personnel.

Materials and Methods

The Proposed Boll Count Appraisal Method procedure (see attached procedure, Exhibit One) was initiated at several locations for field validation in 2002.

The locations included:
1. Location 1 - Lubbock South (8 rows x 500 ft long area)
2. Location 2 - Lubbock North (8 rows x 175 ft long area)
3. Location 3 - Lubbock 3-Less (a pre-irrigated only site, 8 rows x 500 ft long area)
4. Location 4 - Liberty (8 rows x 650 ft)

A total of 10 sub-sample locations were used at each site. Appraisals were conducted on the following dates for each location:
1. Location 1 - Lubbock South (9/5, 9/19, 10/03)

2. Location 2 - Lubbock North (9/26)
3. Location 3 - Lubbock 3-Less (9/5, 9/19, 10/03)
4. Location 4 - Liberty (9/24, 10/21)

Machine harvest was conducted using the designated cotton stripper on the following dates for each location:
1. Location 1 - Lubbock South (12/3 – 2-row plot stripper John Deere 482)
2. Location 2 - Lubbock North (11/20 – 2-row plot stripper John Deere 482)
3. Location 3 - Lubbock 3-Less (12/3 – 2-row plot stripper John Deere 482)
4. Location 4 - Liberty (11/18 – 4-row commercial harvester John Deere 7455)

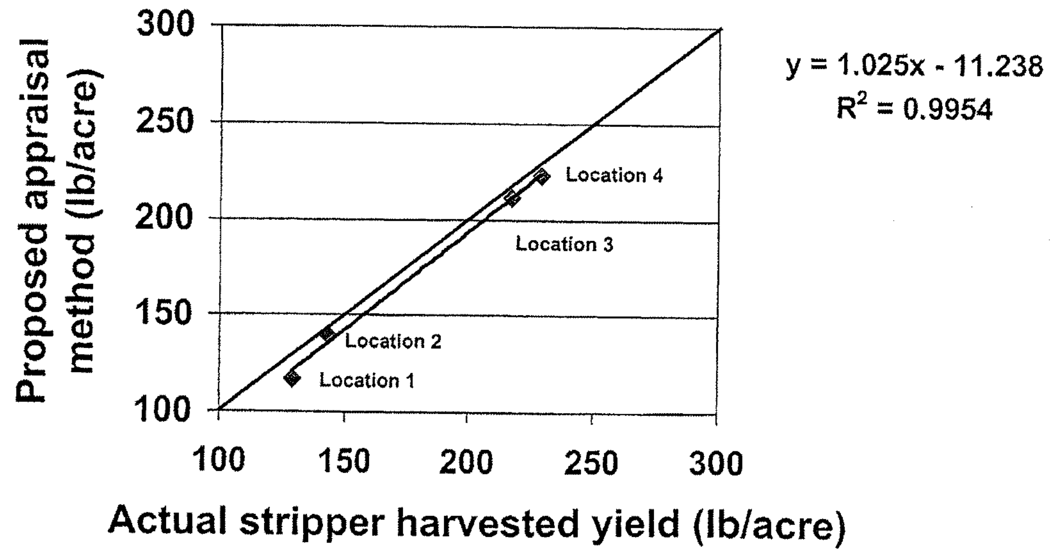
All seedcotton removed by hand using the Proposed Cotton Boll Count Appraisal Method was added back into the total for the machine harvest. All cotton samples were ginned on Dr. John Gannaway's small plot gin located at the Texas A&M Research and Extension Center at Lubbock.

Each location's Proposed Cotton Boll Count Appraisal Method results (with all sampling dates averaged for each site to develop a single site mean) were then correlated to the actual stripper harvested value for the harvested area. Correlations using various Processing Factors were then generated. In order to account for the efficiency of harvest operations the Processing Factor is defined as a combination of lint turnout and harvesting efficiency values. Typical lint turnout values for dryland cotton bolls produced under severe moisture and heat stress (worst-case scenario) were documented in the 1998 Texas High Plains Cotton Survey. The average dryland lint turnout across a total of 61 boll samples (averaging about 50 bolls per sample and encompassing 8 dryland sites and up to 5 typically planted High Plains cotton varieties per site) was 22.8%. As noted before, the total number of bolls evaluated from these samples was over 3,100. As cotton plants become shorter due to moisture stress, the harvesting efficiency of stripper harvesters decreases slightly (Dr. Alan Brashears, USDA-ARS Agricultural Engineer specializing in harvesting equipment, Lubbock, personal communication). The harvesting efficiency value reflects the percentage of cotton on the plants that the harvester is able to gather. A harvesting efficiency of 98% is normal in higher yielding cotton. For severely drought stressed dryland cotton, the harvest efficiency would be 94-95% due to the inability of the stripper header to gather small bolls set close to the soil surface on very short plants. Therefore, to determine an applicable Processing Factor to use in the Proposed Boll Count Appraisal Method we would multiply the 1998 study's observed 22.8% average lint turnout for highly stressed dryland cotton times the recommended 94% harvest efficiency value (Brashears, personal communication). Performing this calculation results in a suggested Processing Factor of 21.43%. Applying a 21% Processing Factor to the data obtained during the Proposed Cotton Boll Count Appraisal Method validation project, a correlation between the Appraisal Method and the actual stripper harvested yield is outstanding (R2 = 0.9954), Figure 1). Based on this result we recommend that a Processing Factor for dryland cotton be established at 21%.

In the unlikely event that this procedure would be used on irrigated cotton, a Processing Factor more reflective of irrigated lint turnout should be used based on our 1998 Texas High Plains Cotton Survey. The 9,300 bolls we acquired from 11 irrigated sites during that survey had an average lint turnout of 25.9%. With the higher harvesting efficiency observed with irrigated cotton (e.g. 98%), a Processing Factor (multiplying 25.9% times 98% harvesting efficiency) of 25% would be appropriate.

Our experience implementing the Proposed Cotton Appraisal Method is that it is relatively easy to perform and will result in considerably more accurate appraisals of cotton yield than the existing method. One of the chief strengths of the proposed method is that it calculates the yield estimate using the cotton in the field.

Figure 1. Proposed Cotton Boll Count Appraisal Method Using 21% Processing Factor vs. Actual Stripper Yield - Dryland Means.



Proposed Boll Count Appraisal Method

Definitions/ conventions used

Sample Area =	1/1000[th] acre [13.1 row feet, 40" rows]
Sample Number =	Utilize similar minimum sample numbers as current handbook
Harvestable Boll=	Determine per current standards
Processing Factor=	To be determined as a factor that accounts for harvest and post-harvest processing lint loss. **

Steps

1. Identify and mark sample area.
2. Determine number of harvestable Green, unopened bolls in sample area.
3. Record Column B
4. Determine number of harvestable, open bolls in sample area.
5. Record in Column C.
6. Pull (Burr and Lint) all open bolls.
7. Weight sample of open cotton.
8. Record in Column D
9. Divide number in Column D by Column C.
10. Record result in Column E.
11. Calculate Estimated Yield per Acre
    (Total bolls in sample) * (Ave. Weight per boll) * (1000)* (Processing Factor)= Calculated Yield / Acre
12. Proceed to Final Appraisal Calculation
    Determine average Yield / Acre for Field by averaging results recorded in Column F

Example table:

A	B	C	D	E	F
Sample #:	Green boll Count	Open boll Count	Open boll sample weight	Ave. wt / boll	Calculated Yield Per Acre
1					
2					
3					
4					
5					

** Donita - I am in the process of discussing this issue with researchers at the USDA-ARS Ginning laboratory in Lubbock. I hope to be able to use past research on different harvest machinery and ginning of dryland/irrigated samples to determine a factor that will accurately estimate harvest/post-processing losses.