REVIEW OF THE FEDERAL CROP INSURANCE SYSTEM

HEARINGS

BEFORE THE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

MARCH 15, APRIL 26, 2006

Serial No. 109–27

Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PRINTING OFFICE

27–327 PDF WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
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SUBMITTED MATERIAL

REVIEW OF THE FEDERAL CROP INSURANCE SYSTEM

WEDNESDAY, MARCH 15, 2006

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

The subcommittee met, pursuant to call, at 3:05 p.m., in room 1300 of the Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Members present: Representatives Johnson, King, Musgrave, Neugebauer, Boustany, Etheridge, Herseth, Barrow, Pomeroy, Boswell, Scott and Costa.

Staff present: Tyler Wegmeyer, subcommittee staff director; Bryan Dierlam, Craig Jagger, Callista Gingrich, clerk; Lindsey Correa, Clark Ogilvie, and John Riley.

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

Mr. MORAN. The subcommittee will come to order. We are here today to review the Federal Crop Insurance System and I very much appreciate the witnesses for joining us for this hearing. Today is the major sales closing date for spring crops and the timing couldn't be more appropriate for this subcommittee to once again hear from the administration and the crop insurance industry leaders to examine the delivery and effectiveness of crop insurance for producers across our country.

In the past, this subcommittee has held numerous oversight hearings here in Washington and around the Nation, seeking input from farmers, from farm organizations, commodity groups and from the Risk Management Agency on how the crop insurance system can be improved. As we all know, farming is a high-risk business. American farmers can use the best seed, chemicals and superior management practices, but the weather can still destroy crops. Since our farmers cannot control the weather, it is often the right decision to defray some of the risk by purchasing crop insurance for a manageable premium as part of their operating budget.

The Federal Crop Insurance System has undergone significant changes and improvements as a result of the Agricultural Risk Protection Act that Congress passed in 2000. These changes increased premium subsidies for all levels of coverage, making crop insurance more affordable for farmers and increasing participation rates. And the numbers tell the story with over 246 million acres of crop land enrolled in Federal crop insurance program last year. This legislation has clearly made the program more successful, but there remain challenges.

Multi-year disasters continue to be an issue. I continue to hear from Kansans about the increasing premiums and decreasing coverage. Although ARPA placed limits on how low a producer's insurable yield could fall, producers are still concerned that their assigned yields are below their potential production. I am pleased that Mr. Gould, in his testimony, states that two separate development projects are underway with implementation scheduled for next year. It can't happen soon enough. Last year much discussion occurred on RMA's proposed rules for the Premium Reduction Plan. A prohibition on funding PRP for the 2007 reinsurance year was passed by Congress last fall. I am sure we will hear testimony today concerning this controversial program.

As the full committee has conducted four field hearings to prepare for the next farm bill, we have heard many concerns raised by farmers, especially from crop producers, who have requested that the development of new crop insurance products to accommodate their farming and marketing operations. In Kansas, producers are waiting for RMA to expand canola and sunflower coverage and to develop permanent policies for skip row corn and triticale. One of the topics of conversation that comes up regularly is the opportunity for crop insurance for something in-between full irrigation and no irrigation and it is an issue that with today's weather patterns becomes even more important.

It is critical that we examine the crop insurance delivery system. Crop insurance companies and agents must be adequately compensated for their products and services. Past SRA negotiations were contentious and I hope to hear today how things are working and what can be done to improve the crop insurance delivery system. Again, I thank all of our witnesses for their testimony and their appearance today and what I know has been a significant effort by all of you to prepare for today's hearing. I now turn to the gentleman from North Carolina, my friend, the ranking member of the committee, Mr. Etheridge, for any opening remarks he may have.

OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ETHERIDGE. Thank you, Mr. Chairman, and let me thank you for convening this subcommittee for this important review of the crop insurance program. Since becoming chairman, you have been very diligent and aggressive in hearings of subcommittee oversight of the industry and I welcome it. Thank you for your leadership. And you mentioned the issue as it relates to irrigation and no irrigation and I think it is very appropriate we are having this hearing today because if you look at places in the Southeast, where we have been through droughts and out of droughts and we have been fortunate in recent years. Last year we had a marginal year for water. This year, in the first 2½ months, we are 5 inches below the average rainfall and if that continues, it could be a very tough year for our farmers in the Southeast.

And I know you, Mr. Chairman, have a particular interest in this area and it reflects in the fact that you have held several field hearings on crop insurance in this and in previous Congresses and I thank you for it and I want to commend you for your dedication and work to ensure that crop insurance continues to be delivered to our farmers, because I think today, as you have just indicated, farming is a high-risk business to start with and with the amount of money it takes today for a person to provide food the risk is even greater, and as you know, crop insurance is a key component in our farmers taking that and it is crucial that this subcommittee continue to stay abreast as to the health of the industry. And I believe that that help is jeopardized by the administration's budget proposals regarding crop insurance this year.

The President has proposed to reduce the amount of premium subsidies the Government provides to keep crop insurance affordable for our farmers. If we raise premiums, especially now when farmers have to deal with higher costs for energy and other inputs, I fear many of these farmers will take the risk of not buying crop insurance and that would be, in some cases, catastrophic. The President also has proposed to produce to the administration in operating allowance of crop insurance companies and take back the greatest share of the companies' underwriting gains. That would, in turn, raise their costs and make crop insurance or even reinsuring such businesses less attractive for the use of their capital and I think these areas we really need to delve into to make sure it is available to our farmers.

These disincentives to buy or sell crop insurance serve to only weaken our Federal Crop Insurance System and I was pleased when Congress rejected these proposals last year. I hope they will be so well-informed this year. I would hope that the administration would learn its lesson and stop including these disincentives in future budgets. It only creates uncertainty in the industry and signals those companies interested in entering the business that it is not a very good business to be in and they choose to stay out. That is just the wrong message that we should be sending. I look forward to hearing from our witnesses about the state of the crop insurance industry. I thank you again, Mr. Chairman, for holding this hearing and for your leadership.

Mr. MORAN. Mr. Etheridge, thank you very much for your comments. I appreciate the cooperation that I have with you and your staff and your interest in this topic, as well, and your compliments are always welcome, but especially today. Members of the Kansas Farm Bureau, a 105-county presence, are in town and many of them are in the audience. The chair would request that other members of the subcommittee submit their opening statements for the record so that witnesses may begin their testimony and to ensure that we have ample time for questions.

Mr. MORAN. The first panel is at the desk and I would introduce them. Dr. Keith Collins, the Chief Economist at the United States Department of Agriculture and Chairman of the Federal Crop Insurance Corporation; and Mr. Eldon Gould, Administrator of the Risk Management Agency, United States Department of Agriculture, Washington, DC. Gentlemen, Mr. Collins, welcome back. Mr. Gould, welcome to your debut performance, at least in Washington, DC. We appreciate your testimony in our field hearing in Jefferson City, Missouri a few weeks ago and we welcome you in front of this subcommittee today and we look forward to developing a close working relationship with you and the folks at the Risk Management Agency.

My understanding is that Dr. Collins will speak first. Dr. Collins.

STATEMENT OF KEITH COLLINS, CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, AND CHAIRMAN, FEDERAL CROP INSURANCE CORPORATION

Mr. COLLINS. OK, thank you very much, Mr. Chairman and Mr. Etheridge and members of this subcommittee. Thanks for the chance today to join Administrator Gould to talk about developments in the Federal crop insurance program. My comments today come from the perspective of the board of directors of the FCIC, which as you noted, I chair.

At the outset, I would like to acknowledge the tremendous efforts of the board. The board currently includes six members from the private sector: four producers, including a person experienced in insurance, and another one in regulation, and three Federal members: Under Secretary Penn, Administrator Gould and myself. The board has general management responsibility for the FCIC. Since the Agricultural Risk Protection Act, or ARPA, was signed into law in mid–2000, the Federal Crop Insurance Corporation, and its programs, have undergone changes to make crop insurance more popular and a more useful risk management tool.

For the 2005 crop year there were 1.2 million Federal crop insurance policies in force with a liability of $44 billion. That is up 30 percent from the liability in 2000, the last year before ARPA was enacted. Polices this year covered 246 million acres and that was up 20 percent from the year 2000. Growth has spanned the major policies such as revenue products, as well as smaller policies, such as for specialty crops, group risk plans and whole farm plans. Buy-up coverage has also increased and CAT coverage has declined since 2000.

Actuarial performance of the program has also improved. During the 1980's indemnities exceeded premiums by an average of 53 percent. During the 1990's, after a series of reforms in the program, indemnities fell to only 7 percent more than premiums. And during 2001 to 2005, with 2005 being an estimate, indemnities have averaged 7 percent less than premiums. Fewer national catastrophes, higher program participation and RMA premium rate adjustments account for most of the recent improvements.

An important principle that we have on the board on this; USDA does not sell a single crop insurance policy. Federal crop insurance is entirely delivered to producers by private insurance companies and agents. Recent increases in the administrative and operating expense reimbursement and underwriting gains have strengthened the financial performance of the companies and encouraged new entrants and we believe that will help increase service to producers.

During the past year, the board has focused on several key areas. One area continues to be the timely consideration of proposals submitted to the board by the private sector under section 508(h) of the Crop Insurance Act. Since ARPA began, a total of 59 proposals have been submitted; 33 have been approved by the board. The others have been disapproved, withdrawn, returned or tabled pending further action. Approved 508(h) products range from a hybrid seed price endorsement to livestock price products to adjusted gross revenue Lite.

A high priority of the board has been to work with RMA to deal with the large backlog of pilot programs initiated in the late 1990's and as a result of ARPA. Of these pilots, the board has voted to make five permanent, terminate four and extend or revise five. There are now 26 pilots in operation. A recent example of the complexity of dealing with pilots is the Florida fruit tree program, which the board voted last fall to revise and continue. However, after extensive spreading of citrus canker by hurricanes, the newly approved modifications had to be reconsidered, and after much work and thought, new policy details have been developed.

Other areas of board interest have been improving and simplifying whole farm revenue insurance policies, such as AGR and AGR-Lite; improving livestock protection by expanding price protection to additional species and geographic areas; assisting the livestock industry by providing pasture range and forage insurance, exemplified by two recent board-approved index products that will each be sold in six States starting this year; working with RMA to address the issue of declining APH yields and working with RMA to address premium discount plans.

In conclusion, the need for crop insurance in the future will not lessen. The benefit of insuring an uncertain crop outcome is the certainty of the financial result for the producer. With crop insurance, producers need not jeopardize their livelihood as a result of natural disasters. The FCIC Board will continue to diligently pursue the goals of protecting the interests of producers, improving the actuarial soundness of the program and applying the program's provisions to all companies and producers in a fair and consistent manner. That completes my comments, Mr. Chairman.

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

Mr. MORAN. Thank you, Dr. Collins. Administrator Gould.

STATEMENT OF ELDON GOULD, ADMINISTRATOR, RISK MANAGEMENT AGENCY, U.S. DEPARTMENT OF AGRICULTURE

Mr. GOULD. Mr. Chairman and members of the subcommittee, as you said, I am Eldon Gould, the Administrator of the Risk Management Agency and I assumed this position last November. I am a life-long farmer in northern Illinois with a 1,500-acre corn, soybean and wheat farm and a 700 sow farrow-to-wean operation. I am particularly pleased to appear today, which also, as you mentioned, happens to coincide with the major sales closing date for spring crops.

My role here today, however, is to report on the progress and challenges of the Federal Crop Insurance Program and in particular, to provide enough data on our successes and challenges in implementing ARPA. In fulfillment of the mandates of ARPA and the direction of the Federal Crop Insurance Corporation Board of Directors, RMA continues to promote an aggressive agenda to bring new and innovative insurance products to the agricultural community, to validate the utility of current insurance products, to ensure outreach to small and limited resource farmers and to promote equity in risk sharing and to guard against fraud, waste and abuse within the program.

One of RMA's principal objectives is to make the crop insurance program more efficient and it is hoped, less reliant on ad hoc disaster payments. However, in recent years Congress has passed four disaster bills covering six crop years and costing the Government about $10 billion. Therefore, the administration's 2007 budget includes a proposal to link the purchase of crop insurance to participation in farm programs such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent or higher of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection currently provided at the catastrophic level.

When I accepted this position, Secretary Johanns charged me with administering the crop insurance program in a timely and farmer-friendly manner. I take this charge very seriously. Cooperation and unity among the Federal Government and our insurance providers is necessary to meet our common goals of providing effective insurance products, processing timely and accurate claims when losses occur and identifying and eliminating fraud, waste and abuse in the program to the greatest extent possible.

In addition, effective outreach to our stakeholders and customers is necessary to identify attributes of the program that are working well and the aspects that need to be changed to improve efficiency and effectiveness. Administration of the crop insurance program requires all interested parties working together to identify viable insurance products and solutions that meet the needs of the agricultural community. Moreover, if the program is to continue to be successful, the checks and balances necessary to guard against the risks of fraud, waste and abuse needs strengthening.

Last year marked a major milestone for the crop insurance program. We celebrated the 25th anniversary of the Federal Crop Insurance Act of 1980, which created the unique partnership between private insurance companies and the Federal Government within the crop insurance program.

The roles of crop insurance and RMA have evolved over the years, but our mission remains the same; to promote, support and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers. RMA continues to improve and update the terms and conditions of existing crop insurance policies to improve coverage and efficacy of the policies, as well as to clarify and define insurance protection and the duties and responsibilities of the policy holder and insurance providers to enhance the understanding, use and integrity of the program.

The recently revised SRA, which was effective with the 2005 crop year, included key changes for the 2005 and subsequent reinsurance years. These entailed the lowering of the percentage rate of A&O expense reimbursement and rebalancing of the risk sharing between the Government and insurance providers. We now have 16 approved insurance providers selling and servicing crop insurance. Most of these insurance providers have requested authorization to increase the amount of premium the write and the number of States they intend to serve.

The 2005 reinsurance year was exceptionally profitable for the insurance companies and their commercial reinsurers with an estimated $850–$900 million in underwriting gain and a return on a premium of approximately 30 percent. And I would also mention that in 2003–04 the underwriting was also profitable for the insurance companies and I see my time is up, so I would stop there and obviously, I have more information in my written testimony that you haven't had.

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

Mr. MORAN. Administrator, thank you very much for your testimony. Let me direct you to the first part of your prepared statement, and you talk about ad hoc disaster assistance. Let me just ask a general question. Is there a way, is it possible, do you believe, that crop insurance can adequately compensate producers for their losses to the degree that ad hoc disaster assistance or additional assistance from Congress, from the taxpayers of this country, it will no longer be required?

Mr. GOULD. Well, I guess my first answer would depend if you are in an area where you receive a disaster payment or not. As I said, I am a farmer from northern Illinois and we were in one of those areas where we had not enough losses to collect insurance, but at least so far have not qualified for disaster payment, as well. So it is going to be difficult, I would say, to insure everybody at a high enough level that maybe it would be as good as a disaster payment. We would hope that with our suggestion that we have a buy-up requirement of 50 percent, which would replace the current cap policy from 25 percent, that that would, at least, diminish the need for ad hoc disaster payments.

Mr. MORAN. That part of your testimony interests me because it doesn't seem to me that even those who had high levels of coverage were adequately compensated to survive their losses, absent the ad hoc disaster and so the fact that we require farmers to have greater levels of coverage in order to participate in the farm program doesn't seem to me to diminish the need for disaster assistance. Again, people could have been, farmers could have been fully insured to the levels, the highest levels of coverage possible and still had significant losses, losses that were sufficient to threaten their livelihood. Am I missing something?

Mr. GOULD. No, I don't think you are. I think with today's farming margins as tight as they are, it probably takes 100 percent coverage to adequately cash flow. I am not sure that anybody in the insurance business wants to guarantee 100 percent coverage; at the same time, I am not sure Congress wants to provide disaster payment for everything that may fall between whatever the losses may be and what it would take to keep the producers whole.

Mr. MORAN. Well, that is a particular problem, again, Kansas being an example of the declining history, such that we can't get coverage sufficient to—because of multi-year disasters, the premiums go up, the coverage goes down. We can't get sufficient coverage, which makes ad hoc disaster, unfortunately, even more required and so in part, I think, my answer to the question is can you develop a crop insurance program that reduces the need or eliminates the need for ad hoc disaster in part can be answered by whether or not we have a policy in place that addresses the issue of declining yields. Dr. Collins, anything?

Mr. COLLINS. I would agree, generally, with what Administrator Gould said. I think this is almost an intractable problem. Typically, in an average year, we spend about a billion and a half dollars on disaster assistance. In our disaster assistance program, we have a cap on what a producer can receive through disaster assistance and crop insurance indemnities and that is 95 percent of what otherwise would have been produced but for the disaster. So 95 percent coverage is what disaster assistance can insure. Crop insurance cannot assure that unless it is maybe an area yield policy, but certainly not individual policies.

Mr. MORAN. I think I have asked you this question before and I think maybe I am getting a clearer, at least, a clearer understanding that when you remind that we can't get to that 95 percent level under crop insurance, that is a reminder that if we want to further compensate farmers for their losses, it is going to take ad hoc disaster. It can't be done in the crop insurance system?

Mr. GOULD. Well, it can be done if Congress is willing to accept that producers could be made whole in a disaster with 75 or 85 percent of their, what otherwise would have been their income. The problem here is if, you know, we say we are going to have a crop insurance program that is going to provide insurance products for 98 percent of the value of all crops produced in the United States within 5 years, so we are going to have widespread insurance coverage available. When people underinsure or don't buy insurance, if they were randomly spread all over the country, my guess is there wouldn't be that much of a compelling force coming to Congress asking for ad hoc disaster assistance, but they are generally not randomly spread all over the country.

Generally, they have low participation rates or low coverage levels for a particular crop in a particular area, that gets hit with a disaster and then they mount a charge for additional assistance. A big part of this, too, a big part of that billion and a half dollars is livestock assistance every year and we are woefully inadequately covered under livestock and that is something that we have been trying to address over the last couple of years and we think we are going to make great progress over the next few years on livestock. So maybe there is hope somewhere down the road but I really don't see it right now.

Mr. MORAN. Thank you very much, my time has expired. Although, Mr. Gould, I would ask you always to keep in mind that the weather patterns of Illinois are not the weather patterns of all farm country.

Mr. GOULD. Thank you.

Mr. MORAN. It is a different environment in some places.

Mr. GOULD. We saw just enough of it last summer that I liked it the way it was.

Mr. MORAN. Thank you very much. The chair recognizes the gentleman from North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman. I have a copy of the Federal Crop Insurance Corporation's proposed rule with changes in the peanut crop insurance provision. It includes allowing peanut growers to insure their crops at a contract price, which I welcome and let me say thank you. I think that is important. Will the rule be completed in time for the 2007 crop year, because my growers and all the growers, really, who desperately need this in place so that they can make adequate plans? Can someone help me with that?

Mr. GOULD. Well, we anticipate that that will be available for 2007.

Mr. ETHERIDGE. OK, thank you. Dr. Collins, I appreciate your testimony about the sweet potato pilot program which is being operated, I read. Growers are very pleased, I think, with the changes that have been made and what have we found out to date regarding its performance and do these wholesale changes restart the review period for another 3 to 5 years?

Mr. COLLINS. I really can't comment as to the effect of the changes. We haven't seen the 2005 final data yet.

Mr. ETHERIDGE. OK.

Mr. COLLINS. But certainly, the sweet potato program was a real challenge for the board. We had a desire among many board members to terminate the pilot altogether because of the actuarial performance of the program, but we made some very substantial changes in that program, capping the coverage level, sharply increasing the premium rates and we are pleased that so far the producers have accepted that. The participation is down from what it was before, but we still have a risk management tool available to them.

Mr. ETHERIDGE. As soon as you have that information, would you make that available? We would appreciate it.

Mr. COLLINS. I would be happy to get it to you.

Mr. ETHERIDGE. Many of the producers were happy about what Congress did in changing the law that would allow them to obtain crop insurance for a particular crop by production history of a similar product. I have the interim rule that the FCIC produced last November and note that the comment period on this interim rule was extended due to a computer problem, I am told. Are farmers taking advantage of this change? Can you tell us what kind of comments you are receiving about this rule and what is the timeline for getting to a final rule, especially with the extended comment period?

Mr. GOULD. I am assuming your comment, then, referred to written agreements and the opportunity to do so? Is that the question?

Mr. ETHERIDGE. Yes.

Mr. GOULD. Well, we think we have a pretty widespread coverage on opportunity for written agreements and at least at the agency, we don't hear very many comments that there are not written agreements available for those people that would be so interested.

Mr. ETHERIDGE. And what is the anticipated timeline for a final rule?

Mr. GOULD. Well, that is moving forward and I frankly don't know exactly what the timeline is, but it would be good if we got back to you on that timeline.

Mr. ETHERIDGE. OK, that would be good. OK. Finally, before my time runs out, I have been hearing from a few farmers who have some concerns about their inability to meet insurance reporting deadlines because they can't get the inspectors to their field in a sufficient time, and I am sure you probably heard about this. As a consequence, they end up paying the full premium while their covered acreages drop dramatically. Are you familiar with what I am talking about? What provisions, if any, can be made for people who, through no fault of their own, cannot get their crops reviewed in time to meet crop insurance deadlines and the second part of that, are deadline extensions possible in those situations?

Mr. GOULD. I understand the chances, good chances are that your questions and a specific crop in mind may be related to sweet potatoes, is that correct?

Mr. ETHERIDGE. Well, I think there are some other crops involved outside that one, but that is one of them.

Mr. GOULD. Well, it would seem to me, I don't have any specific answer, again, we can back to you.

Mr. ETHERIDGE. OK.

Mr. GOULD. But it sounds to me like that that is a combination of we need to work with claims adjustors and maybe some compliance people, that we can work with you and your producers that would have crops so affected.

Mr. ETHERIDGE. If you would get back to me on that, I would appreciate it.

Mr. GOULD. Thank you.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Etheridge. The gentlewoman from Colorado, Mrs. Musgrave.

Mrs. MUSGRAVE. Thank you, Mr. Chairman. Mr. Gould, our chairman talked about the declining history that the farmers in Kansas are facing and of course, the drought that has affected Kansas has also been an extreme hardship in Colorado. Our governor said that it was one of 300 year proportion, just an extreme drought in Colorado, Kansas and Nebraska, and I wonder if you have any suggestions as to how crop insurance could better address a prolonged drought?

Mr. GOULD. First of all, thank you for asking that question and when the chairman mentioned it, I wanted to remember to respond to it. We have heard this problem a number of times, obviously with the current weather pattern that we have going on in a number of places in the United States that declining yields caused by drought or other problems are an ongoing concern to producers. We do, as an agency, have two contracts out on people looking at ways to, that can, I guess, better address this problem of declining yields and again, maybe there are better ways that we can do that and substitute some of these low yields for producers in their calculating their APH and hopefully, those are going to be done and completed, again, for the 2007 crop year.

Mrs. MUSGRAVE. Could you elaborate a little when you say we have two contracts out?

Mr. GOULD. Yes, sets of people, we contract with a number of people on various issues of concern that we work with, outside contractors. I have them look at data, study the issue and recommendations, in this case, of how we could better address and make the issue of declining yields acceptable to the insurance industry, but also better for the producer.

Mrs. MUSGRAVE. Where does declining yields come in when you hear about the problems with crop insurance? How high is that on a level of concern for producers?

Mr. GOULD. As I understand your question, how high is that on a relative scale of concern, I would say it is pretty high on their radar screen.

Mrs. MUSGRAVE. I hear about it all the time. Today I have the Secretary of Ag from Colorado coming in to talk about Adjusted Gross Revenue-Lite and Coloradoans want to get involved in that. Could you, one of you, explain to me how the application process works and how quickly than can be accomplished?

Mr. COLLINS. I can answer that. That is a 508(h) product, meaning it was submitted to the board of directors for approval by the owner of that product. The owner of that product is the State of Pennsylvania. We have expanded the product to, I think it is something like 17 States now, and all of those expansions have come through submissions through the State of Pennsylvania, so I would say work with the State of Pennsylvania. Their Deputy Secretary of Agriculture, Russell Redding, has spearheaded that product through the approval process at the board of directors and I would say work with him. Right now the policy is available only in the Pacific Northwest and in the northeastern and Atlantic Coast States in the United States.

Mrs. MUSGRAVE. I hope that Colorado can participate, too. Thank you, gentlemen. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mrs. Musgrave. The chair recognizes the gentlewoman from South Dakota, Ms. Herseth.

Ms. HERSETH. Well, thank you, Mr. Chairman and thank you for having this hearing today and to Ranking Member Etheridge. Mr. Gould, I apologize that I was not in Jefferson City recently at the field hearing, but would like to revisit a topic with you, if I might just briefly, before moving to a concern about fraud issues that I have heard from some of my constituents. Your recent announcement that RMA wouldn't cover losses in the lower Missouri basin that you deemed to be caused by the spring pulse of water released by the Army Corps of Engineers had planned to release into the lower portion of the river has caused some concern.

Individuals representing the Army Corps of Engineers did testify, as well, at the field hearing, as I know you are aware, in Jefferson City, that the Corps took several steps specifically designed to minimize the risk of downstream flooding and crop damage; specifically indicated that the Corps and U.S. Fish and Wildlife Service agreed that the downstream flow limits wouldn't be changed until the Corps' 2006 annual plan, thus providing similar downstream flood control during spring releases has provided during previous years. The Corps also agreed to integrate the National Weather Service's precipitation forecast into its daily Missouri River operations forecast during the spring pulse period and adjust flows accordingly, and the Corps agreed to integrate estimated daily rainfall using local radar information into its operations during the spring pulse.

Now, this seems to me to be a fairly comprehensive approach to mitigating any threat that was posed, and I am not conceding that any was posed, in the event of a spring pulse release and that any lowland crop damage that might result from flooding in that region will be closed by local rains and runoff, that was the approach that the Corps tried to integrate working with U.S. Fish and Wildlife. So if that is what they tried to do in ensuring that any of that lowland crop damage was the result of not Corps action, but flooding in the region caused by those local rains and runoff, how do you respond to that statement by the Corps?

Mr. GOULD. OK, thank you. As you said, the agency has continued to work very close with the Corps on this issue beginning last December, I think, when we first heard about it and we have developed a good working relationship and I think a lot of those issues that you have talked about were a result of ongoing discussion between the two agencies. As it stands today, as you may know, and you mentioned almost everything there except the fact that the Risk Management Agency, through its policies is only allowed to provide coverage on insured loss. In this case, I am sure we will be talking about excess moisture from natural causes.

Obviously, a release of water by the Corps is not a natural cause and in the case that you relayed there where the Corps is taking extreme measures to only release water on a very careful and maybe a prescribed basis that did not cause any crop damage, at least theoretically, there would not be an crop damage unless there was excess moisture or I think it is safe to say, excess rainfall, and then, in which case, is that, of course, being a natural disaster. Those losses from flooding, then, would be an insurable loss and covered by the producers' crop insurance.

Ms. HERSETH. OK, I appreciate that. I want to follow up with, I think you are aware of the concerns that folks have and you recognize the longstanding challenge we have that relates to Missouri River management and those that have advocated, long advocated, in the upper basin for this type of management, certainly don't want to do it to the detriment and unanticipated consequences of our fellow farmers in the lower basin and so we would just want some assurance that they are being treated fairly in light of the various agencies trying to work together to coordinate so there wouldn't be unanticipated consequences that would result in a lack of coverage for those that thought they had adequately planned for every circumstance and that is difficult to do with Missouri River management.

My time is almost up, but if I could quickly pose one more question on fraud, Mr. Chairman. I am interested in the steps that you are taking to root out fraud and abuse in the Federal Crop Insurance Program and the biggest concern that I hear from farmers back in South Dakota are concerned about the integrity of the system, is that it is too easy for willing farmers and their willing insurance agents to cooperate or collude, so to speak, to report losses that weren't actually incurred. Now, examples up in our area would include filing prevent plant claims even though the producer could have planted or understating the yield that a parcel produced, which was addressed a little bit earlier. Now, is this a particularly difficult challenge to rid out and do you think that the insurance companies that operate these programs have adequate incentives to investigate and discover this fraud and implement systems to prevent it?

Mr. GOULD. Well, I don't wish to speak on behalf of the insurance companies and unfortunately, a fact of the program is that the program has to be designed not only for the, what should I say, the good people, but the people that are anxious to take advantage of the program. Again, it is frustrating that we have to do it that way and preventive planning is a little bit of a tough issue to administer, but again, we have ongoing programs with the insurance companies and their adjustors and hopefully, those efforts, along with those of neighbors and FSA personnel would report people that are willing to take advantage of the program and they can be ridded out and obviously make the program better for everyone.

Ms. HERSETH. Thank you. I yield back.

Mr. MORAN. Thank you, Ms. Herseth. The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman, and thank you for holding this hearing. Dr. Collins, Mr. Gould, thank you for being here. I guess before I get started, I wanted to tell you how much I appreciate, recently we had an issue with you on some of the cotton modules and bales of cotton that were burned up in the wildfires that we have had and being able to work out where we could count that into those producers' yield, and your agency was very flexible in working with us and so I want to say to you I appreciate that. And boy, was it music to my ears to hear you and the chairman talk about ad hoc disaster programs and also a way to hopefully insure our crops for more money in the future and actually, I have a bill that would do just that and Dr. Collins has reviewed it.

And in fact, I also had a study done at Texas Tech University that studies this bill and the impact it would have had, had we have had this new plan that I have introduced in place for the previous years and so when you leave today, I will have a copy for you of this and in order to save the taxpayers' money, I only brought one copy, so you and Dr. Collins can work out, in your budget, you can make an extra copy, if you would.

Mr. GOULD. We can work it out.

Mr. NEUGEBAUER. And Mr. Chairman, I will make sure that you get a copy, also. But basically, Mr. Gould, what this does is it allows the combination of two products that are already approved by the agency, the multi-peril is the underlying policy and then you put GRP policy, in fact, on top of that. And so what that does is it allows the producers a really very cost effective way to insure and up the amount of coverage up to 100 percent of that crop and let us say the underlying policy was a 55 percent multi-peril that could put a 45 percent GRP on top of that and when you made the comments about being able to make sure that when we put together programs that where we keep the good guys doing the right things and one of the things about this particular setup is you can't really form to unless you can figure out a way to get every crop in your county haled out at the same time.

And I think these are the kinds of things that I think we need to be working on because more and more, the producers, as you mentioned, and you being a producer, yourself, know that the margins are thin, and that to in order for a lot of our producers to be able to get efficient. The size of the operations are much larger, the amount of capital required to produce those commodities has gotten extremely high and so the risk has, in fact, gone up and is higher today than probably it has been in a long, long time. If we are going to continue to ask our producers to take those kinds of risks, we are going to have to provide an adequate risk policy for them to be able to do that. And I think we do have to move to get out of an ad hoc disaster scenario because one of the things is you can't count on that. That is not insurance.

What you are hoping is that the folks in this room that recognize that need can convince our other 435 folks that work up here with us that we need to provide ad hoc disaster program and many times that comes not in the current crop year, even sometimes in the next crop year, but maybe in the second year after that disaster. So I look forward to working with you and as we begin to work in putting the next farm bill together, I think any farm bill that we put together that does not address the risk management piece and being able to help a transition out of ad hoc disaster programs will not be a successful farm bill because the risks are too high. And so rather than, I used my time for questions; I was doing a little selling here, and one of the things that I have had an opportunity to do is we have started our field hearings, as you know, for the next farm bill and I have thrown this out in a couple of those hearings and recently and then I had some of my own back in the district and I get a very favorable response.

And one of the things that your predecessor asked was to give a little bit additional research and information and the doctor at Texas Tech, I think, has done work for your agency in the past. I think he is well respected and I just want to paraphrase his, just a little indulgence here.

Mr. MORAN. It is a big indulgence. It is not that you have sold this at a couple of field hearings, it is every field hearing and every hearing we have had in this room. You are a great salesman, but you do have my indulgence to talk about it.

Mr. NEUGEBAUER. Sell, sell, sell, exactly. Pretty soon they start buy, buy, buying. That is the important part of this. But since the results of this analysis indicate that the combined coverage offered under H.R. 721 would have provided additional revenue risk protection to producers in all of the example situations and so we asked him to apply this to a lot of different commodities in a lot of different situations and his conclusion is that it would have helped and would have had, even those producers, the relief in the year that they actually suffered the loss and so I look forward to getting this to you and I look forward to having some additional dialog and I thank the chairman for his indulgence.

Mr. MORAN. I thank the gentleman from Texas. We are going to have to do something with this proposal or we are going to hear about it day after day.

Mr. NEUGEBAUER. You are exactly right, Mr. Chairman.

Mr. MORAN. Which is a compliment to you, Mr. Neugebauer. The gentleman from North Dakota who has weather patterns much like northern Illinois.

Mr. POMEROY. I am sure glad we don't have those risks of western Kansas. Actually, thank you for your testimony, each of you, and Dr. Collins, I found your testimony particularly interesting relative to the successes outlined on page 4 reflecting, you know, we tried this. We invested money in that buy-up. It was the second step of our effort to first of all increase participation with the 93 or 94 forms, then make the coverage more meaningful, and it worked. Participation up, what we are seeing in North Dakota are some very significant differences in terms of purchasing of buy-up coverage relative to before and of course, the more significant amounts of financial risk protection put in place, it does offset somewhat the demands for the disaster bill, although as you quite appropriately note, doesn't make them go away and you can't really get the coverage levels up to where they could go away and even if you could, we still have program issues like quality losses.

Mr. COLLINS. Absolutely.

Mr. POMEROY. Or shallow losses or reduced APHs where you can't get the coverage to where you need and so Mr. Chairman, I believe that it is important we understand that insurance will get most of the job done, but not all of it and that disasters are going to continue to occur and we need to be prepared to respond to them.

I do want to explore this year's proposed budget cuts. Dr. Collins, last year I asked you whether or not the agency, USDA, had been consulted in the preparation or design of these cuts and if I recall correctly, you indicated it was an OMB deal. I suspect we are, this again a situation, but let me ask you, were you consulted as to cuts advanced by the administration?

Mr. COLLINS. I don't remember what I said last year. I hope I didn't say it was an OMB deal or I am in big trouble. Regarding this year, I can only say that I personally was not consulted. I don't know about other people within USDA. There probably was not a whole lot of consultation because the proposal is exactly the same as last year, including the budget score, which is the same as last year.

Mr. POMEROY. Let me, I was paraphrasing a bit what you said last year. I believe you said that U.S. Department of Agriculture had not been consulted, to your knowledge, similar to what you have just said.

Mr. COLLINS. I said I had not been consulted.

Mr. POMEROY. Yes, right. Last year, I think I extracted from you a little more of——

Mr. COLLINS. A more expansive statement?

Mr. POMEROY. A little more of an expansive answer, but for you, that is pretty good. One of the things that I have been very interested in, and you also note this in your testimony, the product innovation that we have seen, especially the revenue coverages, and as I have been going around my State having farm bill meetings, I have been pleased to learn about how they are using these revenue assurance policies to forward trade.

Mr. COLLINS. Right.

Mr. POMEROY. And you know, using the market, empowering farmers to use the market without untenable risk. We have talked about that a lot, Republicans and Democrats here, and I think that this enhanced subsidy through ARPA and the creation of the new products approved by the board has really facilitated expanding farmers' trading abilities. Do you have an evaluation?

Mr. COLLINS. I haven't evaluated that point, but I agree with it completely, just from the anecdotal experience I have. Revenue policies have taken off. They really didn't begin to be sold in any sizeable way until the late 1990's and now they are the major product that we sell for our major field crops and I think producers now view them not just as insurance, but as part of their financial plan for their operation. And I do think, as you say, that they look at their marketing plans and their marketing strategies in combination with their crop insurance strategies.

Mr. POMEROY. Thank you, Keith. Mr. Gould, good to see you. As I told you in my office, I am delighted there is an ag producer that is the head of RMA because I think you will have a keener appreciation, maybe, than anyone about the need for enhancing quality loss coverage, given the fact that expressly in our part of the country, other parts of the country. You are seeing very substantial discounts taken at the elevator due to quality and so, you know, they are pulling bushels off the fields, it is just that the bushels aren't worth much and their financial loss ensues. So if crop insurance is about covering the risk of financial loss, it is really not about bushels, it is about the value of the bushels and we need to advance this on quality loss, just like your response. I see that my time is up, Mr. Chairman. I yield back. You can answer, but I yield back.

Mr. COLLINS. I would be happy to answer that. In my opening remarks in my statement, I referred to one of the challenges or some of the challenges in crop insurance. This would be one of them. It seems to be an ongoing issue and we are taking a look at it, and I think we have some people coming up in your part of the country soon to take another look at it. It has been an ongoing concern for a number of years. We looked at ways to do it and protect the producer and still prevent fraud that may happen. We have heard cases; on one side of the issue we have heard, obviously, producers where they are put at risk because of severe discounts and financial losses. At the same time, I have heard about elevators that have a price for grain with one price for producers that have crop insurance and another price for producers who don't. So obviously, somewhere in between there there ought to be some way to work out the issue and we hope to work with you and your producers to come to an acceptable resolution of the problem.

Mr. POMEROY. Thank you very much.

Mr. MORAN. I thank the gentleman for yielding back his time and the chair recognizes the gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman, and I would like to thank the witnesses at the panel. I wasn't able to be here to hear your testimony. I was scanning through some of it and I would like to echo some of the remarks that were made by Mr. Neugebauer. He is making an interesting pitch here and I have heard it at every stop around the way and I plan on taking it to a lot of stops, so maybe we should concede this point and move forward with the sales and the conclusion of the sales as opposed to the salesmanship. But I do think the risk management certainly has to be a big part of the upcoming farm bill and that we have done a series of things to take risk out of agriculture and that has added to the stability and crop supplies and the stability of the crop supplies has added to more stability in our markets.

Today I was at a Small Business Committee hearing that lasted for quite a long time that has to do with the Corps of Engineers; determination to create a spring rise on the Missouri River, and that spring rise on the Missouri River eventually, if it is provided every year, eventually it will flood crop ground. And we are now in this dilemma where we are asking producers to accept the risk for a man-made disaster and a Government-made man-made disaster that is imposed by the Government for the benefit of a species at the expense of homo sapiens. And so I would ask then, Mr. Gould, would you have some advice on how we might best follow this path in order to keep our producers whole and prevent them from being the victims of a Government-made disaster at the expense of their agricultural productivity?

Mr. GOULD. Yes, I would be happy to comment on that. We have, I think, developed a fine working relationship with the Army Corps of Engineers and the Risk Management Agency. Obviously, the Army Corps of Engineers is charged with the responsibility of implementing the requirements of the Endangered Species Act. As I understand, they have been working with the Department of the Interior for a number of years to come up with a workable solution to minimize damage downriver, not only for crop insurance, but other areas of concern, as well. As it comes to crop insurance, we are limited by statute to only be able to pay insured causes of loss, and in this case we are talking about excess moisture, which I think equates to rainfall.

I think with the current arrangement that we have had with the Army Corps of Engineers, it would be unlikely there is a certain minimal opportunity for flooding to occur unless there was excess rainfall accompanied with a release of the spring pulse, which now, of course, will be an opportunity for that to happen in May. So hopefully, if all the stars line up right, either there won't be a problem, or if there is a problem, that it would be caused by excess rainfall and then, of course, the claims people and insurance companies are every day, maybe not every day, but regularly adjust claims along the river for losses and then they would look and see what the cause of loss is and most likely would be rainfall.

Mr. KING. Of course, we went through the discussion on this; you didn't, but America did in Louisiana on was it wind damage from the hurricane or flood damage from the water surge and we would have the same kind of question in the Missouri River bottoms, but this little pulse that they are talking about now is unlikely, if it happens, it is unlikely to remain a small pulse. It is likely that it grows into a surge and should that surge occur, do you have a position on how to deal with that if it is not in conjunction with local rainfall?

Mr. GOULD. Well, I suspect and I hate to go out on a limb very far here, but it would seem that we could at least make a case for the fact that if it was necessary for a surge, a large surge, as you indicated, that is going to be caused by rainfall that there would be that much water necessary to be released so there again, we would be able to pay because it is a natural cause of loss.

Mr. KING. But this is a release from the reservoirs, themselves. If they open up the floodgates, so to speak, at Gavins Point and a wall of water comes down there to wash off the sandbars and float the pallid sturgeon out into the oxbows so that they can—anyway, and it comes down there and it floods the Missouri River bottom and it is exclusively a discharge, man-made, are you going to be in a position to help pay for that kind of a loss?

Mr. GOULD. In that case, as you iterated, if there was no rainfall involved, therefore no natural cause of loss, it would not be an insurable cause of loss.

Mr. KING. In which case, then, it is Government-made man-made.

Mr. GOULD. That is correct.

Mr. KING. And we would do well to look to the Department of the Interior to see that they had a line item in their budget?

Mr. GOULD. I will not comment on that.

Mr. KING. No response required, Mr. Gould. I just had to take that thought one more step and I appreciate your response to this and the opportunity to weigh in on this subject and thank you, Mr. Chairman. I yield back the balance of my time.

Mr. MORAN. I thank the gentleman from Iowa. I would love to have a second round for our witnesses, but my anticipation is we have votes in 45 minutes to an hour, so I think we will move on to the next panel. We probably would request your presence back here sometime in the near future and Dr. Collins, you in particular, I would like for you to think about a question that I would ask you if I had a second round, which is are there issues at RMA within the crop insurance system that cause you to, I don't know you well enough to know if you lay awake at night worrying about things, but if you are that kind of person, I would like to know what those issues are, things that if you were advising me that this subcommittee ought to be paying particular attention to, I would like your suggestions and advice and we can have this conversation——

Mr. COLLINS. You are right to adjourn this panel at this time, Mr. Chairman, because if I were to go into that, the next panel probably would never get to speak.

Mr. MORAN. We look forward to your response.

Mr. COLLINS. Thank you.

Mr. MORAN. I thank the panel very much. Mr. Gould, congratulations on surviving your first debut before the Subcommittee on Risk Management.

Mr. GOULD. Thank you. We are delighted to work with you.

Mr. MORAN. Thank you. I would now invite to our table the second panel. Mr. Sam Scheef, who is president of ARMtech Insurance Services of Lubbock, Texas on behalf of the American Association of Crop Insurers; Mr. Jim Brost, executive vice president, Cooper Gary and Cashman, LLC, Minnetonka, Minnesota on behalf of the Crop Insurance Research Bureau; Mr. Bill Hanson, president of Kanok, Inc., Manhattan, Kansas on behalf of the Crop Insurance Professionals Agency; and Mr. Bob Parkerson, president, National

Crop Insurance Services, Overland Park, Kansas. Mr. Scheef, you may begin when you are ready. Welcome.

STATEMENT OF SAM SCHEEF, PRESIDENT, ARMTECH INSURANCE SERVICES, ON BEHALF OF THE AMERICAN ASSOCIATION OF CROP INSURERS

Mr. SCHEEF. Good afternoon, Mr. Chairman and members of the subcommittee. I am Sam Scheef, president of ARMtech Insurance Services, headquartered in Lubbock, Texas. My testimony today is presented in my capacity as vice chairman of the American Association of Crop Insurers. Thank you for scheduling this hearing in your oversight of Federal crop insurance, which I think of as having 5 critically important elements; the farmer, the program, the private sector, the regulator and Congress. AACI believes that the program has succeeded beyond expectations because of four fundamental characteristics.

First, the program is a unique public/private partnership combining the financial resources of the Federal Government with the operating efficiency of the private sector. Second, the program is based on service competition and there is no shortage of competition in the marketplace. Competition is about being of service to farmers in their purchase and use of crop insurance. Third, the program is based on the universal availability and fourth, the program is based on nondiscrimination.

In spite of the success, there have been some disturbing developments recently that we believe threaten to undermine these four principles. I will identify three key issues that require immediate and proper attention in order for the program to continue building on its record of success. First, rebates, discounts and dividends. Crop insurance has a long history of treating farmers equitably regardless of the company they choose. Since the passage of ARPA, different schemes and devices based on a company or agent's corporate business structure have entered the marketplace attempting to give certain agents and companies a competitive advantage. AACI believes a company or agent's corporate structure should not impact the price paid for insurance by a farmer.

Second, cooperative and trade association dividends. AACI believes Congress set forth a narrow exception to the prohibition against rebates in ARPA. This statue makes no allowance for a single entity, a crop insurance provider, to make payments directly to policyholders. Any attempt to characterize payments from the insurance company as an insurance company to itself as a cooperative for later payment to the policyholder as a dividend, is simply a conduit designed to circumvent the law. We have requested RMA to disallow any request by an insurance provider to declare itself a cooperative.

And finally, as regards premium reduction plans, we recommend the House Agriculture Committee take action to halt the implementation of section 508(e)(3)the referenced authority for PRP program until a full and complete impact analysis of PRP and other discount programs is conducted. We note that language was included in the 2006 Agriculture appropriations bill to halt the PRP program for 2007 and similar action may be required in 2008 if this committee determines it will not be possible to pass separate legislation this year.

As an alternative to rebates, AACI would support performance-based discounts. AACI believes performance-based discounts are the most equitable and least discriminatory method of providing crop insurance discounts to farmers. The second element of the Federal Crop Insurance Program that I want to touch on is the regulator, RMA. Crop insurance needs an effective regulator to continue growing and developing in value to all farmers, ranchers and growers while earning and maintaining the trust and support of Congress and the public. We propose that RMA make its computer technology needs a top priority and find the funds necessary to modernize by reordering other missions and seeking new appropriations.

However, RMA should focus its information technology upgrade on its internal systems and on its role as a regulator. Some within RMA are attempting to duplicate the private sector role of developing direct user interfaces to farmers, a role which should be properly be reserved for insurance companies and agents. Using my company as an example of what I know to be the situation generally, for RMA's private sector partners, we have invested heavily in establishing the best information technology available and we continuously add to that investment in order to maintain maximum capabilities. We depend on information technology not only to be on the leading edge of processing and operational efficiencies, but also to provide our farmer customers with the best possible service.

RMA must become an equal with its private sector partner in the use of information technology but not attempt to duplicate the functions provided for by the private sector. RMA is not there today. In this regard, AACI commends the House Agriculture Committee for the position it has taken with no reductions in the 2007 agriculture budget and we appreciate the action taken to inform the budget committee of its views. For the record, we are absolutely opposed to the creation of a premium tax or participation fee as it is referenced in the administration's budget.

Mr. Chairman, this concludes my statement. I will be happy to respond to questions at the appropriate time.

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

Mr. MORAN. Thank you very much, Mr. Scheef. Mr. Brost.

STATEMENT OF JAMES BROST, EXECUTIVE VICE PRESIDENT, COOPER GAY & CASHMAN, LLC, ON BEHALF OF THE CROP INSURANCE RESEARCH BUREAU

Mr. BROST. Good afternoon. My name is James Brost. I serve as executive vice president for Cooper Gay and Cashman, a reinsurance intermediary. My role in this industry is to bring economic support to support the MPCI program. That economic support is called reinsurance. It helps protect the company's capital base. It might even provide them additional capacity to write more business which they might not normally do. Reinsurance may even provide operational income in the delivery of the MPCI policy. Commercial reinsurance has been, in will continue to be, vital to the continued success to the delivery of the MPCI product.

The reinsurance role first became known before this panel in 2003. The message at that time was the SRA is not the exclusive reinsurance vehicle utilized by most the SRA holders. The reinsurance has been behind the scenes. They are, however, stakeholders in the program, in RMA, FCIC and Members of Congress should be cognizant of the conditions that determine the reinsurer support of MPCI. Reinsurance is utilized by many carriers writing different lines of business. It is not unique to crop. The basic premise is that they will earn a profit on the classes of business they reinsure. The return on equity, or ROE, calculation is a measurement of the expected returns the reinsurer anticipates over time. The point made before and being made again today is that reinsurance of MPCI must remain competitive with the lines of reinsurance in order to attract the reinsurance capital. The absence of this support would be detrimental to the MPCI program.

The concern, of course, is that the Government will continue the trend of driving down potential ROE from the MPCI program. Recent issues have evolved which the reinsurers have cast a watchful eye. They are the continued reduction of the A&O. The reductions imposed in the 2005 and 2006 programs have impacted the SRA holders' continued operational viability. Long-term viability of an SRA holder is an important consideration in the eyes of the reinsurer. The reduced A&O has also diminished the returns of some reinsurers.

Number 2: the potential increase in the FCIC share of the SRA holder's gain. This quota share requirement came forth in 2005. It had both a direct and indirect impact on reinsurers. In one case, in cases it took business away and two, it took profits away from the SRA holders, an indirect impact. Again, changes to the business environment can reduce or eliminate reinsurers' support of the MPCI program.

The Group Risk Income Protection Plan, GRIP, as you know it. This policy uses a county index to trigger a potential claim indemnity to the crop producer. This means that crop producers with above average yields may nonetheless receive an indemnity payment if the general farming area has experienced yield reductions. This concept violates the very cornerstone of insurance. This policy should be considered an abuse of the MPCI program. It encourages adverse selection against the crop insurance program and undermines its integrity.

Let us talk of the fee from SRA holders for information technology updating of the RMA. From the reinsurer's perspective, this is simply a tax on the SRA holders, a flat expense that will threaten the economic health of every SRA holder. The economic health of the SRA holder is a key consideration again to a reinsurer before providing their reinsurance support.

The PRP program. We continue to voice concern with PRP. It may encourage an SRA holder to cut costs in areas that could be detrimental in both the short and long terms to the sound administration and integrity of the MPCI program.

The reinsurance industry is very delighted with the data mining project going on. It is very encouraging that this allows RMA to identify anomalies and alert the SRA holder of program irregularities for closer review. It is essential that its continued funding be secured and we encourage the committee to further develop this product.

The last two crop seasons have produced attractive underwriting results, as you have heard earlier. These positive returns are necessary to level losses for years gone by and to manage large financial losses in future years when there is widespread drought or flood or let alone, disease facing the crop industry. We are positioned to absorb whatever Mother Nature decides to throw at us.

This would conclude my oral remarks. Thank you.

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

Mr. MORAN. Thank you very much, Mr. Brost. Mr. Hanson, welcome.

STATEMENT OF WILLIAM HANSON, PRESIDENT, KANOK INC., ON BEHALF OF THE CROP INSURANCE PROFESSIONALS AGENCY

Mr. HANSON. Thank you, Mr. Chairman and Ranking Member Etheridge. Thank you for this opportunity to testify. Mr. Neugebauer, I appreciate your positions. We have several members in the agencies or organizations I represent from your area and they have passed on to me some of the things that you have been working on.

My name is Bill Hanson and I am a Kansan. I have worked as a farmer, teacher and high school principal. I have also worked for the FSA and the Federal Crop Insurance Corporation, including a tour as director of the reinsurance contract division in Washington. For 14 years I have owned my own crop insurance and now serve as the chairman of the American Association of Crop Insurers Agent Division and am co-manager of the Crop Insurance Professionals Agency, CIPA, which represents agents from around the country.

Crop insurance agents are on the front line of delivering this critical risk management tool to the American producer. We are where the rubber meets the road. The Agricultural Risk Protection Act, or ARPA, passed by Congress in 2000 is the engine driving progress made in risk management. And while there is still work to be done, ARPA has already provided producers greater access to more affordable and better quality coverage. Thank you for passing ARPA.

Thank you also for rejecting harmful cuts to crop insurance in last year's administration budget. On behalf of CIPA, I respectfully urge you to reject those cuts again this year. I also want to say we appreciate Administrator Gould. He has shown strong interest in working with RMA's partners, including agents and tackling program challenges while building on our success. We agents hope to work with the administrator and with Dr. Collins and the FCIC board in a more formal capacity in the future.

Today I focus my remarks on three issues. First, PRP. PRP is a subtle but no less serious threat to crop insurance. It was implemented using legal authority that had not been used for 9 years and which no one ever though allowed rebating. In 2000, RMA rightly noted that the program prohibited rebates consistent with the laws of 48 States. After some debate last year as to whether PRP is a rebate, RMA, in a recent memorandum, put the question to rest. PRP is a rebate.

Mr. Chairman, until PRP, Federal crop insurance, with one narrow exception created by Congress, joined 48 States in prohibiting rebates and with good reason, including concerns about discrimination, the integrity and oversight of insurance, the financial soundness of insurance providers, and preserving consumer choices and the quality of service consumer choices help ensure. PRP raises all these concerns, but it is PRP's discriminatory and misleading approach that is most troubling.

When a farmer signs up for PRP, he thinks he is guaranteed a rebate, but four farmers could walk into four agencies one year after they bought their policies and each walk away with different outcomes, including No. one, you are in the wrong State to get a rebate; No. 2, RMA said your company could not pay a rebate; No. 3, your company decided it would not pay a rebate; and No. 4, we promised you a rebate, but don't know if we can pay that much and may not know for another year, 2 years after you bought that policy.

Playing games with farmers gives everyone in crop insurance a bad name. I do not believe Congress intended this. I thank Congress for denying funding for PRP in last year's appropriations bill and CIPA urges Congress to suspend PRP for the 2007–08 reinsurance years so the committee can examine the program.

Second, RMA has indicated it plans to expand a narrow rebating exception provided by Congress. The current exception allows cooperatives or trade associations, but only those located in States that permit rebating or adjacent States to receive a fee from an insurance provider and then use the fee to buy CAT policies for members, but the expansion appears to allow the exception for rebating to swallow the rule, permitting unlimited rebating of any kind in every State without cooperative or trade association involved as long as the insurance provider organizes as a co-op. I do not believe Congress intended this and believe it will result in discrimination in a program designed to treat farmers equally. I urge Congress to request a formal rulemaking, with notice and opportunity to comment to let some sunshine in on this plan.

Crop insurance is not a price-based competition, but service-based competition with RMA setting farmer premiums. So when price-based competition is introduced, the unintended consequence is a race to the bottom relative to service. And as companies feel the pinch, they do business in fewer places or just exit the market, meaning fewer choices for agents and farmers.

Third, concerning the elimination of waste, fraud and abuse. The members of the agencies I represent or the associations I represent are 100 percent committed to eliminating waste, fraud and abuse because our reputations and livelihoods are on the line, too. We applaud RMA for working with us to arrive at a conflict of interest policy that is, for the most part, workable in tackling abuse. But my concern is the same as it would be with any good institution dealing with bad actors. Don't use a sledgehammer or an axe when a scalpel will do. For instance, if a senior citizen buys a policy, and many of our farmers are seniors, but gives us the wrong Social Security number, don't cancel his policy for a mistake after he just lost his entire crop. Be certain it is a mistake, sure, but don't automatically cancel his policy.

One way to stop abuse is data mining. Another is to ensure that yield determinations and rate settings for policies are accurate. This is a problem regarding GRIP and GRP policies, which are intended to curb abuse but can actually cause abuse if based on bad data. Let us work together on these issues, define commonsense solutions to problems we both have a stake in solving.

Thank you again, Mr. Chairman, for that and I apologize for exceeding my time.

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

Mr. MORAN. Mr. Hanson, thank you. Mr. Parkerson.

STATEMENT OF ROBERT W. PARKERSON, PRESIDENT, NATIONAL CROP INSURANCE SERVICES

Mr. PARKERSON. Thank you, Mr. Chairman. My name is Robert Parkerson and I serve as president of the National Crop Insurance Services, NCIS, on whose behalf my testimony is presented today. I would like to thank you for the opportunity to present this testimony.

NCIS is a nonprofit trade association whose member companies include every crop insurance company that participates in the Federal Crop Insurance Program. NCIS has a series of technical standing committees that tap the talents and skills of our membership. These committees deal with a diverse set of subject matter including loss adjustment procedures, statistical data gathering, industry public relations and industry legal issues.

NCIS and its staff work hard to offer our members valued educational conferences, schools, field days and training modules used when training their agents and adjustors. Over 2,000 industry personnel attended one or more of these educational forums this year. This is in addition to the numerous training sessions that member companies hold for their individual agents and adjustors. NCIS and its committees also work closely with RMA to help refine loss adjustment policy, procedural requirements in this increasing complex program. In 2005 NCIS member companies wrote more than $3.9 billion in MPCI and related revenue products and over $434 million in private crop-hail insurance products.

Since 1994 there has been a significant increase in the level of participation in programs and an expansion of insurance products available to the farmers. Insurance acreage has increased; revenue products became more widely available and Congress has continued to expand the program. However, with rapid expansion, some of the possibilities of creating program vulnerabilities are there. There are several existing insurance programs that the industry feels needs to be reviewed before any further changes or expansion are put in place. These include GRP, GRIP, AGR and AGR-Lite.

We believe the concept and the basic fundamentals in the underlying AGR and AGR-Lite can fill a need for many farmers in the country however, we do have some concerns with how they work. Recently, NCIS formed a work group of industry members that met to discuss many of the concerns that are associated with the program. After this meeting there has been another meeting scheduled to work with some of the solutions we feel we can implement to make the programs much stronger.

The crop programs, GRP and GRIP, have grown rapidly in the recent years. The crop insurance industry has expressed to RMA a number of reservations regarding the program, the structure and the performance of the programs. One of the most critical issues with regard to GRP and GRIP programs is that of the equitable treatment of the policyholder. One grower may have a poor yield due to factors beyond his control, yet not be eligible for indemnity. Conversely, a grower in another country may be paid an indemnity even when his own yield is an excellent return for the year.

The second industry concern is that the growth of these programs has been facilitated by much lower rates, much higher subsidy percentages than other revenue products. We also believe that before any new program should develop, we need to get back to the basic fundamentals of insurance and risk management. The industry looks forward to working with Mr. Gould and his RMA staff to streamline and create a much more simplified program that will make it easier for farmers and agents to understand and participate.

NCIS members have worked have worked hard to make the crop insurance program successful. Although our industry has been criticized at times by the General Accountability Office and the media, we would like to take this opportunity to assure you, Chairman Moran and this committee, that our members are very aware of their fiduciary responsibilities, not only to their stockholders and employees, but to the farmers, the taxpayer and the Federal Government.

Recently, the NCIS Board of Directors initiated two new projects that are in the planning stage. The first is a Program Integrity Conference centered on fraud, waste and abuse issues, and the ability for the industry to reduce all three. We are working closely with RMA, the National Association of Insurance Commissioners, the OIG, the FBI, Tarleton State University and others to develop this conference. It is scheduled to take place on May 22–23 of 2006 in Overland Park, Kansas.

Second, it is the intention of the NCIS and its members to develop a performance-based discount program that would reward farmers with good insurance experience. We feel this program will reward good farmers but also create an incentive to help reduce the fraud, waste and abuse and further promote the integrity of the program. All discussions, all of these are in discussion in preliminary stages and will require additional evaluation. We envision sharing this information with Congress and RMA as soon as we have worked out the outlines of the program.

We would be remiss in our responsibilities to the American farmer and ultimately, the American taxpayer, if we did not take the necessary steps to stabilize the crop insurance program, which is the primary financial safety net for American agriculture.

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

Mr. MORAN. Thank you, Mr. Parkerson. The chair recognizes the gentleman from North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman, and I appreciate your courtesies. Mr. Brost, let me ask you first, generally, for the reinsurers that support the crop insurance industry, is crop insurance their primary product line or are they also reinsuring other aspects of the insurance—as an example, health insurance, life insurance, home, automobile, et cetera? And second, generally, what percentage of their business is in crop insurance, if you know that?

Mr. BROST. What percentage of the business is done, agricultural reinsurance, you will never find—I say never, but you will not find more than 10 percent of the reinsurer's portfolio committed to agricultural reinsurance. That would be quite large. There are different types. I might further comment, in the universe, let us say there is roughly 150 reinsurers of which probably one-third of those reinsurers write agricultural or MPCI reinsurance. What I don't know, Congressman, the crop industry is about $4 billion is premium, as you heard mentioned earlier. Frankly, I don't know how large the insurance or reinsurance scheme is over all. I would say, again, the emphasis is that agricultural reinsurance is a minor piece of any type of professional reinsurer's operation and of course, my appeal was if we don't stay consistent in ROE expectations, then it is very easy to them to say thank you and move on.

Mr. ETHERIDGE. That being said, then, my follow-up question would be how easy would it be for the reinsurers to get out of crop insurance if the administration's proposal were enacted and their returns on equity dropped to what they perceive to be an unacceptable level?

Mr. BROST. For a reinsurer to exit the agricultural reinsurance side, frankly, of course, you wouldn't do it in the middle of the season because you will have contractual commitments, but to use Sam as an illustration, he may not have but perhaps 3, 4 months' notice prior to a crop season that he may not have reinsurance, just to illustrate.

Mr. ETHERIDGE. Of course, the concern of this committee, I think, and all of us is that farmers have to have certainty.

Mr. BROST. It is fair to say, it is fair. Of the reinsurers who are supporting the agricultural sector, being it is very esoteric, they love it. Frankly, the U.S. program is being emulated or trying to be emulated throughout the world, it is like the envy. They are devoted to it and again, support it in every way possible. There is sufficient capacity to meet the needs of the U.S. program, clearly. I don't have a crystal ball to tell you what that ROE magic number might be. I don't have that.

Mr. ETHERIDGE. I am glad to hear there is capacity. I just hope there is a desire to stay and do it. I think that is the big concern.

Mr. BROST. Dedicated, yes.

Mr. ETHERIDGE. A final question I have is I believe all of you support, are supportive of the data mining and warehousing done by RMA to route out fraud, waste, abuse and the irregular and anonymous payments that get made. Mr. Gould's testimony cited reduced indemnities totaling $112 million in 2002, $81 million in 2003 and about $71 million in 2004. We have had some challenges in securing funding for this program in recent years and my question would be would the industry be willing to step up and finance the data mining activities in exchange for a share of the recovery, for example, a rebate on your contribution plus some extra to make sure we get it done?

Mr. BROST. From the reinsurers' perspective, understanding that they are not involved at that detail level, but can I say from a 2,000 foot observation, inherent in insurance is called salvage and subjugation, the basic principle in insurance, to the extent that there are salvages and repercussions. Those are recoverable already into the insurance world. Again, you are addressing a subject to, can I say, my reinsurers' client base, my client base and any time you start tinkering with—I love the idea, they save money and you get a piece of it back, then I guess my cynicism might kick up a bit, I guess. As long as it is positive, I am all for it.

Mr. ETHERIDGE. Thank you. I see my time has expired. I believe the answer is maybe.

Mr. MORAN. Thank you, Mr. Etheridge. The gentleman from Texas.

Mr. NEUGEBAUER. Thank you, Mr. Chairman, and in order not to be redundant, I will not bring up my new policy with the second panel. I think they were here. Good to have Sam here from Lubbock, Texas. I have known Sam for a long time and he has got a great company and they are a great asset to Lubbock, Texas.

Mr. Brost, I want to kind of, I detected a little bit of lack of enamor, I would think the term would be, with GRP program and as it relates to the fact that a county-wide event can trigger a payment for someone who was on the edge of the hail storm and didn't get—so one of things, as I go around and I talk about this policy, I mean, one of the things that you could do if you allowed the producer to put the GRP policy on top of the underlying policy, is that you have to, in order—two things trigger that; a loss, and that is that you would have to have an underlying loss for your multi-peril and the county-wide event and so in fact, if a producer did not have an underlying loss, he was on the edge of the hail storm, but the rest of his neighbors did, he does not get monies for a loss he did not incur, but the rest of his neighbors would not be penalized by the fact that some would disagree with that.

So I think that brings up an interesting concept, one I would like to, you know, we might even make that a part of our discussion as we move into that, as the chairman begins to embrace my bill. I think the other thing, I wanted to kind of ask you, you talked about return on equity. About what is the return on equity industry arrived the last few years for let us say the agricultural piece?

Mr. BROST. Frankly, members have to understand that the ROE is not a calculation of the present year return. As you have heard testified earlier, there have been attractive underwriting gains in the last couple of years. The ROE, frankly, is still in that figure of it is going to be a 10 to 15 percent return on equity and that number is still there, if you follow me. It will not be, per se, impacted.

Mr. NEUGEBAUER. Most of us understand that companies, basically, you have to look at the long-term, but long-term, the return on equity, you know, 10 or 12 or 15 percent, that is not a bad return on equity.

Mr. BROST. No, no. Again, that is competitive and that is competitive with the industry, yes.

Mr. NEUGEBAUER. Yes. So if we can keep you in those ranges, I mean, that is not an excessive return on equity, you know, I don't know what the Wall Street return on equity is, but it is, you know, there are some companies that do better than that, some less.

Mr. BROST. In fairness, if this industry, frankly, was spitting out a 30 percent return on equity, we would probably have 100 SRA holders out there; clearly, we do not.

Mr. NEUGEBAUER. Yes. Generally, the markets are efficient in that way, aren't they?

Mr. BROST. They are, so if someone is charting 30 percent ROE, again, it would be a crowded——

Mr. NEUGEBAUER. And Mr. Hanson, thank you for your comments and we do have some wonderful agents and sellers and services in our district and they provide a very important function. You have heard about my policy and know from someone who sells that commodity, you know, how do you feel about that?

Mr. HANSON. I have discussed that product with Ronnie Holt, who has been with you a number of times. Obviously, there are a number of things that would need to be looked at and tweaked and worked with, but conceptually, it makes sense for your part of the country and probably some other areas.

Mr. NEUGEBAUER. OK. And Sam, I want to go back—I am sorry, I got to bragging on you and I wanted to—you mentioned the premium discount issue and the PRP. If you said your association had a position today, what would that position be? I mean, do you want to move forward with it or do you want to go back to the way it was or where are you all headed?

Mr. SCHEEF. I think our position on it, Mr. Neugebauer, or Randy, is that it is problematic in the way that it has been implemented by RMA and we need to take a step back. We need to halt the current implementation of that product, step back and look at it and try to find a good way and a consistent way of providing discounts to farmers.

Mr. NEUGEBAUER. You know, and I think what would help us do that and I don't know if I am interested in that, what I want to keep is the competitiveness. I noticed in your testimony you mentioned—a little more indulgence here, Mr. Chairman, since it is me and you, but I noticed that you talked about the partnership and the fact that this product sees a lot of private sector participation with the Federal Government kind of having its role in there and we may need to get you guys to help us with the flood insurance program. We haven't collected the results and there is not any return on equity in that right now, at least for the Federal Government and the taxpayers, but that is another story.

What we probably need you all to, you know, come forward and show us some initiative in that area of how that makes sense. I know we have a lot of State regulation about premium rebates in that there are some fundamental problems with that. But certainly, what I want to do is at all times make the delivery system and the whole system as cost effective and as efficient as we can because what I am trying to do is figure out a way to get the coverages up, which I think has a compounding effect for the industry, so if we can get those producers where they can start carrying the higher coverages and give them some choices and some ways to manage the particular risks that they are taking, I think it permeates through the whole spectrum of the industry and so I don't want to discourage or throw out innovative and creative ideas in the marketplace just because it had changed.

And sometimes people want to, you know, they are kind of comfortable. This is plan, I have had it for 20 years and I am making money, so please don't change it, but I think we would look to you all to help us look at it and we can also have some additional discussion with RMA, but I like private sector driven and if you guys come up with good ideas, I think we are willing to look at those and but I think one of the things I think we do need to do this, Mr. Chairman, is I think we do need to kind of get, in some point in time, you know, kind of out of this limbotic stage of we have it but we don't have it. And so I look forward to your feedback. And with that, Mr. Chairman, I yield back the balance of my time.

Mr. MORAN. I thank the gentleman for yielding back the balance of his time. I have several questions. Mr. Neugebauer visited with you, Mr. Brost, about return on investment and one of the issues that I often face when it comes to crop insurance, and it can be in SRA negotiations; it can be the discussion of PRP; the A&O, the Administrative and Operating allowance; how do I, as a Member of Congress know, and this is not just directed to you, Mr. Brost, but how do I know whether or not there is sufficient profitability in the crop insurance system that are companies, are agents, the reinsurance industry is going to remain viable because as we have seen, the administration proposed reductions in payments in regard to crop insurance. The industry may come to us and say that is not viable, it will not work, we are operating on the thinnest of margins, this will be very damaging to the industry. Is there some standard out there by which I, as a Member of Congress who cares about the delivery of crop insurance for my farmers but also care about the bill that my taxpayers pay, that I can understand what the reality is as far as profitability in the crop insurance industry?

Mr. BROST. Your question, it starts out dealing with the reinsurance. I would actually say that, first and foremost, to understand if the industry is competitive and efficient, again, you don't want exorbitant ROEs being out there but again, that doesn't happen. That question, in my mind, is best posed to the companies actually writing it. The reinsurers, frankly, do not have to put up with all of the, I will call it the administrative burden that takes place in the actual production of the program and I think, actually, in Mr. Gould's comments he says the SRA directs insurance providers to expend more resources on quality assurance and internal controls than ever before.

If I am a reinsurer, I might feel the economic impact from that because they are coming to me saying help me pay the bill, if you will follow me. But again, you will get a variety of different answers from reinsurers because there are different types. You are trying to put a nice little container around the reinsurance world and frankly, you can't. There were agricultural teams out there that have gone from writing two different types of reinsurance only because the management has said no, we have got different expectations, different return expectations, thus you will write one form or another. Back to where I was. I do think that the SRA holders are the ones who will know whether or not the ROEs are sufficient.

Mr. MORAN. Well, let me ask, then, the companies, Mr. Scheef or Mr. Parkerson, is there an objective standard by which I, as a Member of Congress, can determine whether or not these SRA agreements are adequate for the industry, that even in the PRP discussion, there is a consequence. I think there are broader problems with PRP, but there is a consequence to the bottom line of an insurance company of the agent. How do we know that the compensation is appropriate in this industry?

Mr. SCHEEF. Go ahead if you know the answer.

Mr. PARKERSON. I am not sure I know the answer, but——

Mr. MORAN. I was afraid you were going to say I am not sure I understand the question. More troublesome to me.

Mr. PARKERSON. Yes. What I think one of the key parts to the industry staying in this and I think that is what you are asking about, is that they are going to have to be more involved, I think, in all of these programs that are being developed and when we take a look, for an example, at a program, we will look at its capability of supporting itself by being the actuary, if you will, sound program; are we getting the appropriate rates; are we getting the appropriate responsibility and the liabilities all fit together, if that is, in fact, workable and it is done, then the companies can, in fact, move forward and be there. Sure, they are going to make money one year, but as we have seen, then some years we can have 200–300 percent loss ratios. I think Joe Garber, the assistant to Mr. Collins, at one time put out a fact that under some of the new SRAs this industry can lose 450 percent, so I think that with all this, if the industries stay involved and take more part in it, you will be able to see that they stay in and are able to develop and deliver the program.

Mr. MORAN. Mr. Hanson, does my question make sense to you from an agent's perspective, how do we make certain that there is a sufficient return on the agent's time and investment to stay in business? Other than the agent telling me that, you know, we need more money. Is there something that we ought to be looking at?

Mr. HANSON. Obviously, as you well know, I think everybody sitting at this table would definitely say we would like to see farmers get the best discount or the best price for the product that they can get. I don't believe anyone sitting here is in that position of saying we oppose discounts. We just have a concern about the method with which it is being delivered and the process there, not an issue of is the industry adequately funded from the standpoint of the A&O and their ability to make an underwriting gain. Obviously, as I recall the details of the Crop Insurance Act of 1980, there was never an intent for a company to make a profit on the A&O.

There was the intent to offer the opportunity for underwriting gains, which is definitely still there, but in that process it was understood, also, that the Government would reimburse the companies for their costs. And the fortunate thing with recent developments on the SRA is that the percentage that is offered in the A&O expense has decreased, while in turn, our attempts to decrease the supposed fraud, waste and abuse have imposed requirements on the companies and agents that somewhat are counterproductive in terms of the way the A&O has gone. So speaking from an agent's position, yes, my commissions have decreased over the last 4 to 5 years considerably, yet my costs of making sure that we do everything correctly under the current SRA requirements, have increased.

I know that the companies' expenses have increased on the loss adjustment side with various things that they are required to do. So I think, though that was a long answer, I think we need to look very carefully at the A&O in terms of is it adequately covering the actual costs that companies and agents have to do to administer the program the way you and the committee would like them to administer it and that is honestly, fairly and equitably to all of the producers of the country.

Mr. BROST. Mr. Chairman?

Mr. MORAN. Yes, sir.

Mr. BROST. May I?

Mr. MORAN. Sure, Mr. Brost.

Mr. BROST. There are some initial comparisons that can be made and those have been made in the past years. For example, one, I believe the insurance industry, as a whole, had its first underwriting profit in 2004, I believe with the year, the first time in 30 years' time. And when you look at the expense figure, the percentage expense figure for the property casualty industry as a whole, you are going to be over a 30 percent figure. Furthermore, that 30 percent figure applies to a premium that is built up that is not just designed to pay losses, i.e., a 1.0 loss ratio, but rather, build in an expense component within it. It is easy for me to say, but you look at the industry here averaging a 21 percent commission on what is not even a fully expensed dollar in the context of insurance, meaning again, in time the crop insurance program is mandated to run about 107.5 percent loss ratio.

Well, what about, again, the private sector does not develop rates to run 107 percent. They are going to develop rates that run down in the 65 percent area. So that differential, that is called a peer premium, what peer premium do you need to pay claims? The industry here is getting about a 21 percent commission on what is a peer premium dollar, so not only is it 21 percent less than the normal insurance industry expense, it is on what is a reduced dollar because of the rate development mechanism. So there are means out there to see how does the crop insurance industry compare to the insurance industry, clearly, absolutely, they are out there and that barometer is turn the actuaries loose on each other and let them duke it out.

Mr. MORAN. Each of you, maybe with the exception of Mr. Brost, talked about the premium reduction program. Perhaps someone would want to put into the record, bring us up to date on where we are today. We remember the contentious issue of last year and the delay, the moratorium on PRP, I guess starting July 1 of this year. And if you would outline for me your concerns about the premium reduction plan upon the entire system, what does PRP, what problems does it cause in the delivery of, if any, in the delivery of insurance for all farmers?

Mr. SCHEEF. Mr. Chairman, I guess I will speak first to that issue. The PRP has introduced in the marketplace a great deal of turmoil, a great deal of misinformation and as Mr. Hanson pointed out in his testimony, expectations on the part of the farmer or some farmers to receive a discount when, in fact, they may not be allowed to receive a discount because of where they are or because RMA did not approve their company to pay a discount. The method in which PRP has been implemented is as a rebate where the farmer purchases the policy and well over 12 months after he purchases the policy, he may or may not receive a rebate, a premium that he has already paid. And there is a good reason that rebating is disallowed in 48 States.

Mr. MORAN. Mr. Hanson.

Mr. HANSON. I would respond, Mr. Chairman, from the basis that my agencies have spent considerable time during this marketing season answering questions regarding PRP because it is available from another company in Kansas. It is also available in our agency, but we have put out the disclaimers to all of our clients, as well as every other agent has that it may or may not be paid and may or may not be determined for 2 years. And what we found is that when our customers understand that process, their motivation to move their business is lessened, but we also have reports of customers that have specifically said I have been guaranteed a rebate that will be paid next March and as I understand the RMA rules, that cannot be done and unfortunately, as a result of misperceptions or misinformation, there are some confused customers and clients out there. With today being the sales closing date, it is very difficult to correct that situation and I am afraid we are going to have to deal with it down the road. So our perception has been to again suspend the operation of that for 2007–08 and make sure we study all of the ramifications and implications that have come from that implementation.

Mr. MORAN. Mr. Parkerson.

Mr. PARKERSON. INCS was selected as one of the reviewers of this program and I think, first of all, we took a look at the program and was fairly convinced that there seemed to be an encouragement of discrimination among policyholders, some big, some small. Second, we were very concerned about how the industry or the company that may be offering this could, in fact, take the money from somewhere; it had to come from somewhere and was it, in fact, reducing and we believed that it did somewhat reduce the service to the farmers. You have to find some way to pay out that additional money.

Third, we were rather taken back by the fact that RMA was not being able to require the vigilance that it would need and regulation and monitoring what the company was doing because the outlay means that they must determine whether the company can afford to pay, are they making enough money to pay and does that mean that they have to sit down and scrutinize the records and the financials of the companies to determine that. We found that there was some lack in that. And then the additional reporting and the expense that a company had to do to go through that oftentimes may eat up any kind of dividends they might be able to pay because once you have to go through all of these, there are additional accounting standards that have to be developed and implemented and monitored by the companies and with RMA.

So we were never sure that all of those were in sync so that a company could, in fact, offer a reasonable discount. I think, second, that when the new regulations came out, if you go through this, one of the most discouraging things when we talked to some of the farmers and producers is they have got to wait almost 2 years before they even see if they are, in fact, going to get this money. So it is a rather tedious type of effort to get the money and to see that it is being done, so if there are going to be discounts, I think that the industry doesn't fight all of that that strongly, but what they do need to do is take a look at how it is implemented and how it can be fairly administered throughout the United States to every farmer.

Mr. MORAN. Your evaluation was done for RMA?

Mr. PARKERSON. Yes, sir.

Mr. MORAN. And did RMA take into account and address those issues in the rule that they developed?

Mr. PARKERSON. Some. I will be like Mr. Collins, I will take the fifth amendment real quick.

Mr. MORAN. A new rule was put in place, is that true?

Mr. PARKERSON. That is correct.

Mr. MORAN. And that rule is, I guess, held in advance after July 1, 2007 because of congressional action, correct?

Mr. PARKERSON. That is correct. Correct.

Mr. MORAN. You mentioned, Mr. Scheef, the premium reduction plan versus a performance-based discount. Would you tell us what distinction you make in regard to those two concepts?

Mr. SCHEEF. The concept of a performance-based discount isn't a new concept in Federal crop insurance. It existed in the program in the late 1980's and then was phased out. The concept of a performance-based discount would be one where insureds, or farmers with good loss experience, would receive discounted premiums as opposed to farmers with frequent or large losses would not receive discounts. And we would support a program such as that, just as a general statement, not having any specifics of the specific program at this time.

Mr. MORAN. Do you know, Mr. Scheef, or you, Mr. Parkerson, what happened with the performance-based discount and its phaseout, what the rationale was for eliminating that program?

Mr. SCHEEF. I am too young to know that.

Mr. MORAN. Thanks very much.

Mr. PARKERSON. I am trying to remember, but most of it had to do with restructuring of the whole program and I think, basically, because of APH coming into existence. My memory is that because of APH that that was eliminated. They thought that that would cover——

Mr. MORAN. That would be all-encompassing, that you didn't need performance-based discount?

Mr. HANSON. I support what Mr. Parkerson says. I was highly involved in the development of the APH program and the concept at that time, even though it may have been flawed, was that APH would deal with many of the issues that the performance-based discount handled. In hindsight, we may have been in error in walking away from that. That is what happened.

Mr. MORAN. Let me ask another question related to history. What is the rationale for a GRP—maybe this is Mr. Scheef. You were most adamant about its elimination or the need to reform the program. Why did RMA develop that type of policy?

Mr. SCHEEF. I am sorry, Mr. Chairman, I don't know the answer.

Mr. MORAN. Perhaps a better question for RMA, unless there is other historic minds at this table, we will find out an answer. On the reinsurance issue, Mr. Brost, effects of the hurricane season in 2005, significant consequences to the reinsurance industry?

Mr. BROST. It was actually the largest hurricane loss year in its history. I think I have got some notes here, if I can refer to them.

Mr. MORAN. Certainly.

Mr. BROST. Clearly, 2005 will go down with the most hurricane losses in the history of the United States and again, these numbers are on my fingertips here. So I will not let my secretary go for filing—what I want to do, because I have actually got some hard numbers in here that you might want to hear. I will guesstimate those. I believe the losses in 2005 were in the area of $53 billion, notably Katrina; Wilma's name is mentioned, as well. Part of that you would have to go back to 2004 and back to, I think it was 1993 for neck-and-neck years of about $22 billion. Yes, it certainly made a dent in the reinsurance communities.

The effects were pretty varied. You would see companies losing maybe, let us say three-quarters of a year's earnings; others had an actual depletion in their capital base. You may have read that there is a lot of new capital that has entered the reinsurance market, upwards of $8 billion, a lot of that being located in Bermuda. That is opportunity capital. They are out there thinking OK, these catastrophe reinsurance rates are pretty juicy, i.e., the opportunity is there, and that is why that capital is there. Yes, some of it was expended last year. The overall health of the reinsurance industry, I would say, is good. Yes.

Mr. MORAN. Thank you. Let me go back for a moment again to PRP and Mr. Hanson, your testimony was about that crop insurance is a service-based and not a price-based competition. This question, probably also for Mr. Scheef, if PRP was further delayed are there types of discount programs other than what we have talked about on the performance-based discount, are there other types of discounts that you believe are appropriate?

Mr. HANSON. At this point in time, I couldn't identify one, specifically. Obviously, you understand the dividend programs that are being proposed, but I guess I see a number of concerns in that area and it will take considerable effort to make sure that those are fleshed out, too, but as far as specific recommendation, today, Mr. Chairman, I couldn't give you one.

Mr. MORAN. Let me just dwell on this point for a moment longer. I think, as you said, everyone at the table would love to see farmers get a discount, less cost in their premium. A concern that I have had in the past or the concern that I have had is really related to my experience as a Member of Congress who represents a very rural district. Money is more likely made and service is more likely provided to larger communities, to concentrations of population; to larger businesses rather than small, and so my concern about the premium discount program has been one, is the consequence that it may have to my smallest farmers, to those who have the most difficulty in being able to pay for crop insurance. We see this kind of concept all the time. It is like how do we keep a post office in a small town? It is more likely that FedEx can make money delivering to Chicago than it can to my hometown. And is that a legitimate concern with the overall concept of the premium reduction program? Am I missing something? Is this a legitimate concern?

Mr. HANSON. One of our major concerns has been cherry picking in which, obviously, it becomes easier for an agent and a company to offer premium reduction plans or even offer a policy to a larger policyholder. And it takes just as much money from an agent's standpoint and a company standpoint to administer the policy of a small person versus a large farmer. So one of the concerns from the agency standpoint is if I offer a premium reduction plan or a premium reduction along the way the rules are, can I afford to give the same service to that small farmer that I gave to the large one and even though from an honesty standpoint, I believe all of the members of the associations I represent try to do that. We feel that if it is promulgated any further and continued as now the rules are written, the tendency will be to back away from that service on the smaller producer.

Mr. MORAN. Mr. Parkerson.

Mr. PARKERSON. Again, I think that Bill is pointing out an important fact and that is that it does, in fact, encourage some discrimination between the little and the big, as you had indicated. But it also takes quite a bit of monitoring from the company's standpoint and from RMA to be able to determine whether this producer will be able to receive a discount 2 years or 18 months from now, and that is, if you are interested in having him paying his bill, he has got to pay his bill now at the end of the year or he will end up on an ineligible list and he can't be sitting there saying I am waiting for my discount so I can pay my bill. That isn't going to work. So that is one of the issues that you have got to think through. If we are going to develop discounts, they have got to be immediately effected by the producer so that he can see them and that is something that we all, I think, need to take a look at and see how efficiently that can be done to deliver a discount to the individual farmer.

Second, in the back of my mind, you asked about GRP. GRP was actually, I believe, developed by several economists and it was developed, more or less for the fact of trying to eliminate fraud, waste and abuse. Their theory is, in which it is a fact, it is pretty hard to sometimes alter a county and its total amount of production, so the theory is there basically because of fraud, waste and abuse or at least that was part in the background of trying to come up with that program.

Mr. MORAN. Thank you very much for all your answers. I am about to conclude this hearing, would give any of you the opportunity to indicate anything else that you would like, some question that has been raised or something you heard today that you would like to report or comment on. Mr. Brost.

Mr. BROST. You asked earlier about the impact of the hurricanes on the reinsurance industry and we talked about the dollars of claims that originated from that. One of the knockoffs that is going to affect the insurance industry going forward, and the reinsurance, but the insurance industry is when all of these companies buy reinsurance, there are all kinds of models that are trying to determine what your claim frequency, hurricane frequency claim might be. And these models, both from the rating agencies, the AM Best and Standard and Poors, and even the companies that have the models themselves, there are several, are can I say recalibrating these models so that—Katrina really surprised a lot of people in how significant that damage was, just the insured loss part of it.

So you are seeing discussions nowadays about demand surge, for example, which is to say supply/demand surge when something hits, for example, New Orleans. All of these, there are many aspects of these models that are being recalibrated so that they are putting, if you can compare the old version to the new version, the new version will say there are going to be more hurricane losses; as a result, you need to have sufficient and beefy capital, if I can say it that way, and as a result, that, too, may play into the MPCI arena, good or bad. Where is our Hurricane Katrina lurking out there where we are going to, this is soybean, for example. Again, as people look at models, look at ROEs, readjust one of the numerators or denominators, it can affect the agricultural sector.

Mr. MORAN. Thank you. Anything else, Mr. Parkerson?

Mr. PARKERSON. Chairman Moran, I would like to also ask, I know fraud, waste and abuse is a large issue that often is probably put before you and for this industry. We are going to have an industry program May 22 and 23, hopefully with a lot of good information on how to spot, check and reduce all of it and if I could take this liberty, I am going to offer you an invitation. It is on a Monday/Tuesday and as I know you pass through almost every weekend, I will get with Tyler, but we will see if we can't get you scheduled to maybe say a few words on behalf of what your opinion should be on this and what you would like to see the industry do to eliminate the three big words of fraud, waste and abuse.

Mr. MORAN. Mr. Parkerson, thank you for the invitation. I intend that this subcommittee will have additional hearings on a wide array of crop insurance issues, but that is clearly one of them. We want to get a better handle on understanding of how data mining is working and I think there are some success stories there that need to be told and so this subcommittee has a general interest in trying to ensure the integrity of the crop insurance program. We look forward to working with you and others to make sure that is the case. And in regard to PRP that we have talked a lot about today, I think the goal has to be is there a premium reduction plan, perhaps we ought to use some other set of words, that is advantageous to farmers but at the same time is advantageous to the entire system, that is beneficial to a wide array of farmers and strengthens the crop insurance industry in a way that there is a benefit to all and look forward to working with you and RMA and others in regard to trying to achieve that goal.

Mr. HANSON. Mr. Chairman, I can share with you that a group that we call the Crop Insurance Working Group that is here in DC is working together representing companies and agents and in essence, are trying to come up with something that can be offered as an alternative that meets the concerns that you have heard expressed here today. So we look forward to working with RMA and with the committee and being able to come up with something that meets the needs of farmers and still can be administered fairly and equitably.

Mr. MORAN. Mr. Hanson, Mr. Parkerson, Mr. Brost, Mr. Scheef, thank you very much for your testimony. Thank you for joining us, delighted to have you here and I appreciate the effort that you made, not only to be with us, but to prepare intelligent testimony. With that, without objection, the record of today's hearing will remain open for 10 days for the opportunity to receive additional material and supplementary written responses from witnesses to any question posed by a member of this panel. The hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 5:15 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF KEITH COLLINS

Mr. Chairman and members of the subcommittee, thank you for the opportunity to join Administrator Gould today to report on the status of the Federal Crop Insurance Program. My comments today are from the perspective of the Board of Directors (Board) of the Federal Crop Insurance Corporation, which I chair. The Board has general management responsibility for the Federal Crop Insurance Corporation (FCIC).

At the outset, I would like to acknowledge the outstanding efforts and accomplishments of the FCIC Board. In addition to myself, current voting Board members include J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services; John Askew, a producer from Iowa; Frank Jones, a producer from Texas; Tim Kelleher, a producer from California; Luis Monterde, a producer from Mississippi; Bill Classen; a resident of Iowa with expertise in the insurance industry; and Mike Pickens, an attorney from Arkansas with expertise in insurance regulation. Risk Management Agency (RMA) Administrator Eldon Gould is Manager of FCIC and a nonvoting member of the Board. The Board also greatly benefits from the assistance of Floyd Gaibler, Deputy Under Secretary for Farm and Foreign Agricultural Services, and Brent Doane, Secretary to the Board.

Since the Agricultural Risk Protection Act (ARPA) was signed into law in mid 2000, the Federal Crop Insurance Program has undergone a number of changes that have made crop insurance more popular with producers and a more reliable and versatile risk management tool. In 2000, prior to ARPA, participation in the program was high based on acreage covered, but producers generally had low levels of coverage, with many insured at the catastrophic (CAT) level, which indemnifies only 27.5 percent of the value of production in the event of a total loss. CAT coverage is minimal and many producers need more coverage to permit financial recovery in the event of a major loss. In addition to low coverage levels, farmers in the Northern Plains had suffered multiple year crop losses, which reduced their guarantees for the next year, which are based on their actual production history (APH yield). The 1998 drought in Texas and the Southeast and subsequent natural disasters triggered repeated ad hoc disaster assistance programs in 1998, 1999, and 2000. Thus, an important goal of ARPA was to address low coverage levels and improve programs generally to obviate the need for ad hoc disaster assistance. With tools provided by ARPA, the RMA and the Board have worked together to build a stronger, more effective crop insurance program. While we believe the program has been significantly strengthened, a perceived need for ad hoc disaster assistance has not yet been eliminated.

KEY PARAMETERS ESTABLISHED BY ARPA

ARPA reforms included increased premium subsidies for all levels of coverage, making crop insurance more affordable for farmers and encouraging higher participation and coverage levels. ARPA also authorized coverage for livestock on a pilot basis. ARPA streamlined the process that encouraged private sector development of new products by clarifying and placing time limits on product approval and by allowing developers of successfully approved products to be reimbursed for their research and development costs. ARPA also emphasized new ways to control fraud, waste, and abuse.

CROP INSURANCE TODAY

For the 2005 crop year, there were 1.2 million Federal crop insurance policies in force with a liability of over $44 billion covering 246 million acres and 320 commodities. This compares with 1.3 million policies with a total liability of $34 billion covering 206 million acres for the 2000 crop year, just prior to enactment of ARPA.

While we have seen expected growth in insured liability for the big row crops since 2000, we have also seen an increase in coverage for many specialty crops. Insurance products that offer whole farm or revenue protection have also shown growth, with the Revenue Assurance plan leading the way by increasing total liability from under $700 million in 2000, to $13.5 billion in 2004. Compared with the 2000-crop year liability level, Group Risk Income Protection (GRIP) has increased tenfold in liability and the Adjusted Gross Income (AGR) plan of insurance has increased by over 30-fold.

Since the increase in premium subsidies under ARPA, more farmers are buying levels of coverage above CAT. In 2000, CAT coverage accounted for 21 percent of the program's total liability. In 2005, 16 percent of liability was at the CAT level. Buy-up levels of insurance increase the possibility of financial recovery following a severe crop loss for most farmers. Some producers may find that CAT or similar low coverage levels offer an optimum level of coverage for their business, such as producers having crop income that is only a small part of their farm income, facing very infrequent losses due to natural disasters, having sufficient assets to self insure, or being able to take proactive measures to reduce natural disaster risks. However, for most producers, buying policies with increased buy-up coverage appear to be necessary to allow them to move away from reliance on Government disaster assistance and be able to accept greater responsibility for managing the risks they face.

The actuarial performance of Federal crop insurance has steadily improved over the years. During 1981–1990, the loss ratio, which is total indemnities divided by premiums, averaged 1.53. During the 1991–2000, the loss ratio declined to an average of 1.07. And during 2001–05, with 2005 being an estimate, the loss ratio has averaged an even lower 0.93. Over time, premium rates have increased to cover expected losses. Part of the increase in premium rates was due to the assessment of historical experience and establishment of target rates by RMA to better cover expected losses, and part of the increase was due to changes in the types of policies purchased by producers, including more buy-up coverage. The increase in premium subsidies under ARPA also increased participation, drawing more low risk producers into the program, thereby reducing adverse selection and improving actuarial performance.

An important principle for the Board is, "USDA does not sell a single crop insurance policy." Federal crop insurance is entirely delivered to producers by private insurance companies (companies). Over time, some companies have exited the business, others have merged or been acquired, and new entrants have joined the program. The Board and RMA serve as regulators of this private sector delivery structure, which must be efficient and financially healthy if the Federal Crop Insurance Program is to succeed. Today, RMA has a Standard Reinsurance Agreement (SRA) with the 16 companies that constitute the public-private partnership for the delivery of Federal crop insurance. The SRA defines the risk sharing agreement between the Government and the companies that is crucial to the efficient operation of the program. By being able to share in the underwriting gains, companies have an incentive to participate in the program and expand sales, and by sharing in the losses, they have an incentive to ensure policies are properly underwritten and loss adjusted.

The SRA also establishes the reimbursement to the companies for administrative and operating (A&O) expenses in accordance with the provisions of the Federal Crop Insurance Act (Act). For the 2006 reinsurance year, the rate at which we reimburse the companies' A&O costs has changed compared with earlier years. In 2000, the average reimbursement rate was 25.7 percent of net premium. In 2005, the average was 21.8 percent of net premium, and for the 2006-crop year, the average reimbursement is 20.7 percent.

For the 2005 insurance year, A&O reimbursements are estimated at $830 million, up from $550 million in 2000. Despite the decline in the A&O reimbursement percentage, the total dollar reimbursement is up because of the increase in premium per policy, primarily due to higher average coverage levels, greater purchase of revenue insurance, and RMA rate adjustments. Underwriting gains for the companies are up as well, rising from $270 million in 2000 to $870 million estimated for 2005. The combined increases in A&O and underwriting gains have helped improve the financial performance of the companies and encouraged new entrants into the program. Having highlighted the large increases in companies' gross returns, it should be noted that a major national weather catastrophe could lead to very large underwriting losses in any year.

One of ARPA's significant provisions was reform of the development and approval process for new insurance products. In the mid 1990's, when companies introduced new products, such as Crop Revenue Coverage and Revenue Assurance, they shouldered the research and development costs, and their products were immediately adopted by their competitors without compensation. Section 522(b) of the Act provided that private entities may be reimbursed for research and development and maintenance costs for 4 years if the product is submitted under section 508(h) of the Act (508(h) products) and approved by the Board for use in the Federal Crop Insurance Program. A total of 59 proposals have been submitted to the Board under section 508(h) of the Act since mid 2000. Of that total, 33 have been approved by the Board, seven have been disapproved or a notice of intent to disapprove has been issued, 13 were withdrawn by the submitter, four were returned or deemed incomplete, and two have been tabled pending further action. Approved 508(h) products range from a hybrid seed price endorsement to livestock price and revenue products to AGR-Lite.

BOARD ACTIVITIES AND PRIORITIES

Management of the FCIC is vested in a Board of Directors subject to the general supervision of the Secretary of Agriculture. Board members take actions necessary to protect the interests of producers, improve the actuarial soundness of the program, and apply program provisions to all companies and insured producers in a fair and consistent manner.

The Board carries out its business through public meetings held 8 to 10 times per year and other working sessions among its members. The Board has executed a detailed division of responsibilities between itself and RMA. With respect to those functions delegated to RMA, the Board regularly reviews RMA's performance. The Board also establishes the priority for RMA efforts to improve the operation of Federal crop insurance.

A high priority of the Board has been to work with RMA to deal with a large backlog of pilot programs that must be evaluated and then modified and continued, approved for permanent programs, or terminated. Many of these programs were initiated in the late 1990's to address perceived areas of insufficient insurance coverage, or they were authorized by ARPA. RMA currently administers 26 pilot programs for the 2006 crop year. Because pilot programs are new, they must be continually monitored to ensure acceptable performance, and if they are not, immediate corrections must be made. After a period of 3–5 years, a thorough evaluation is conducted on each pilot program and the results of the evaluation are brought to the Board for action. Of the pilots initiated in the late 1990's or under ARPA, the Board has voted to terminate four programs, extend two programs to gain additional experience, and make five pilot programs permanent. In addition, the Board has revised and made available three new programs. There are final evaluations under way on eight pilot programs upon which the Board expects to make decisions within the next 2 years. Generally, the process of going from an idea to a permanent program takes many years for an FCIC-originated product. As a result of the limitations on RMA to conduct research and development contained in the Act, the process includes a contracted feasibility study, a contracted policy development study, 3–5 years of piloting the program, a contracted evaluation study, and conversion to a permanent policy through notice and comment rulemaking.

One difficult example the Board dealt with was the sweet potato pilot program. It began in 1998 in eight counties to assist growers with a crop requiring high capital investment and operating expenses combined with limited margins. Loss ratios were unacceptably high, indicating rating, underwriting and loss adjustment problems, so the Board approved a series of changes with the 2003-crop year and asked RMA to contract to develop a new sweet potato crop insurance pilot. A revised sweet potato pilot came before the Board in July 2004, and after review, the Board terminated the existing sweet potato pilot program in October 2004 and implemented the newly developed pilot.

In deciding the fate of a pilot program, as for any decision the Board makes, the Board considers whether its actions are in the interests of producers and the crop insurance program, whether such action can be implemented in an actuarially sound manner, and whether program integrity will be protected. A recent complex issue for the Board and RMA is the Florida Fruit Tree Program. The Board voted last fall to implement numerous program improvements for 2006 for the existing pilot program, which was not working well for Florida citrus producers. The changes included an occurrence loss option and an option for comprehensive tree value, which covers the lost asset value of destroyed trees. While the policy provided coverage for losses due to citrus canker, indemnification was predicated on an eradication order and the destruction of the trees, which was required if citrus canker was discovered.

However, following last fall's hurricanes, the spreading of citrus canker changed the assessment of expected losses on which the premium rate structure of the policy was calculated. In addition, the policy of requiring the destruction of the trees is now changing, and we have found it necessary to modify the policy again. The Board has met with citrus canker experts and RMA has been working closely with other USDA agencies to monitor the changing approach to controlling citrus canker in the State of Florida. As a result, the Board has authorized RMA to move forward with policy modifications that will provide new policy features for losses that are not related to citrus canker but still offer coverage for citrus canker in a responsive and prudent manner considering changes in the citrus canker program. The details of the new policy are still being developed.

Another issue of concern to the Board is implementation and maintenance cost for insurance products that do not sell well and thus offer limited benefits to the producer. The Board has requested additional information on potential sales and costs from submitters before considering a product for approval and from RMA before taking action on pilot program evaluation. The Board considers whether the product could be better structured to meet the needs of producers and looks closely at the cost of research and development, the cost of maintenance, and the administrative complexity of a program. High costs to USDA and the companies, which include agent training costs, relative to policies sold has been a factor in the Board's determination of whether approval is in the best interest of producers. When rejecting a product or terminating a pilot program, the Board also considers alternative risk management tools available to the producers, including the availability of other products, such as AGR and AGR-Lite, which cover all of the farm's income from production. The Board is hopeful that continual improvements in AGR and AGR-Lite will be part of the answer to the rising expense of administering a large number of crop-specific programs that generate a low level of sales.

In November 2005, the Board voted to adopt improvements in AGR and AGR-Lite. The 2004 and 2005 crop years saw little change in the participation levels of AGR with both years having around $300 million in liability. AGR-Lite increased from $3 million to $13.4 million in liability between 2004 and 2005. Recent Board actions taken on AGR and AGR-Lite include reducing the number of commodities required for higher coverage levels and discontinuing the 75 percent coverage level/65 percent payment rate option. AGR and AGR-Lite may become a valuable risk management tool especially for diverse farms and livestock operations. However, these are complex policies that require considerable agent time and expertise to service and sell. The Board has been interested in simplifying these policies but has found that task difficult to this point.

There are areas where simplification is proceeding. For example, the Board worked with RMA to initiate development of a proposed rule combining a number of existing APH and revenue insurance plans into one consolidated plan of insurance. The producer will be able to choose a yield-based or revenue-based product from the options in the combined policy according to individual needs.

There has historically been a key gap in insurance coverage of livestock. ARPA authorized pilot programs to evaluate effectiveness of risk management tools for livestock producers with an annual spending limit of $20 million. The first livestock pilot was offered in 2003 for swine in Iowa. We now have Livestock Risk Protection (LRP), which covers hog, fed cattle, and feeder cattle prices, and Livestock Gross Margin (LGM), which has covered the margin between hog prices and feed costs. LGM is being extended to fed and feeder cattle in 2006. In the 2005 crop year, the FCIC insured over 540,000 hogs under the LGM program with a liability of $51 million. The LRP program for 2005 insured over a quarter million head of livestock with a liability of $104 million. Both programs had very low loss ratios. Recently, the Board and the submitter of a LRP pilot program for lamb agreed to table consideration of this pilot to permit academic and industry experts to evaluate the concept of econometric modeling as a basis for establishing an insurance guarantee for those commodities for which there is no established market that permit price discovery. This study could affect not only the proposed LRP Lamb Program but other products for which an established commodity market does not exist.

The Board made development of insurance products for pasture and rangeland a top priority for addressing the needs of livestock producers. There are over 400 million acres of rangeland, 120 million acres of pasture, and 62 million acres of hay in the United States. Because pasture, rangeland and forage situations are so diverse across the country, existing insurance products are limited in their usefulness. Existing products are based on an individual's forage production or on NASS estimates of hay production. Working with RMA, in January, 2006, the Board culminated a several year process of development by approving two pasture, range, and forage pilot programs. The new insurance products are area based products that trigger indemnities based on indexes. One index is based on accumulated rainfall and the other is based on a temperature-adjusted measure of vegetation obtained from the National Oceanographic and Atmospheric Administration. Both products will use new technology to help solve the problem of the inability to directly measure forage production across the diverse range and pasture settings on U.S. farms and ranches. Each pilot program will be offered in 2006 in six States.

The issue of premium discounts has taken considerable Board time in the last few years. Section 508(e)(3) of the Act provides the opportunity for an insurance company in the program to offer a premium reduction plan (PRP). The Manager of the FCIC approved one company to offer PRP for the 2003 crop year, and you are aware of the controversy that ensued. Then, a larger number of companies applied to be eligible to offer the program, raising implementation issues. The Board determined that rulemaking was necessary to establish the application, approval, and payment process. A proposed rule was published, and based on the comments received, RMA elected to publish an interim rule to implement the PRP program. Congress subsequently prohibited RMA administrative expenses to be spent on considering applications to offer PRP for the 2007 insurance year. The Board continues to work with RMA to monitor PRP for the 2006-crop year.

The Board has also been involved in two significant contracted research efforts to address program concerns. One effort is to address the effects of declining yields on producers' abilities to buy sufficient insurance coverage for the next year. Two separate development contracts are underway on potential solutions to declining APH yields due to successive years of crop losses. One contractor is developing an indexed yield approach for corn, cotton, soybeans, and wheat. Another contractor is developing alternatives to the current APH yield methods that limit the amount yields may drop for annual crops and analyzing applicability for perennial crops. A feasibility report and presentation is scheduled for RMA for May 2006.

Six years is not a long time in the world of crop insurance where long time series of data are needed to make sound decisions. Yet, much has been accomplished since ARPA was enacted. It has not, as hoped, prevented ad hoc disaster assistance and it has also not generated the volume of new product submission from the private sector that may have been envisioned. But, implementation of ARPA has significantly strengthened the risk protection tools available to producers and the actuarial performance of the program. As we look forward to a new Farm Bill and the next generation of farm programs, the need for risk management tools such as crop insurance will not lessen. The attractiveness of insuring an uncertain crop outcome is the certainty of the financial result for the insured producer. With adequate protection, farmers need not jeopardize their livelihood as a result of natural disasters. The FCIC Board will continue to diligently examine, encourage, and demand improvements in insurance products that are in the interest of producers, that are actuarially appropriate, and that protect the interests of the American taxpayer. That completes my comments.

Statement of Eldon Gould

Mr. Chairman and members of the Subcommittee, I am Eldon Gould, Administrator of the Risk Management Agency (RMA). I assumed this position in November of last year. I am a life-long farmer in northern Illinois, with a 1,500 acre corn, soybeans and wheat—farm and a 700 sow farrow-to-wean hog operation. I am particularly pleased to appear before you today, which happens to coincide with the major sales closing date for spring crops.

My role here today is to report on the progress and challenges of the Federal Crop Insurance Program and, in particular, to provide an update on our successes and challenges in implementing the Agricultural Risk Protection Act of 2000 (ARPA). In fulfillment of the mandates of ARPA, and under the direction of the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board), RMA continues to promote an aggressive agenda to bring new and innovative insurance products to the agricultural community, to validate the utility of current insurance products, to ensure outreach to small and limited resource farmers, to promote equity in risk sharing and to guard against fraud, waste and abuse within the program.

One of RMA's principal objectives is to make the crop insurance program more efficient and, it is hoped, less reliant on ad hoc disaster payments. However, in recent years Congress has passed four disaster bills covering six crop years and costing the Government about $10 billion. Therefore, the administration's 2007 Budget includes a proposal to link the purchase of crop insurance to participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection currently provided at the catastrophic level.

When I accepted this position, Secretary Johanns charged me with administering the crop insurance program in a timely and farmer-friendly manner. I take this charge very seriously. Cooperation and unity between the Federal Government and our insurance providers are necessary to meet our common goals of providing effective insurance products, processing timely and accurate claims when losses occur and identifying and eliminating fraud, waste and abuse in the program to the greatest extent possible.

In addition, effective outreach to our stakeholders and customers is necessary to identify attributes of the program that are working well and the aspects that need to be changed to improve efficiency and effectiveness. Administration of the crop insurance program requires all interested parties working together to identify viable insurance products and solutions that meet the needs of the agricultural community. Moreover, if the program is to continue to be successful, the checks and balances necessary to guard against the risks of fraud, waste and abuse need strengthening.

Last year marked a major milestone for the crop insurance program. We celebrated the 25th anniversary of the Federal Crop Insurance Act of 1980, which created the unique partnership between private insurance companies and the Federal Government within the crop insurance program.

The program has experienced extraordinary growth in the last quarter century. Through the private sector delivery system in crop year 2005, RMA provided approximately $44 billion of protection to farmers on approximately 370 commodities, covering nearly 80 percent of major crops for which we can determine total eligible acres within the United States. This coverage was offered through 22 plans of insurance and approximately 1.2 million policies insuring about 246 million acres. Attached to my testimony are several charts that provide further background and highlight the growth of the Federal Crop Insurance Program under ARPA.

In 2004, crop insurance provided approximately $3.2 billion in indemnity payments to farmers and ranchers, including approximately $218 million for the four hurricanes in the Southeast and approximately $337 million for a brief freeze in the upper Midwest. For 2005, indemnity payments totaled approximately $2.5 billion.

The roles of crop insurance and RMA have evolved over the years, but our mission remains the same—to promote, support and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agriculture producers. RMA continues to improve and update the terms and conditions of existing crop insurance policies to improve coverage and efficacy of the policies, as well as to clarify and define insurance protection and the duties and responsibilities of the policyholder and insurance providers to enhance the understanding, use and integrity of the program.

The recently revised Standard Reinsurance Agreement (SRA), effective beginning in the 2005 reinsurance year, included key changes for the 2005 and subsequent reinsurance years. These entailed a lowering of the percentage rate of administrative & operating (A&O) expense reimbursement and a rebalancing of the risk sharing between the Government and the insurance providers. In addition, RMA enhanced the reporting and monitoring of insurance providers and their affiliates with respect to financial solvency and program integrity. To complement that enhancement, RMA has strengthened formal ties with State insurance regulators and the National Association of Insurance Commissioners (NAIC).

We now have 16 approved insurance providers selling and servicing crop insurance. Most of these insurance providers have requested authorization to increase the amount of premium they write and the number of States they intend to serve.

Since the SRA was signed, four new insurance providers have been approved. They are Austin Mutual and its Managing General Agent (MGA), Crop USA; the Westfield Insurance Company with its MGA, John Deere Risk Protection, Inc.; Stonington Insurance Company with its MGA, Agro National LLC; and Agrinational Insurance Company, with its MGA, Agriserve, Inc.

The 2005 reinsurance year was exceptionally profitable for the companies and their commercial reinsurers, with an estimated $850–$900 million in underwriting gain, a return on retained premium of approximately 30 percent. In 2004, the companies had an estimated $700 million in underwriting gain and a return on retained premium of approximately 22 percent. In 2003, companies had an underwriting gain of $380 million, with a return on retained premium of about 15 percent. In 2002, companies had an underwriting loss of $46 million, with a 2 percent return on retained premium. A&O reimbursement rose from $734 million in 2003 to $891 million in 2004, with an estimate of $830 million in 2005.

Now I would like to provide an update to the Subcommittee on the following key issues.

RMA PROGRAM ISSUES

- Hurricane Crop Losses
- Soybean Rust
- Multi-year Disasters/Declining Yields
- Information Technology
- Program Integrity
- Conflict of Interest
- Pasture, Rangeland, Forage and Hay Initiatives
- Program Expansion and Market Penetration
- Florida Fruit Tree Pilot
- Mutual Insurance Company/Cooperative Issue
- Personal T-Yields
- Missouri River Issue
- Sectional Equivalent Written Unit Agreements
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HURRICANE CROP LOSSES

Like other Federal agencies, RMA had a role in responding to victims of last year's hurricanes. When Wilma, Katrina and Rita hit the Southeast and Gulf Coast areas, RMA's delivery system was available to respond to the crop losses, ensuring the timely disbursement of payments.

In addition, RMA put in place emergency loss procedures to help producers who were subject to cancellation or termination dates for indebtedness or unpaid premium. This change allowed producers who might have become ineligible for the 2006 crop year to have additional time to either make payment of the premium due or execute a payment agreement with their insurance provider. This primarily impacted about 1,500 crop insurance policies that earned premium mostly on nursery, wheat, sugarcane and oat crops. An estimated 500–600 insured producers were impacted.

The following are the current 2005 loss estimates of the hurricanes:

Hurricane/States Impacted/Liability/ Estimated Losses

Wilma/Florida/ $1,196,400,000/$194,000,000
Katrina/ Alabama, Florida, Mississippi, Louisiana/$525,710,000/$129,709,000
Rita/Arkansas, Louisiana, Texas/$130,183,000 $15,447,000
Total: (Liability)$1,852,293,000 (estimated losses) $339,156,000

SOYBEAN RUST

Asian soybean rust (*Phakopsora pachyrhizi*) is a fungal disease that can quickly defoliate plants and reduce pod set, pod fill, seed quality and yield.

To ensure that producers know their rights and responsibilities under the soybean policy, RMA has augmented the information that insurance providers are required to provide to farmers through their agents. RMA's communications encourage insured producers concerned about the impact of Asian soybean rust to use good farming practices by seeking and following recommendations of agricultural experts to control soybean rust. RMA recommends that insured producers document the advice received and actions taken to combat this disease, and contact their agents on matters related to their insurance policies. Insurance providers have been asked to distribute this information to all soybean policyholders. Further, RMA—met often with commodity groups, crop insurance providers and their associations and agent—organizations to discuss several issues, including RMA's Manager's Bulletin that clarified good farming practices.

RMA is continually gathering up-to-date information and data regarding the spread and appropriate management of soybean rust. RMA participates in the National Soybean Rust Working Group and the USDA Soybean Rust Working Group. In addition, RMA monitors and participates as necessary in discussions among State and Federal agriculture agencies regarding preventative and control measures.

RMA also worked with other USDA agencies in creating the Pest Information Platform for Extension and Education to provide producers with information about additional legume pests and diseases. The nationally coordinated network assists producers in making crop management decisions that reduce pesticide input costs, reduce environmental exposure to pesticides and increase the efficiency and efficacy of pesticide applications. The risk management tool component of the network is an online, real-time data system that allows producers and their advisors to access the latest information, to the county level, of where there are confirmed disease and/or pest outbreaks. RMA funded the $2.4 million mapping tool, which includes frequently updated commentaries from State extension specialists and national specialists discussing immediate and projected risks and control options. Section 131 of ARPA provides authority for this Risk Management Development partnership.

The risk management mapping tool is helping to improve crop protection by educating farmers about risk-management strategies and providing timely information about good farming practices specific to current crop pest and disease risk status. Producers have the information needed so they spray only when the risk is imminent, and reduce the overall number of sprays or other pest control interventions. This tool increases producers' awareness of more precise management practices and provides documentation for potential crop insurance claims. Information is also provided to assist certified organic farmers in making decisions about planting schedules and geographic risk for disease and pest outbreak.

The soybean rust risk management tool is available online at *http://www.sbrusa.net*. USDA's Cooperative State Research, Education and Extension Service (CSREES), RMA and Animal Plant Health Inspection Service (APHIS) are working together to implement the system.

So far, no claims listing Soybean Rust as a primary or secondary cause of loss have been submitted.

MULTI-YEAR DISASTERS/DECLINING YIELDS

For most crop insurance plans, an individual insured's yield guarantee—approved actual production history (APH) yield—is principally based on a simple average of 4 to 10 years of actual yields. Producers and others, including Members of Congress, have suggested that insureds are underserved when guarantees decline following successive years of poor growing conditions. The reduction in guarantee can adversely affect the viability of future crop insurance coverage and discourage continued participation in the program.

Multi-year crop losses do create a problem, but the solution is complex, potentially costly and would require a legislative change for full implementation. In 2004, RMA solicited proposals for Alternative Methods for Mitigating Declines in Approved Yields Due to Successive Years of Low Yields. RMA's goal was to seek proposals for new or modified approaches to establishing approved APH yields that are: (1) less subject to decreases during successive years of low yields as compared to current procedures; (2) equitable across policyholders with differing average yields; (3) broadly applicable to all crops and regions; (4) affordable to policyholders; (5) feasible and cost-effective for RMA and insurance providers; and 6) actuarially sound.

Two separate development contracts are underway. In November and December of 2005, Science Applications International Corporation (SAIC) and AgriLogic, Inc. presented their research and development efforts to RMA. We are pleased to report both SAIC and AgriLogic continue to make progress on defining their approaches on mitigating the effect of declining yields.

SAIC is developing an indexed yield approach and has completed the development of long-term yield trends and premium rates for corn and soybeans. Similar work on cotton and wheat is expected to be completed soon. Approximately nine States are being proposed for an initial pilot program for corn, soybeans, cotton and wheat. Rate transformation work for cotton and wheat is expected to proceed quickly, following the completion of the corn and soybean work. SAIC is also exploring required adjustments that will need to be made to the APH program to accommodate spot losses or short dataset issues and developing procedures for updating the county expected yields. Lastly, an empirical estimate of rates for each crop will be conducted to assess the appropriate rate transformation. SAIC has scheduled a second presentation to RMA for May 2006. Implementation is targeted for the 2007 crop year, subject to approval by the Board.

AgriLogic is developing alternatives to the current APH yield methods that limit the amount yields may drop (yield floor and yield adjustments) for annual crops and analyzing applicability for perennial crops. Listening sessions are scheduled for early spring of 2006 with producers, agents and insurance providers in four targeted States. AgriLogic is currently discussing with RMA the rating analysis for the proposed APH supporting methods and impacts, and evaluating premium sufficiency. Additionally, AgriLogic is analyzing the various program components and providing a breakdown of specific policy and procedural issues. A draft feasibility report and presentation to RMA is scheduled for May 2006. Implementation of the first phase is planned for the 2007 crop year, subject to approval by the Board.

Information Technology (IT)

The 2007 Budget included a request for an increase of $1.0 million for immediate IT requirements that will support patch-work enhancements to the existing IT system. If RMA is to continue to pay out billions of dollars in indemnity payments, it is prudent and necessary to have a current and reliable operating system to deliver the crop insurance program. The system's last major overhaul occurred about 12 years ago. At that time, the crop insurance program offered seven plans of insurance, covering roughly 50 crops, and providing about $14 billion in protection. In 2005, protection was offered through more than 20 plans of insurance covering 370 crops, plus livestock and aquaculture, and providing over $44 billion in protection.

Several major changes also have occurred over the years in the way producers protect their operations from losses. In 1994, there were no plans of insurance that offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection and nearly 62 percent of the premium collected is for revenue based protection. In addition, ARPA authorized the development of insurance products to protect livestock. RMA has implemented several new livestock price protection products. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of these new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on an aging system.

ARPA also instituted new data reconciliation, data mining and other anti-fraud, waste and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases, which increases data storage costs and processing times, and increases the risk of data errors.

In light of this, an additional legislative proposal in the 2007 Budget is being offered to require the insurance providers to share in the cost to develop and maintain a new IT system. The insurance providers would be assessed a fee based on one-half cent per dollar of premium sold. The fee is estimated to generate an amount not to exceed $15 million annually. After the IT system has been developed, the assessment would be shifted to maintenance and would be expected to reduce the annual appropriation of the salaries and expenses account of RMA.

Program Integrity

RMA's Compliance function workload increased substantially due to the expansion of the Federal Crop Insurance Program and the implementation of ARPA. In order to address the increases, RMA is emphasizing preemption through better quality control and assurance, while still aggressively pursuing program abuse by assisting USDA's Office of Inspector General and the Department of Justice. Improvements in quality controls and investigations continue to be assisted by new and better technology, specifically the use of data mining, remote sensing, geospatial information technologies and other computer-based resources.

The renegotiation of the 2005 SRA signaled significant changes in the way RMA will ensure program compliance in the future. The SRA directs insurance providers to expend more resources on quality assurance and internal controls than ever before. The new SRA also recognizes that insurance providers have improved internal control processes in response to requirements of the Sarbanes-Oxley Act. The SRA permits the insurance providers to document and receive credit for their efforts rather than complying with a separate set of assurance mandates.

In conjunction with the new insurance provider quality control requirements, RMA Compliance has revised its work plans to reflect a more balanced approach between quality assurance and investigating program abuses. In a time of declining resources and increased responsibilities, effective internal controls provide a significant cost-benefit compared to identifying and prosecuting program abuse alone.

RMA Compliance personnel completed the first year of structured random policy reviews in 2005, and will soon begin the second round in the 3-year cycle of reviewing participating insurance providers. Compliance completes the random reviews, in conjunction with an assessment of each insurance provider's operational compliance, and uses the information to establish a program error rate under the Improper Payments Information Act of 2002. We would note that the administration requested funding for additional Compliance resources in the 2007 budget, mainly for the purpose of fully staffing our work in this area.

RMA is making significant progress in preempting fraud, waste and abuse through the expanded use of data mining. We have preempted millions of dollars' worth of improper payments and RMA continues to identify ways to reduce program abuse. RMA continues to use data mining to identify anomalous producer, adjuster and agent program results and, with the assistance of Farm Service Agency (FSA) offices, conducts growing season spot checks to ensure that new claims for losses are legitimate. These spot checks based on data mining have resulted in a significant reduction in anomalous claims for certain situations. Specifically, reduced indemnities on spot-checked policies were approximately $112 million in 2002, $81 million for 2003, and $71 million in 2004. Because mandatory funding for ARPA has expired, we urge reauthorization to provide funding for future data mining. We are optimistic about the long-term benefits of data mining in our compliance efforts and elsewhere should Congress continue this funding beyond FY 2006.

RMA is also using data mining to verify compliance with established rules and regulations. For example, data mining identified policies where a comparison of past claims and production data indicated that insurance providers had often failed to use claim production data to establish future approved yields, as required by regulation. RMA is providing this information to the insurance providers to assist them in correcting producer data for subsequent crop years. Insurance providers are only required to make changes when an error is found.

The General Accountability Office (GAO) audited RMA compliance activities in 2005, and recommended areas for improving our compliance efforts. The GAO made several recommendations that RMA accepted and is working to implement. However, RMA will not be able to accomplish certain GAO recommendations unless additional resources become available.

Compliance managers continue to concentrate on the mission-critical tasks of evaluating and improving new processes to prevent and deter fraud, waste and abuse in the crop insurance program. We have dedicated significant resources to building and adapting a reporting and tracking system to complement and integrate the oversight mandates established by ARPA.

While RMA, FSA and the insurance providers have preempted tens of millions of dollars of improper payments through these and other measures, RMA is constantly identifying ways to balance competing needs to—make our products—fraud-proof while seeking to provide responsive, useful risk protection to farmers. We still have work to do and improvements to make, but we—are making good progress in our fight against program abuse.

CONFLICT OF INTEREST SUPPLEMENTARY GUIDANCE

RMA is preparing to issue a Manager's Bulletin to supplement an Informational Memorandum it issued in October 2005. This Manager's Bulletin contains further guidance to assist insurance providers in implementing changes to the SRA regarding conflict of interest reporting and prohibited conduct. RMA's supplemental guidance—would promote program integrity and ensure adequate internal controls based on the identification of certain problems in past audits and investigations of fraud, waste and abuse in the program. RMA's guidance—recognizes the—agent's role in advising producers on their benefits and responsibilities with regard to their crop insurance policies.

PASTURE, RANGELAND, FORAGE AND HAY INITIATIVES

RMA previously awarded four contracts for research and development of new and potentially innovative crop insurance programs for pasture, rangeland, forage and hay. There are approximately 588 million acres of pasture and rangeland and 61.5 million acres of hay land in the United States. RMA is pleased to report that positive progress continues on three contracts. At the January 18, 2006 Board meeting, two proposals were approved for pilot program in the 2007 crop year.

RMA and Grazingland Management Systems, Inc. are working on educational materials, final program materials and processing systems development for implementation of the pilot programs. The pilots will be available in select counties in Oregon, Idaho, Colorado, North Dakota, South Dakota, Oklahoma, Texas, South Carolina and Pennsylvania for the 2007 crop year. New York and Alabama may be added in 2008, subject to Board approval. RMA plans to issue program materials to insurance providers before June 1, 2006 in order to commence fall sales. RMA continues to work with the contractors on one remaining contract, which is estimated to come before the Board within the next two months for consideration of independent expert review. Further development of the other remaining contract has been terminated due to technical constraints with the product design.

PROGRAM EXPANSION AND MARKET PENETRATION

As Dr. Collins has testified, RMA and the Board have proceeded expeditiously with the review and approval of new plans of insurance, as outlined by ARPA. RMA and the Board have reviewed priorities and schedules for product development and have determined that, barring any significant unforeseen hurdles, within the next 5 years a risk management product will be available to potentially cover approximately 98 percent of the commercial value of U.S. crops. That is not to say that the task of having effective and useful products will be complete. Traditional APH products have been around for years, and we are still finding ways to make them more effective and useful for producers. In addition, products to efficiently address risk management needs for livestock, specialty crops, pasture, rangeland, forage and hay, as well as to deal effectively with extended periods of drought, are in their infancy and will need significant maturation.

Since the enactment of ARPA, RMA has aggressively expanded availability of existing crop insurance programs to producers. From 2001 to date, we have added 11,215 county crop programs to those available to farmers. In addition, the Board has reviewed and approved seven new private sector products under section 508(h) of the Federal Crop Insurance Act (the Act), converted six pilot programs to permanent status and recently approved three new pilot plans of insurance, with several more new pilot programs pending independent expert review and Board action in FY 2006.

RMA has 26 active pilot programs in various stages of pilot program development. The pilot programs for crop year 2005 are Adjusted Gross Revenue (AGR) and AGR-Lite, apple pilot quality option, avocado APH, avocado revenue, avocado/mango trees, cabbage, cherries, citrus (dollar), coverage enhancement option, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market beans, the Income Protection plan of insurance, mint, mustard, onion, pilot stage removal option, processing chile peppers, processing cucumbers, rangeland, raspberry/blackberry, strawberries, sweet potatoes and winter squash/pumpkins.

After about three to 5 years of experience, pilot program evaluations are performed to determine whether the plans of insurance should be converted to permanent programs and offered in all counties where the crop is routinely grown. During 2005, RMA completed evaluations on eight pilot programs including: cherries, chile peppers, California citrus, processing cucumbers, strawberries, winter squash, AGR and avocado revenue. After consideration by the Board, winter squash and processing cucumber were terminated. Because of problems with their structure and performance, cherries, chile peppers and California citrus were continued as pilot programs until the 2006 crop year, and strawberries were extended through the 2008 crop year. Consideration of the evaluations of AGR, Apple Quality Option, Onion Stage Removal Option and avocado revenue will come before the Board in fiscal year 2006.

On December 15, 2005, I approved the Combination Regulation, and it was sent for Departmental review. The proposed rule combines the existing APH, Crop Revenue Coverage (CRC), Income Protection (IP), Indexed Income Protection (IIP) and Revenue Assurance (RA) plans of insurance into one consolidated plan of insurance. The final rule is targeted to be effective for the 2008 crop year.

Possibly the greatest challenge and litmus test of the effectiveness of crop insurance is whether it is bought and used by farmers and ranchers, and whether the coverage they elect is sufficient to cover the risk of major loss. These factors are also important to the private sector delivery system and the commercial reinsurance markets' acceptance of our products in determining whether products are attractive enough to the private sector to promote and support them.

Producer awareness, appreciation, proper selection and use of risk management products are important. RMA has used the authority and funding provided in ARPA to expand and enhance education and outreach activities in partnership with community based organizations, universities, extension service and others. We believe that these efforts, in combination with local and Federal agencies and the efforts of the private sector, have contributed to the strong record of expansion of the program since the passage of ARPA.

FLORIDA FRUIT TREE PILOT

A new Florida Fruit Tree (FFT) crop insurance program was approved for the 2007 crop year that will cover citrus and tropical trees. Sales were to begin on May 1, 2006. However, due to changes to the citrus canker program administered by APHIS and the State of Florida, the new program may need some modification before it is implemented. The Florida Department of Agriculture, APHIS and producer groups will be developing the new citrus health program over the next few months. The new FFT policy to be offered must function properly in an environment that is uncertain and likely to change during the coming season.

The new policy for FFT provides improvements that will help producers better cope with hurricanes and freeze. RMA is actively working with APHIS to address the canker eradication issues. RMA will be working with the citrus industry and the Florida Department of Agriculture to determine the best insurance policy design and approach to cover canker losses.

MUTUAL INSURANCE COMPANY/COOPERATIVE ISSUE

The SRA prohibits insurance providers from providing rebates to producers. A "rebate" is defined as a direct or indirect benefit provided to an eligible producer contingent upon the purchase of an eligible crop insurance contract from a company or its affiliate. However, there are two exceptions to the SRA's "anti-rebating" provision. One exception is Premium Reduction Plans, outlined in section 508(e)(3) of the Act. The other is outlined in section 508(b)(5)(B) of the Act and involves cooperative selling.

Specifically, section 508(b)(5)(B)(ii) states: "A licensing fee or other payment made by an insurance provider to the cooperative or trade association in connection with the issuance of catastrophic risk protection or additional coverage to members of the cooperative association or trade association shall be subject to the laws regarding rebates of the State in which the fee or other payment is made."

To qualify to pay a dividend or other such payment to producers:

- The entity paying the dividend or other payment must qualify as a cooperative or trade association;
- The entity must receive a licensing fee or other payment from the approved insurance provider or its affiliates (could be commission, etc.);
- Dividends or other such payments can only be made to members of the cooperative or trade association; and
- The payment of dividends or other such payments must be authorized by State law.

In addition to the above, payments must be made in accordance with section II.A.4 of the SRA, which states, "The term 'cooperative association' means a farmer or rancher-owned and controlled business that is recognized by the USDA, including FCIC, as a cooperative related to agriculture." This means that before any dividend or other payment can be made to a producer, the entity must obtain a determination from the Department that it qualifies as a cooperative related to agriculture. This applies to all entities, including mutual insurance companies owned by policyholders. Such determinations are made by USDA's Rural Development Agency.

The major factors considered are whether the entity is farmer and rancher owned and controlled, whether the dividends are paid based on usage rather than to investors based on investment, whether members only get one vote and whether a majority of the cooperative business is done with members. Evidence must be provided that the payment does not violate State rebating laws. Insurance providers must submit an Exhibit 27 from the insurance provider's Plan of Operations. Exhibit 27 includes a list of States in which payment is sought to be made and a letter from each respective State Insurance Department stating that the payment does not violate anti-rebating laws.

Personal T-Yields

RMA has met on various occasions with spring/durum wheat producers as well as representatives of various commodity groups in North Dakota to discuss implications on APH yields due to crop rotational practices employed in North Dakota. The impact on an individual producer of RMA dividing an existing APH database by crop practices or types, such as dividing spring wheat into spring wheat and durum wheat, is compounded due to the crop rotational practices employed by North Dakota producers. RMA has worked closely with these producers' representatives to determine a viable option for pilot testing an alternative approach to using transitional yields (T-Yields) when fewer than 4 years of records are available in individual APH databases. A pilot program that will test establishing insurance yields based on the history of the producer from his/her entire operation rather than solely the history from each individual unit in which the producer has grown the crop was requested.

The Board authorized a pilot program for the 2007 crop year for producers in North Dakota. The pilot, North Dakota Personal Transitional Yield (PTY) Pilot Program, will allow a producer to elect the use of a PTY in lieu of the T-Yields provided by RMA in the county actuarial documents. The PTY will be based upon the producer's actual yields for the crop's practice, type and variety and T-Yield map area (if applicable). It is expected that the PTY pilot will serve the producers with crop rotations, maintain an actuarially sound Federal Crop Insurance Program and will not adversely impact other producers.

Missouri River Issue

As you are aware, the U.S. Army Corps of Engineers (Corps) had scheduled two spring "pulses" or water releases from the Gavin's Point Dam on the Missouri River in an effort to mimic the natural river rise and encourage spawning of the endangered pallid sturgeon. These pulses were planned to comply with the requirements of the Endangered Species Act.

There is concern among producers along the Missouri River and thus, among their elected representatives, that these pulses of water might cause flooding or excess moisture conditions for farms along the river. RMA learned of these concerns when producers asked if any losses suffered as a result of the pulses would be covered by the Federal Crop Insurance Program.

The Department of Agriculture has recently responded in writing to congressional queries on this matter. We also responded earlier to the Missouri Attorney General and the Missouri Corn Growers Association. We take their concerns very seriously.

As I have stated, Mr. Chairman, I am a producer myself and one of my goals as Administrator of RMA is to ensure that RMA is doing everything it can, within its legislated authority, to assist the farmer and rancher and keep rural America and its critical agricultural industry competitive and sound.

To that end, RMA has been consulting extensively with the Corps since we learned of the planned water pulse events to determine, and where possible, minimize the risks to producers due to these releases. Having sought out the facts and evaluated our ability to act, we believe that we can lay these facts before you now with the confidence that we have examined all aspects of this issue in our continuing efforts to be of assistance.

Crop insurance payments are made on production losses that are due to acts of nature such as weather events, including drought, hurricane, freeze, disease and excess moisture. These causes of loss are manifested in the Act and specifically stated in the crop insurance policies. These proposed pulses of water by the Corps are not an act of nature, but due, instead, to the requirements of Federal law. Therefore, in the unlikely situation that there are any losses attributable to those releases, those losses cannot be covered under the crop insurance policies. However, any losses attributable to natural occurrences, such as excessive rain, will be covered.

The Corps has recently announced that the planned March pulse of water has been cancelled.

The Corps has informed us that the potential May spring pulse, given the drought conditions in the basin, will cause a 1.5 to three foot rise in the river downstream. This is not expected to cause a rise above a normal navigable river level.

We have communicated with Assistant Secretary of the Army for Civil Works, the Honorable John Paul Woodley, Jr. Assistant Secretary Woodley has given RMA assurances as to the Corps' flexibility to administer the May releases, with a strong consideration given to flooding potential. The timing and magnitude of the release will be adjusted by the Corps if weather conditions or river levels suggest the potential for damage to crops along the river.

The Corps has routinely released water from reservoirs into the Missouri River system in past years to meet its various mandates without affecting crop insurance coverage. We have no reason to believe that would not continue in the future. Based on the control of timing and magnitude, and the Corps' analysis of the current conditions in the Missouri River system, neither RMA nor the Corps anticipates that the upcoming release will cause damage to crops or cropland along the Missouri River system.

I can assure members of this Subcommittee and their constituents that any crops insured with a Federal crop insurance policy that suffer losses that are specifically attributable to natural causes, such as excessive rain, will be covered in accordance with the terms of the policy, irrespective of these releases by the Corps.

There has been at least one occasion in the past where the Corps was required to release water into the Missouri River system due to excess moisture and the need to mitigate the potential for flooding. In such instances where the Corps' releases were due to a covered cause of loss, (in this case, excess moisture) any crop damage suffered by insured producers in our program from the release was covered under Federal crop insurance.

I would like to reassure you, Mr. Chairman, and the members of the Subcommittee, that RMA is fully aware of your concerns and those of your constituents. We have high regard for Assistant Secretary Woodley and the members of the U.S. Army Corps of Engineers and would like to thank them for their continued cooperation in the examination of this matter. We will remain in close consultation with the Corps to minimize any potential risks to producers along the Missouri River.

Sectional Equivalent Written Unit Agreements

In October 2004, the Board approved the 2005 Written Agreement Handbook (WAH), which removed the availability of written unit agreements for producers in Maine, New York and Pennsylvania to request optional units based on sectional equivalents. The Board directed RMA to revise procedures to ensure that all similarly situated producers nationwide were treated equitably. In September 2005, the Board authorized written unit agreements under the revised procedures. RMA subsequently released the 2006 WAH procedures, allowing producers to request written unit agreements to establish optional units based on sectional equivalents. These are intended to address growers' needs while limiting associated program vulnerabilities. RMA worked with the National Potato Council (NPC), Regional Offices and insurance providers in procedural development.

The 2006 WAH procedures require three miles between established optional units, varying climatic conditions, a geographically dispersed Farm Serial Number (FSN) and that the sectional equivalents should contain a majority of acres near the center of sectional equivalents to the fullest extent possible.

RMA is receptive to seeking long-term solutions to growers' concerns, in particular the establishment of optional units via policy language rather than written unit agreements. RMA plans to enhance the Basic Provisions, which will allow the insurance provider and producer to establish optional units in accordance with established procedure. Incorporation into the Basic Provisions removes the burden on the producer, insurance provider and RMA to approve each written agreement. RMA, both internally and with grower organizations, has also discussed the option of utilizing grid technology to establish sectional equivalents in lieu of the existing procedure, which authorizes sectional equivalents to be determined on an individual producer basis. RMA has identified this as an item for potential contract study in 2006. Yet, any contract must consider the potential negative impact to the producer. For example, production records for the producers' APH purposes should be in accordance with any new optional unit boundaries. If the basis for establishing unit boundaries is modified, it can limit a producer's ability to recertify based on production record availability and could potentially impact APH approved yields based on new optional unit boundaries.

Premium Reduction Plans (PRP)

The proposed rule for PRP was published in the Federal Register on February 25, 2005, with a 60-day comment period. RMA received approximately 2,000 comments regarding PRP under the proposed rule. In response to the public comments, RMA published an interim final rule in the Federal Register on July 20, 2005. The interim rule is currently in effect and outlines all policies, provisions, general administrative regulations and other information related to PRP.

On July 25, 2005, RMA published Manager's Bulletin MGR–05–011, which outlines how RMA will use expense information from insurance providers to calculate premium reductions.

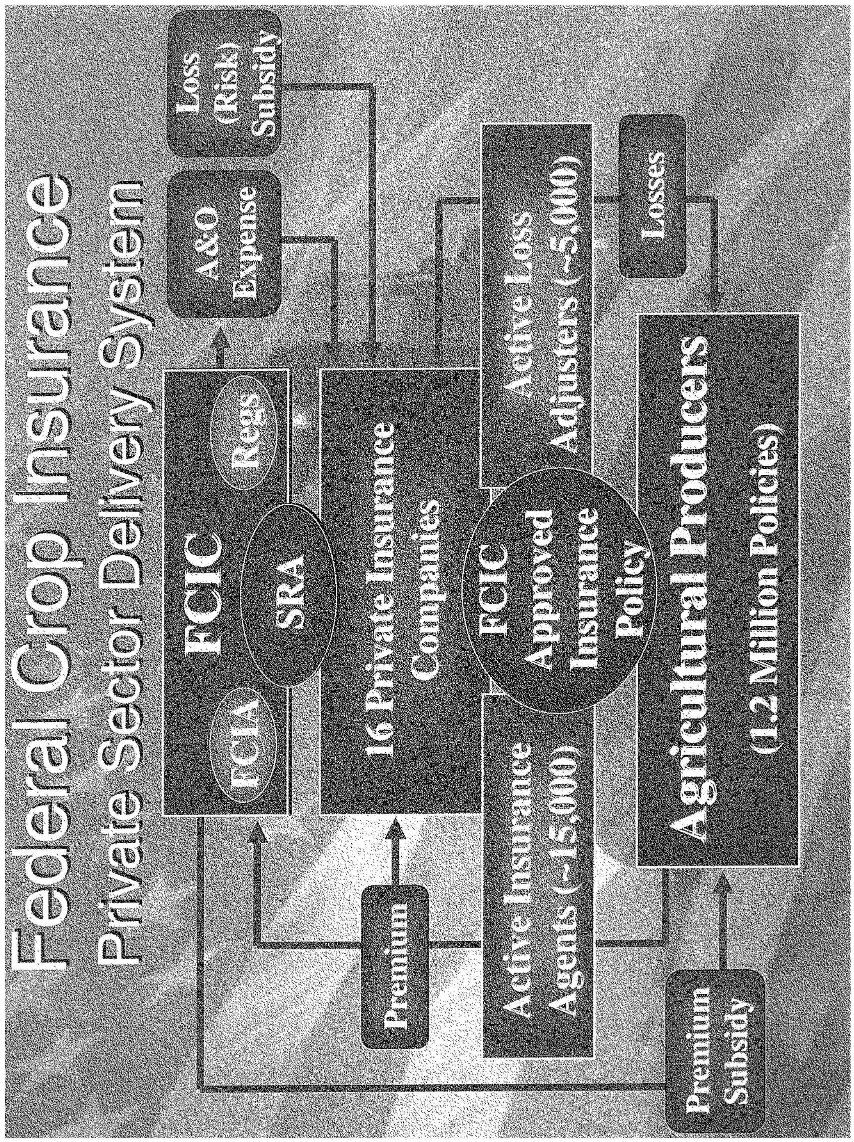
In response to the publication of the interim rule, RMA reviewed requests from insurance providers requesting eligibility for the opportunity to offer a premium discount for the 2006 reinsurance year. On August 31, 2005, RMA announced that nine insurance providers were eligible for the opportunity to offer premium discount for the 2006 reinsurance year. An insurance provider's eligibility for the opportunity to offer a premium discount does not require the insurance provider to ultimately request approval from RMA nor does it guarantee approval to pay a premium discount to its Federal crop insurance policyholders. On November 10, 2005, the FY 2006 Agriculture Appropriations Bill was signed into law by President Bush. The law prohibits RMA from using 2006 appropriated funds to review applications for the PRP program in the 2007 reinsurance year.

Conclusion

RMA continues to evaluate and provide new products and to promote the adoption of crop insurance as a risk management tool so that the Government can further reduce the need for ad hoc disaster payments to the agriculture community.

The growth and effectiveness of the crop insurance program is dependent on a reliable delivery system; insurance products that meet the needs of producers; investment in information technology to ensure the delivery system is timely, accurate and dependable; and adequate funding to support compliance and program integrity, maintenance and administration, product evaluation and new product development.

Again, thank you for the opportunity to participate in this important oversight hearing. I look forward to responding to questions on these issues.

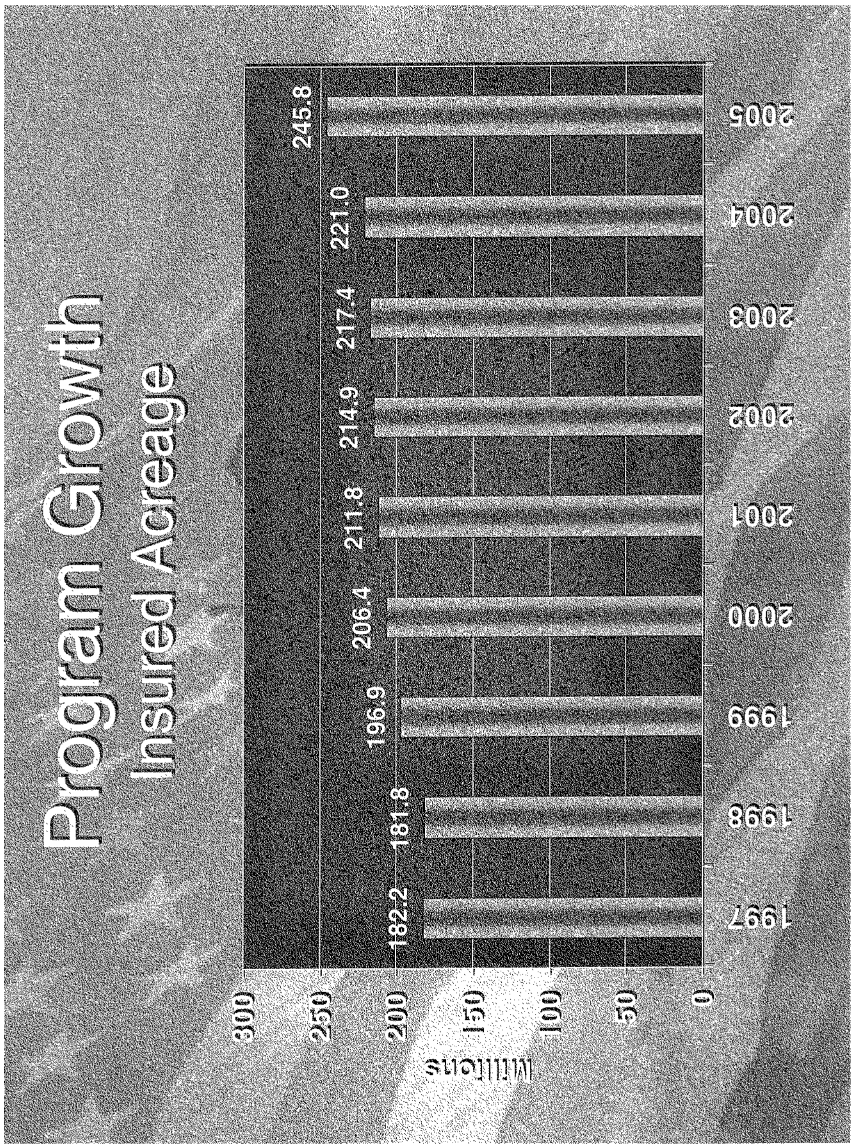


Federal Crop Insurance
Private Sector Delivery System
FCIC
FCIA
SRA
Regs
A&O Expense
Loss (Risk) Subsidy
Premium
16 Private Insurance Companies
Active Insurance Agents (~15,000)
FCIC Approved Insurance Policy
Active Loss Adjusters (~5,000)
Losses
Agricultural Producers
(1.2 Million Policies)
Premium Subsidy

Federal Crop Insurance
Program Status

$44+ Billion Coverage | **246 Million Acres** | **350+ Commodities**

22 Existing Crop Insurance Plans	
Actual Production History (APH)	Group Risk Protection Income Protection (GRIP)
Adjusted Gross Revenue (AGR)	Income Protection (IP)
Adjusted Gross Revenue Lite (AGR-Lite)	Indexed Income Protection (IIP)
Aquaculture Dollar	Livestock Gross Margin (LGM)
Avocado Revenue Coverage	Livestock Risk Protection (LRP)
Crop Revenue Coverage (CRC)	Pecan Revenue
Dollar Amount of Insurance	Revenue Assurance (RA)
Fixed Dollar	Tobacco - Guaranteed Production
Grower Yield Certification (GYC)	Tobacco - Quota
Grower Yield Certification Span (GYC Span)	Tree Based Dollar Amount of Insurance
Group Risk Plan (GRP)	Yield Based Dollar Amount of Insurance


Program Growth
Insured Acreage
Millions
300
250
200
150
100
50
0
182.2
181.8
196.9
206.4
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221.0
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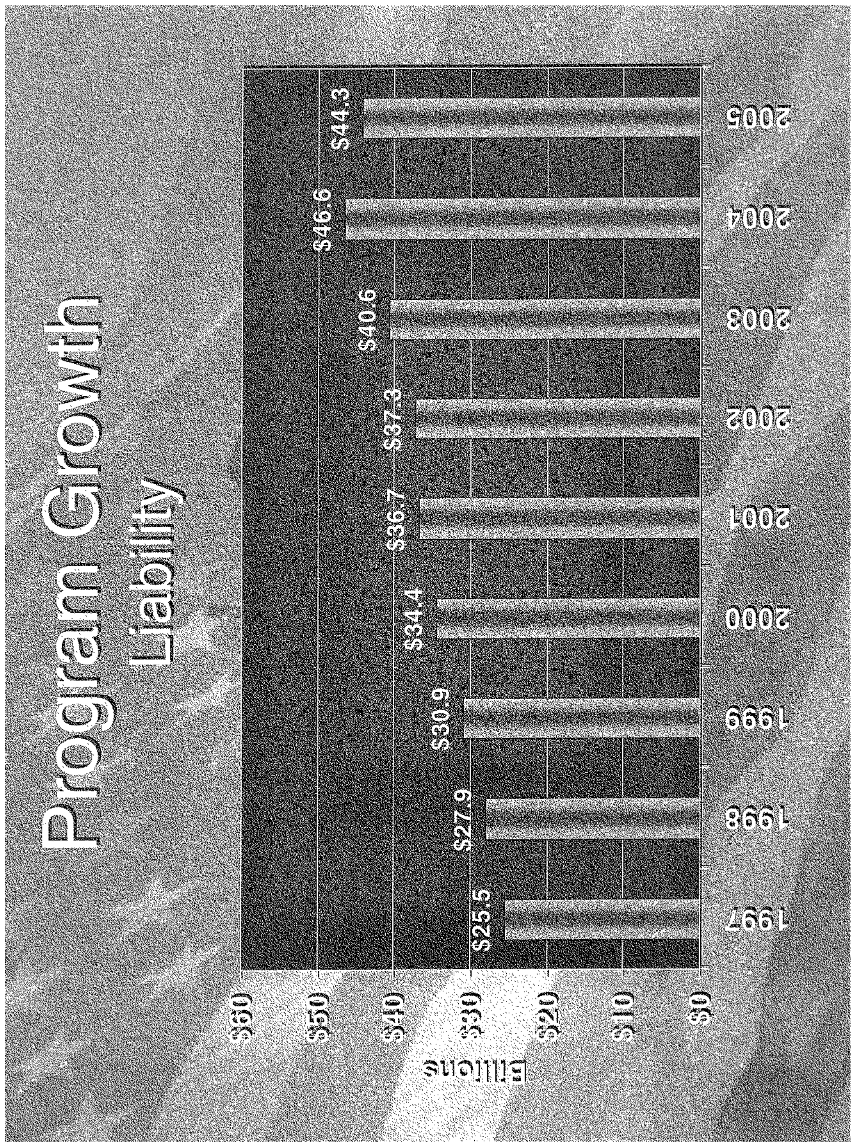
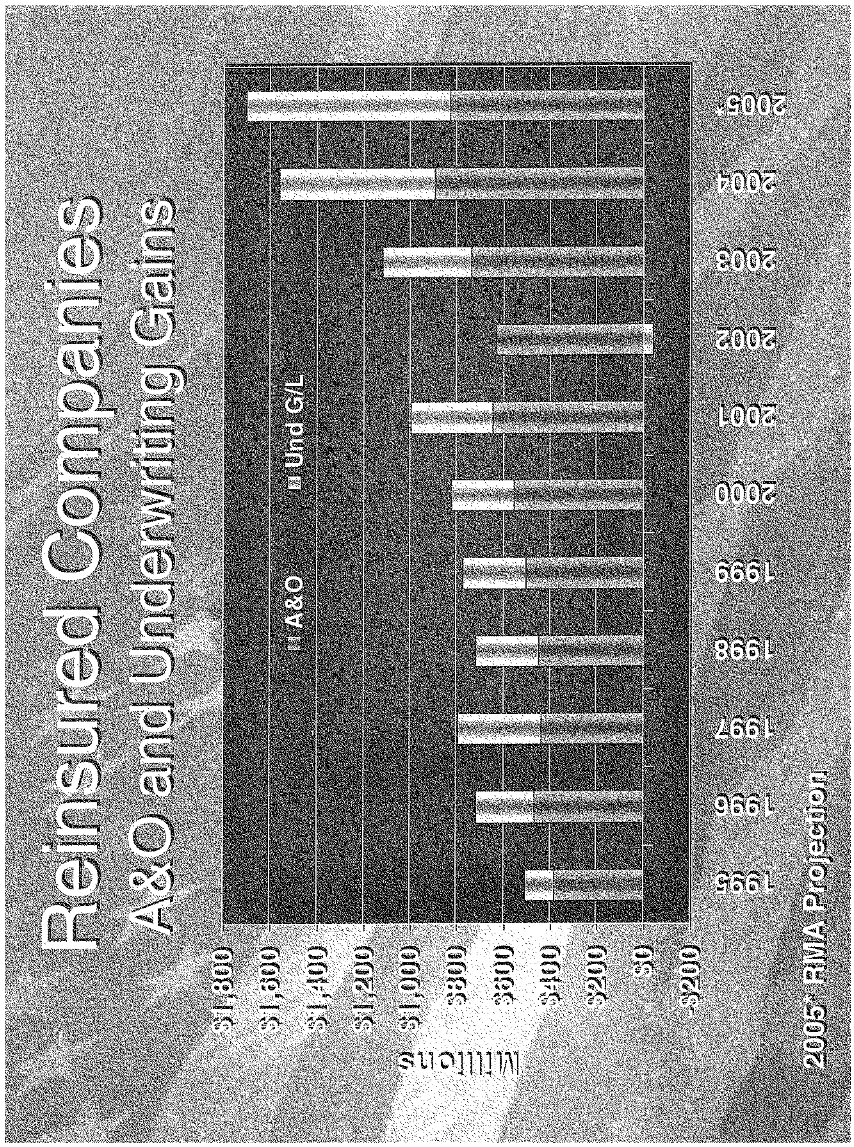
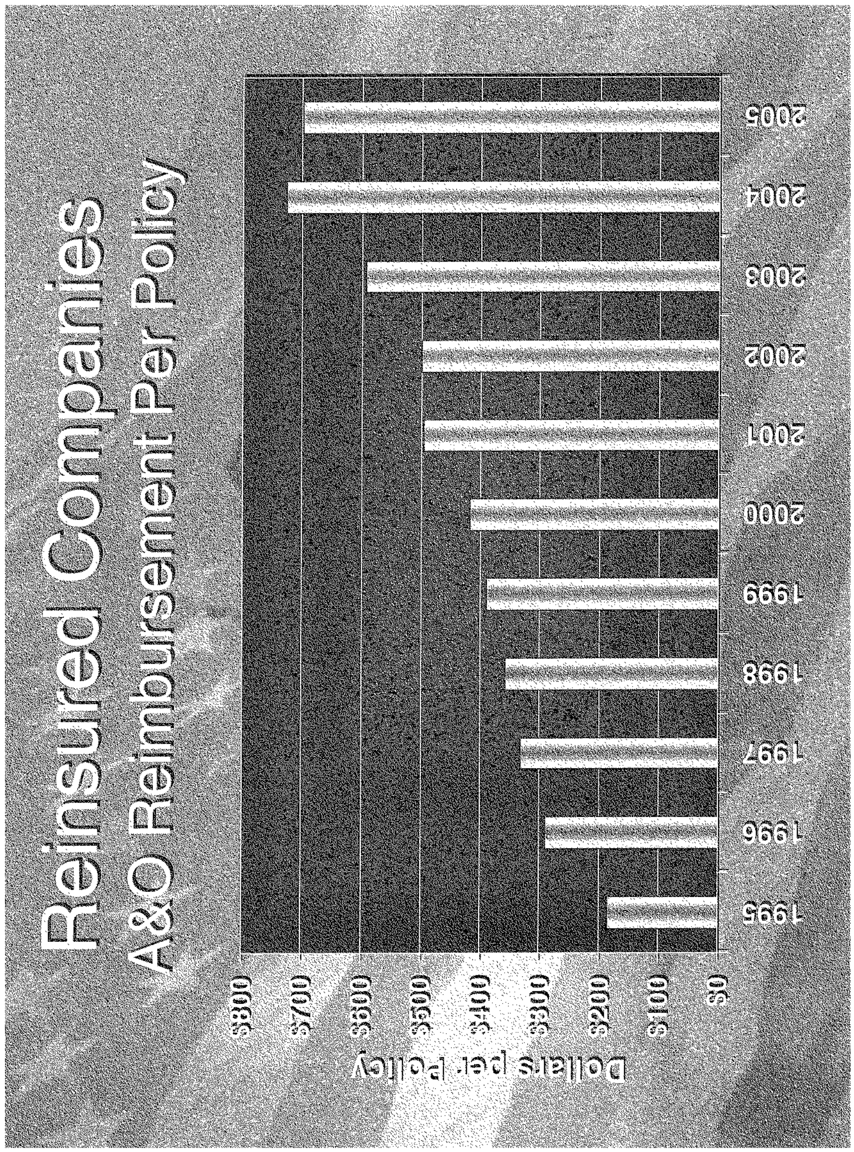
2001
2002
2003
2004
2005

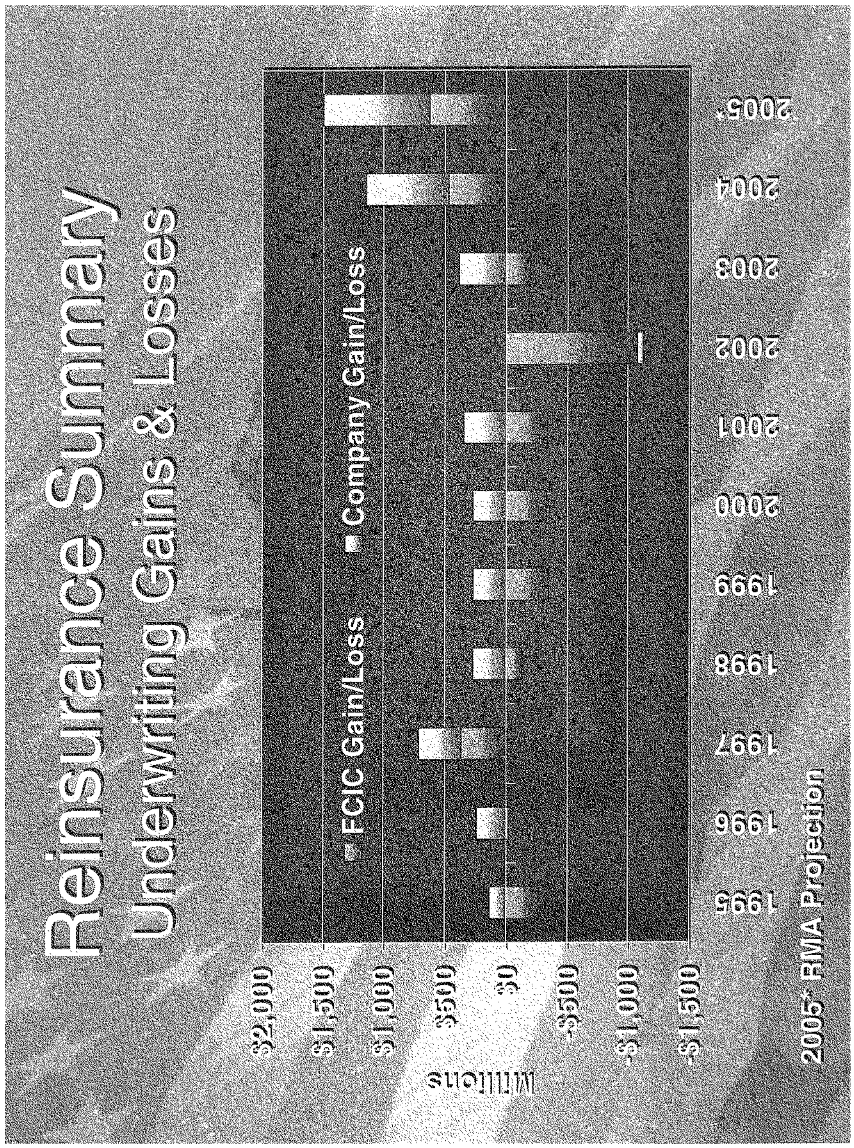

Program Growth
Liability
Billions
$60
$50
$40
$30
$20
$10
$0
$25.5
$27.9
$30.9
$34.4
$36.7
$37.3
$40.6
$46.6
$44.3
1997
1998
1999
2000
2001
2002
2003
2004
2005

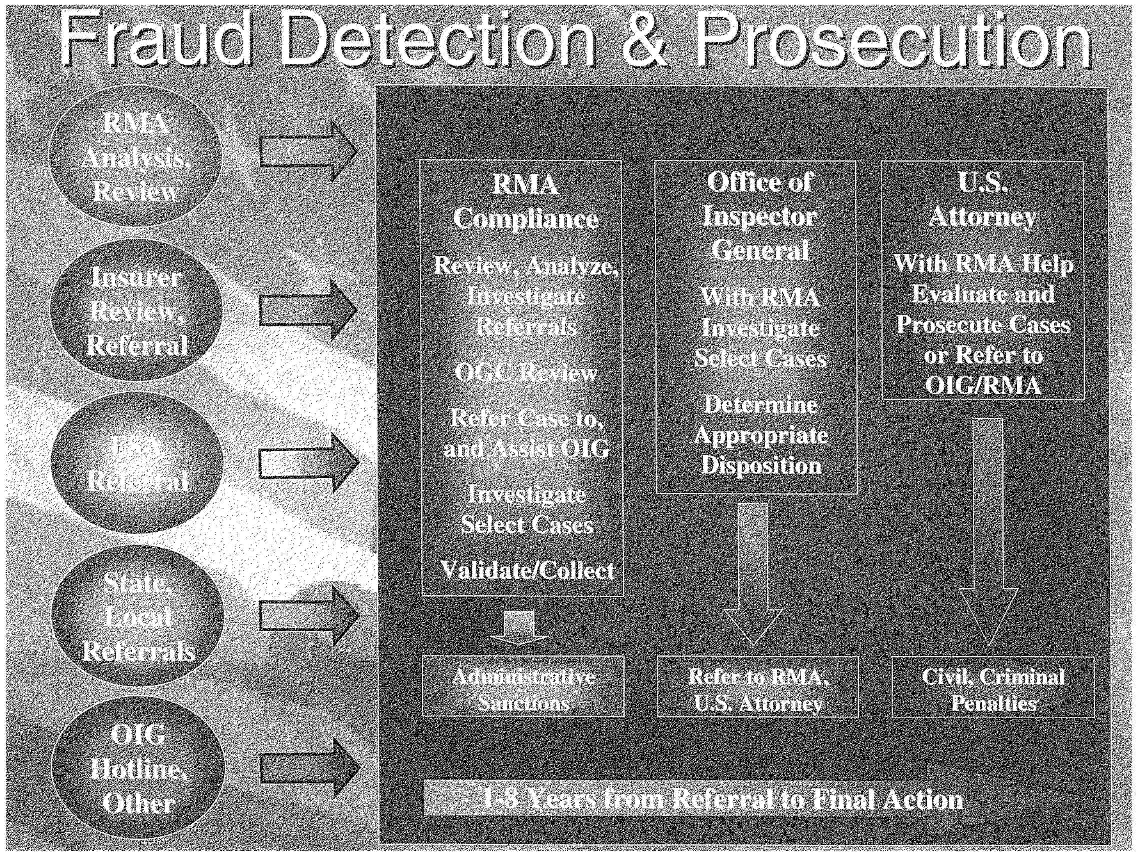
Program Growth
National Liability by Crop

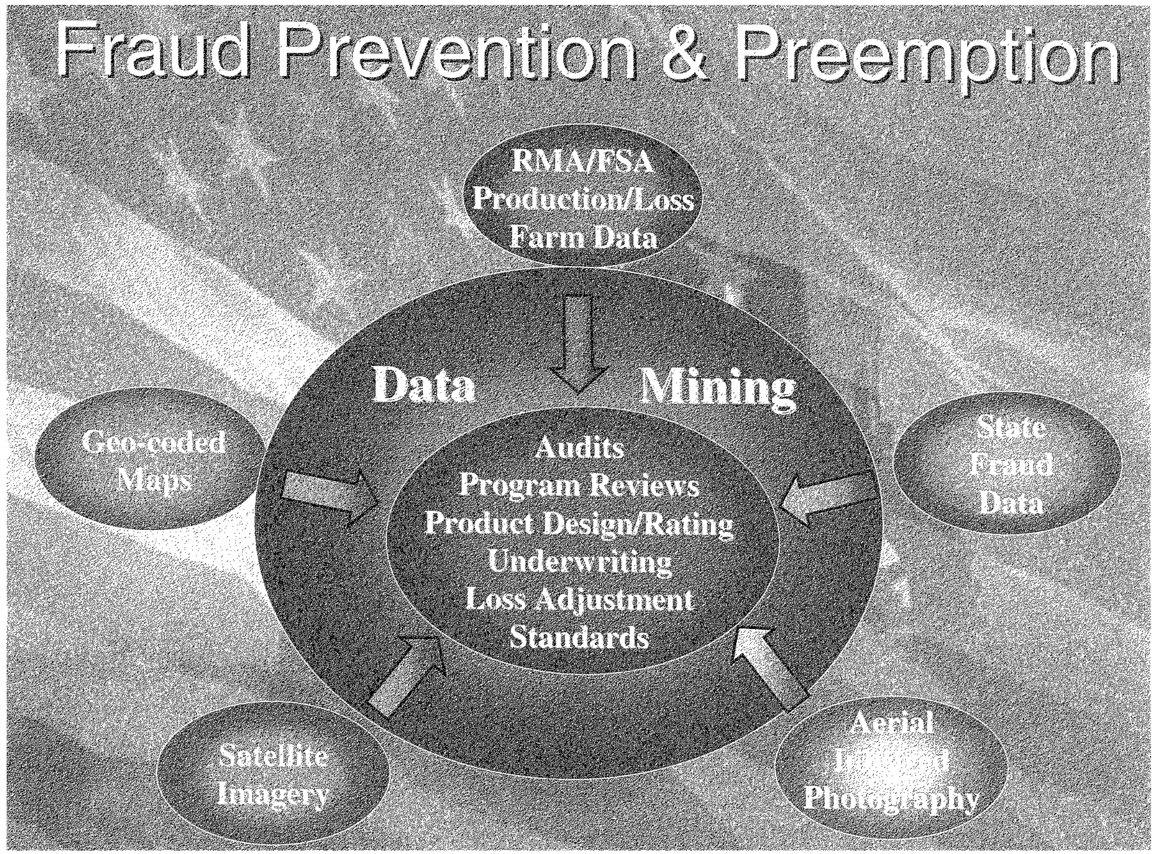
Crop	2005 Liability
Corn	$14.1
Soybeans	$9.1
Nursery	$3.9
Wheat	$3.9
Cotton	$2.3
Citrus Trees	$1.2
Potatoes	$0.8
Citrus	$0.7
Sugar Beets	$0.6
Almonds	$0.6
All Other	$7.0

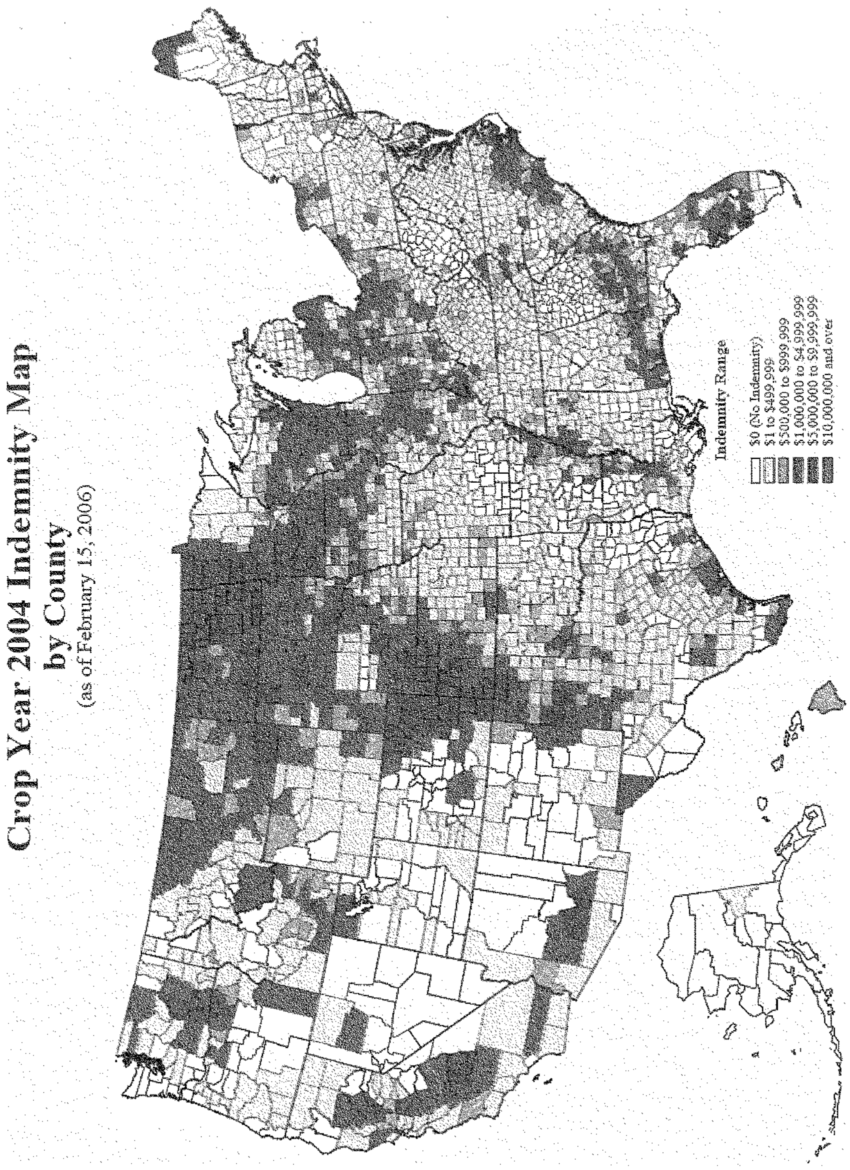

Reinsured Companies
A&O and Underwriting Gains
A&O
Und G/L
Millions
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
-$200
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005*
2005* RMA Projection

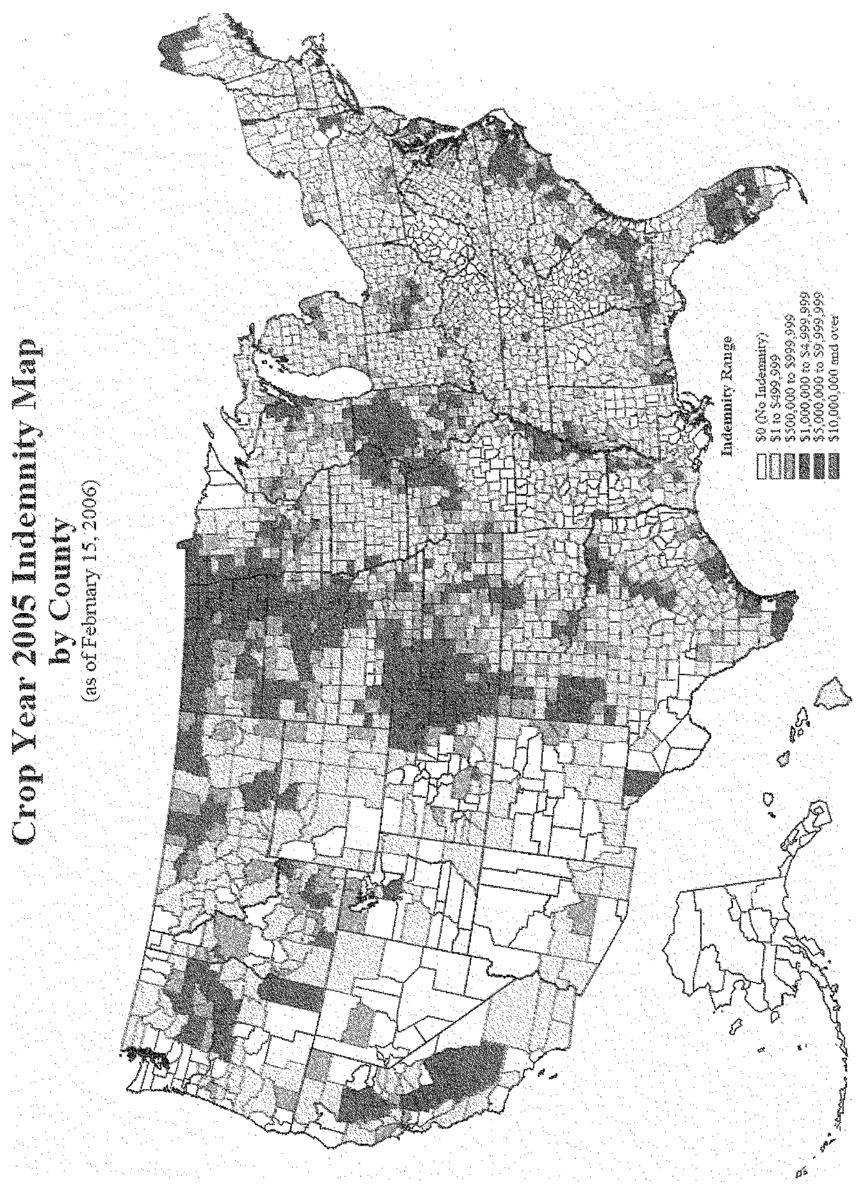

Reinsured Companies
A&O Reimbursement Per Policy
Dollars per Policy
$0
$100
$200
$300
$400
$500
$600
$700
$800
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005


Reinsurance Summary
Underwriting Gains & Losses
FCIC Gain/Loss
Company Gain/Loss
$2,000
$1,500
$1,000
$500
$0
-$500
-$1,000
-$1,500
Millions
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005*
2005* RMA Projection


Fraud Detection & Prosecution
RMA Analysis, Review
Insurer Review, Referral
State, Local Referrals
OIG Hotline, Other
RMA Compliance
Review, Analyze, Investigate Referrals
OGC Review
Refer Case to, and Assist OIG
Investigate Select Cases
Validate/Collect
Office of Inspector General
With RMA Investigate Select Cases
Determine Appropriate Disposition
U.S. Attorney
With RMA Help Evaluate and Prosecute Cases or Refer to OIG/RMA
Administrative Sanctions
Refer to RMA, U.S. Attorney
Civil, Criminal Penalties
1-8 Years from Referral to Final Action


Fraud Prevention & Preemption
RMA/FSA
Production/Loss
Farm Data
Data
Mining
Geo-coded
Maps
Audits
Program Reviews
Product Design/Rating
Underwriting
Loss Adjustment
Standards
State
Fraud
Data
Satellite
Imagery
Aerial
Photography


Crop Year 2004 Indemnity Map
by County
(as of February 15, 2006)
Indemnity Range
$0 (No Indemnity)
$1 to $499,999
$500,000 to $999,999
$1,000,000 to $4,999,999
$5,000,000 to $9,999,999
$10,000,000 and over


Crop Year 2005 Indemnity Map
by County
(as of February 15, 2006)
Indemnity Range
$0 (No Indemnity)
$1 to $499,999
$500,000 to $999,999
$1,000,000 to $4,999,999
$5,000,000 to $9,999,999
$10,000,000 and over

STATEMENT OF WILLIAM V. (BILL) HANSON

Mr. Chairman and Ranking Member Etheridge, thank you for this opportunity to testify.

My name is Bill Hanson and I'm a Kansan. I've worked as a farmer, teacher, and principal. I've also worked for FSA and the Federal Crop Insurance Corporation, including as Director of the Reinsurance Contract Division in Washington.

For 14 years I have owned my own crop insurance agency, and now serve as the Chairman of the American Association of Crop Insurers, Agents Division, and co-manager of the Crop Insurance Professionals Agency—CIPA—which represents agents around the country.

Crop insurance agents are on the front line of delivering this critical risk management tool to the American producer. We are where the rubber meets the road.

The Agricultural Risk Protection Act, or ARPA, passed by Congress in 2000, is the engine driving progress made in risk management. And while there is still work to be done, ARPA has already provided producers greater access to more affordable and better quality coverage. Thank you for passing ARPA.

Thank you also for rejecting harmful cuts to crop insurance in last year's administration budget. On behalf of CIPA, I respectfully urge you to reject these cuts again this year.

I also want to say we appreciate Administrator Gould. He has shown strong interest in working with RMA's partners, including agents, in tackling program challenges while building on our success. We agents hope to work with the Administrator and the FCIC Board in a more formal capacity in the future.

Today I focus my remarks on three issues.

First, PRP. PRP is a subtle but no less serious threat to crop insurance. It was implemented using legal authority that had not been used for 9 years and which no one ever thought allowed rebating. In 2000, RMA rightly noted that the program prohibited rebates, consistent with the laws of 48 States.

After some debate last year as to whether PRP is a rebate, RMA in a recent memorandum put the question to rest: PRP is a rebate.

Mr. Chairman, until PRP, Federal Crop Insurance—with one narrow exception created by Congress—joined 48 States in prohibiting rebates. And with good reason, including concerns about: discrimination; the integrity and oversight of insurance; the financial soundness of insurance providers; and preserving consumer choices and the quality of service consumer choices help ensure.

PRP raises all these concerns. But it is PRP's discriminatory and misleading approach that is most troubling.

When a farmer signs up for PRP, he thinks he is guaranteed a rebate. But four farmers could walk into four agencies 1 year after they bought their policies and each walk away with different outcomes, including: (1) you are in the wrong State to get a rebate; (2) RMA said your company could not pay a rebate; (3) your company decided it would not pay a rebate; and (4) we promised you a rebate, but don't know if we can pay that much—and may not know for another year—2 years after you bought your policy.

Playing games with farmers gives everyone in crop insurance a bad name. I do not believe Congress intended this. I thank Congress for denying funding for PRP in last year's appropriations bill. And CIPA urges Congress to suspend PRP for the 2007 and 2008 reinsurance years so the Committee can examine the program.

Second, RMA has indicated it plans to expand a narrow rebating exception provided by Congress. The current exception allows cooperatives or trade associations—but only those located in States that permit rebating, or adjacent States—to receive a fee from an insurance provider and then use the fee to buy CAT policies for members. But the expansion appears to allow the exception for rebating to swallow the rule, permitting unlimited rebating of any kind, in every State, and without any cooperative or trade association involved as long as the insurance provider organizes as a co-op.

I do not believe Congress intended this, and believe it will result in discrimination in a program designed to treat farmers equally. I urge Congress to request a formal rulemaking, with notice and opportunity for comment to let some sunshine in on this plan.

Crop insurance is not price-based competition, but service-based competition—with RMA setting farmer premiums. So when price-based competition is introduced, the unintended consequence is a race to the bottom relative to service. And, as companies feel the pinch, they do business in fewer places or just exit, meaning fewer choices for agents and farmers.

Third, concerning the elimination of waste, fraud, and abuse, agents are 100 percent committed because, along with the program and the farmer, our reputation and livelihoods are on the line, too. We applaud RMA for working with us to arrive at a conflict of interest policy that is, for the most part, workable in tackling abuse. But my concern is the same as it would be with any good institution dealing with a few bad actors. Don't use a sledgehammer when a scalpel will do. For instance, if a senior citizen buys a policy—and many of our farmers are seniors—but gives us the wrong Social Security number, don't cancel his policy for a mistake after he just lost his entire crop. Be certain it's a mistake, sure. But automatically cancel his policy? That's not right.

One way to stop abuse is data mining. Another is to ensure that yield determinations and rate settings for policies are accurate. This is a problem regarding GRIP and GRP policies, which are intended to curb abuse—but can actually cause abuse if based on bad data. Let's work together on these issues to find commonsense solutions to problems we both have a stake in solving.

Thank you again for this opportunity.

STATEMENT OF JAMES A. BROST

Good afternoon. My name is James Brost. I serve as executive vice president for Cooper Gay & Cashman, a Reinsurance Intermediary that is located in Minneapolis, Minnesota. I am also a member of the board of directors of the Crop Insurance Research Bureau, on whose behalf I have the privilege to appear today and on whose behalf I testified before this committee in May 2003.

The Crop Insurance Research Bureau (CIRB) is a not-for-profit trade association representing the interests of crop insurers, the reinsurance community, as well as others with an interest in the Federal Crop Insurance Corporation. CIRB's mission statement is "Working to Improve Crop Insurance through Unity and Leadership". It is in this spirit that I offer my remarks.

My role as a Reinsurance Intermediary is, in part, to entice reinsurers to provide their economic support to those companies writing Multiple Peril Crop Insurance (MPCI). And what is reinsurance? Reinsurance can be simply summarized as insurance for insurance companies. Reinsurance helps protect an insurance company's capital base, or provide the insurance company with the capacity to write more business than what would normally be written based on that company's capital and surplus. Reinsurance may even provide operational income to the insurance company to assist in the delivery of the MPCI policy to America's producers. I believe it is fair to represent that commercial reinsurance has been, and will continue to be, vital to the continued success in the delivery of the MPCI program to America's producers.

The reinsurers' role in the MPCI program was initially brought to light during the early 2003 briefings with House and Senate staff members, and these same subcommittee hearings in 2003. The "commercial reinsurance" role had not really been widely known prior to this time, although it had always existed in the background.

Perhaps the key message at that time was: The Standard Reinsurance Agreement (SRA) is not the exclusive reinsurance vehicle utilized by most of the SRA holders; rather, these SRA holders purchase "commercial reinsurance" from the private sector in order to better manage their expenses and protect their capital. This expense and capital protection and resulting continued viability of the SRA holder in delivering and servicing the MPCI policy, has been of keen interest to the Risk Management Agency (RMA) in the more recent past.

In recent years, many Members of Congress and their respective staff have met people from the reinsurance industry who play an important role in MPCI. Today I am speaking on behalf of the Crop Insurance Research Bureau and its various reinsurance members. The views shared herein are mine, but I believe the comments are fairly representative of those of the reinsurance segment who write MPCI.

As inferred earlier, the reinsurers' role has been behind the scenes. Generally speaking, reinsurers do not have a direct dialogue with RMA over the various considerations within the MPCI program. Since they are not SRA holders, this is understandable. They are, however, stakeholders in the program and RMA, FCIC and members of Congress should be cognizant of the conditions that determine the reinsurer's support of MPCI.

Reinsurance is not unique to crop insurance. It is utilized by many carriers writing many different lines of insurance business. It is a basic premise that reinsurers expect to earn a profit on those classes of business where they provide reinsurance support. The Return on Equity (ROE) calculation is a measurement of the expected returns the reinsurer anticipates over a long period of time. This ROE calculation encompasses extensive analysis of the frequency and severity of estimated claim activity, policy premium income, estimated acquisition costs and the cost of capital deemed necessary to support the product line (there are many other factors also considered). The point made in 2003, and which continues to apply today, is that the reinsurance of MPCI insurance must remain competitive with other reinsurance product lines to attract reinsurance capital to the market. If the MPCI ROE falls below corporate expectations, then the industry and the Federal Government runs the risk of reinsurers exiting the product line. This would be detrimental to the MPCI program.

So how low must the ROE be to trigger an exit? I do not have a crystal ball capable of telling you what that magical ROE threshold figure is or should be. The overall industry target ROE floats up and down based on many, many factors. I do know, however, that as long as the MPCI program is competitive with other product lines, as we are today, we should anticipate continued deployment of reinsurance capital to the MPCI program. The concern, of course, is that the Government will continue the trend of driving down the potential ROE from the crop insurance program.

Recent issues have evolved which the reinsurers have cast a watchful eye. Some of the more critical points are summarized below. Some points are driven by the administration's 2007 proposed budget and some points are driven by RMA. All are important.

Continued reduction in the Administrative and Operating allowance (A&O):

The recent reductions invoked over the 2005 and 2006 programs have impacted the SRA holders' continued operational viability. Long term viability of an SRA holder's economic health is an essential aspect of a reinsurers' support of an SRA holder. While some of the recent reductions in A&O may have been partially absorbed by the reinsurers, this reduction in the A&O has also diminished the returns of some reinsurers. Therefore, the potential reduction in ROE invites the discussion of how the reduced MPCI returns will compare to the other classes of business.

Potential increase in FCIC's share of the SRA holder's underwriting results:

This "quota share" requirement of the 2005 SRA has had both a direct and indirect impact on reinsurers; it took business away from some reinsurers—a direct impact, - and it took potential income from the SRA holders—an indirect impact on the reinsurers. The 2005 business environment was the first year impacted by this quota share provision, with a potential for far greater impacts as proposed with the President's 2007 budget. Again, changes to the business environment can reduce or eliminate reinsurer support of the program, which will have a corresponding effect of decreasing the capacity of the current suite of SRA holders to adequately serve the MPCI market.

The Group Risk Income Protection Plan: This policy uses a county index to trigger a potential claim payment to the crop producer. This means that crop producers with above average yields may nonetheless receive an indemnity payment if the general farming area has experienced yield reductions. This concept violates the very cornerstone of insurance principles — the requirement that an insured have an actual loss sustained to receive an indemnity payment. Conversely, a farmer who does suffer low yields in a county where averages are normal to above normal will not receive a payment making the safety net of crop insurance illusory. This policy should be considered an abuse of the MPCI program. It encourages adverse selection against the crop insurance program and undermines its integrity. The adverse premium and loss results of this product underscore the need to address this product.

A fee from SRA holders for Information Technology (IT) modernization:

The administration's proposed budget seeks a "user fee" from SRA holders. This is simply a tax on the SRA holders; a flat expense that will unduly threaten the economic health of every SRA holder. If you will recall, the economic health of the SRA holder is a key consideration to a reinsurer before providing their reinsurance support. It is apparent and has been for sometime, RMA has needed to modernize its IT system. Continued failure to address this problem weakens the program; however, it is patently unfair to finance this project on the backs of the delivery system whose own systems are stretched because of outdated Government technology.

Premium Reduction Plan (PRP): The reinsurance community continues to voice concern with PRP. The PRP plan may encourage an SRA holder to cut costs in areas that could be detrimental, in the long and short terms, to the sound administration and integrity of the MPCI program.

Data Mining: One of the most encouraging initiatives that holds a great deal of promise in addressing fraud and abuse is data mining. This allows RMA to identify anomalies and alert the SRA holder of program irregularities for closer review. It is essential that its continued funding be secured and we encourage this committee to support further development and refinement of this initiative.

The last two crop seasons have produced attractive underwriting results for the reinsurance industry. These positive returns are necessary to level losses from years gone by and to manage large financial losses in future years when there is widespread drought or flood causing catastrophic crop losses. The MPCI reinsurance industry is positioned to absorb whatever Mother Nature throws at them when it's their turn.

Again, many thanks to the committee and its members for the opportunity to appear before you today. If appropriate, I would be delighted to answer any questions you may have.

STATEMENT OF ROBERT W. PARKERSON

Mr. Chairman, my name is Robert W. Parkerson. I serve as President of National Crop Insurance Services (NCIS), on whose behalf my testimony is presented today. I would like to thank you for the opportunity to present this testimony.

NATIONAL CROP INSURANCE SERVICES

NCIS is a nonprofit trade association whose member companies include every crop insurance company that participates in the Federal Crop Insurance Program. NCIS has worked actively with the Risk Management Agency (RMA) as an approved contractor and with the Board of the Federal Crop Insurance Corporation (FCIC) as an expert reviewer. We have received 13 risk management education grants or research awards over the last several years and have served as expert reviewers on six projects.

NCIS is also a licensed statistical agent for Crop-Hail insurance in all required States, and assists the crop insurance industry in meeting the regulatory requirements of the individual States. This is accomplished by filing the appropriate material and statistical information with respective State insurance departments. Further, NCIS serves as liaison with individual State insurance departments through active participation with the National Association of Insurance Commissioners (NAIC).

NCIS has a series of technical standing committees that tap the talents and skills of our membership. These committees deal with a diverse set of subject matters including loss adjustment procedures, statistical data gathering, industry public relations and industry legal issues.

NCIS also utilizes a regional/State committee structure that sponsors various loss adjuster educational activities throughout the year. NCIS and its staff work hard to offer our members valuable educational conferences, schools, field days, and training modules to use when training their agents and adjusters. Over 2,000 people attended one or more of these educational forums in the past year. This is in addition to the numerous training sessions that member companies hold for their individual agents and adjusters. The regional committees also actively participate in the development of the industry-wide crop research agenda.

NCIS and its committees work closely with RMA to help refine loss adjustment policy and procedural requirements in this increasingly complex program. Just since the last SRA was put in place, 49 loss adjustment handbooks and 50 crop policies have been written or revised. NCIS and its member companies spend many hours studying the effects of these changes before a single handbook or policy is released.

In 2005, NCIS member companies wrote more than $3.9 billion in MPCI and related revenue products premium and over $434 million in private Crop-Hail insurance products premium. The potential liability between both programs was $59 billion. The protection provided represents approximately 80 percent of the total acres planted to principal crops in the United States. NCIS member companies service policies that encompass all farmers participating in the Federal and private programs, including limited resource and socially disadvantaged farmers. In partnership with the Government, our participating member companies are the safety net that equitably provides risk management to the American farmer.

PROGRAM REVIEW

Since 1994, there has been a significant increase in the level of participation in the program and an expansion of the insurance products available to our farmers. Insured acres have increased; revenue products became more widely available; and Congress has continued to expand the program.

However, with rapid expansion comes the possibility of creating program vulnerabilities. There are several existing crop insurance programs that the Industry feels need to be reviewed before any further changes or expansions are put in place. These include: GRP, GRIP, AGR and AGR-Lite.

We believe the concepts and basic fundamentals that underlie AGR and AGR-Lite are an important part of this program and can fill a need for many farmers in the country. However, we do have some concerns with how they work. Recently, NCIS formed a workgroup of industry members that met to discuss many of the concerns associated with these programs. Another meeting has been scheduled to work through some solutions that could be implemented to make these programs stronger.

The group programs, GRP and GRIP, have grown rapidly in recent years, with a combined premium in excess of $225 million for the 2005 crop year. In spite of the expansion of these programs in the marketplace, the crop insurance industry has expressed to RMA a number of reservations regarding their structure and performance.

One of the most critical issues with regard to the group programs is that of equitable treatment of policyholders. One grower may have a poor yield due to factors beyond his control, yet not be eligible for an indemnity because the county as a whole has done well. Conversely, a grower in another county may be paid an indemnity even when his own yield is excellent. These issues can create strains within the program whenever certain producers feel that they or other producers have not been treated fairly. Repeated over several years, such experiences can undermine our farmers' confidence in crop insurance as their most reliable risk management tool.

A second industry concern is that the growth of the group programs has been facilitated by much lower rates and much higher subsidy percentages than other revenue or production policies. At the 90 percent coverage level, the premium subsidy for the group programs is 55 percent. To obtain a comparable subsidy under the Revenue or Production insurance forms, the grower must agree to insure his crop at the 75 percent coverage level, that is, at a much lower level of protection. This provides an inappropriate incentive for growers to choose group plans over plans designed to protect individual producers for their actual risk.

A further concern regarding the group programs is that the maximum coverage level available to group program participants is higher than in other crop insurance programs. For GRP and GRIP, the vast majority of the business is written with only a 10 percent deductible. This compares to a typical deductible of 25 percent for Revenue plans and 35 percent for the APH production plan.

In summary, the industry's concerns include the issue of whether an insured can be uncompensated or over-compensated for a loss, the availability of very high levels of group protection at low rates and high subsidies, and the actuarial soundness of the program. NCIS recently met with RMA to discuss our concerns related to these programs.

We understand that the future may bring an effort to revive some form of premium reduction program, which Congress last year effectively terminated for the 2007 crop year. If that occurs, we believe any effort to revive it should meet several tests. First, a revived discount program should not encourage discrimination among insureds (i.e. cherry picking.) Second, a revived PRP program must assure that reductions in farmer paid premium will not come at the expense of service to the farmer. Third, any sound PRP program requires vigilant and effective regulatory monitoring. Additional expense reporting and cost accounting standards will have to be developed, implemented and monitored. It is not clear whether RMA has the resources necessary to direct such a process or not.

We also believe that before any new programs are developed, we need to get back to the basic fundamentals of insurance and risk management. The NCIS Board of Directors has instructed NCIS to conduct a review of the current programs to determine if some can be consolidated or eliminated. The Industry looks forward to working with Mr. Gould and his RMA staff to streamline and create a much more simplified program that will make it easier for farmers and agents to understand and participate in. We also look forward to working with RMA in the implementation of the "Combo Policy." The changes associated with the "Combo Policy" have the potential to vastly impact the delivery of the crop insurance program.

New Initiatives

NCIS members have worked hard to make the crop insurance program successful. Although our Industry has been criticized at times by the General Accountability Office and the media, we would like to take this opportunity to assure you, Chairman Moran, and this Committee that our members are VERY aware of their fiduciary responsibilities—not only to their own stockholders and employees, but to the farmers, taxpayers and Federal Government.

Recently, the NCIS Board of Directors initiated two new projects that are in the planning stages:

The first is a Program Integrity Conference, centering on fraud, waste and abuse issues and the ability of the Industry to reduce all three. We are working closely with RMA, the NAIC, OIG, the FBI, Tarleton State University, and others to develop this conference. It is scheduled to take place on May 22–23, 2006, in Overland Park, Kansas.

Second, it is the intention of NCIS and its members to develop a performance-based discount program that would reward farmers with good insurance or production experience. We feel this program will not only benefit and reward good farmers, but also will create incentives to help reduce fraud, waste and abuse and further promote the integrity of the crop insurance program. A Committee of SRA holders with actuarial and analytical expertise will be convened shortly to help us work on this initiative. All discussions are in the preliminary stages and will require additional evaluation. We envision sharing this information with Congress and RMA as soon as we have a working outline of this program.

NCIS and its staff have met with Mr. Gould on a number of occasions and are working to establish a good relationship with him and his staff. We look forward to continuing our work with him, the FCIC Board of Directors and its chairman, Keith Collins, Congressional Committees, and all who have an interest in continuing the success of this program.

Crop insurance is an effective risk management tool for growers to protect themselves. Growers must have confidence in the stability of the program and purchase adequate coverage. We would be remiss in our responsibilities to the American farmer, and ultimately the American taxpayer, if we did not take the necessary steps to stabilize the crop insurance program, which is the primary financial safety net for American agriculture.

STATEMENT OF SAM SCHEEF

Good afternoon Mr. Chairman and members of the subcommittee. I am Sam Scheef, president, ARMtech Insurance Services, headquartered in Lubbock, Texas. My testimony today is presented in my capacity as the Vice Chairman of the American Association of Crop Insurers (AACI).

Thank you for scheduling this hearing in your oversight of the Federal crop insurance system, which I like to think of as having five critically important and necessary elements—the farmer, the program, the private sector, the regulator and Congress. AACI, with members representing all segments of the private sector element of the crop insurance system, appreciates being invited to provide testimony and respond to questions from Members of the Subcommittee.

Mr. Chairman, my testimony will offer thoughts on two elements of the Federal crop insurance system—the program and the regulator.

FEDERAL CROP INSURANCE PROGRAM

The modern crop insurance program is a little over a quarter century old, although our experience with crop insurance spans more than two-thirds of a century. Mr. Chairman, your statement at a field hearing in Jefferson City, MO in late February summarizes our collective progress in providing the American farmer with a useful risk management tool very well when you said, "Crop insurance is an integral part of farming. Most farmers consider it as the centerpiece of their risk management planning and would not think of risking their livelihood and future without the coverage provided by crop insurance. The program is working for a vast majority of America's farmers."

But, while the program is very good and has been highly successful in many respects, it is our conclusion the program has not reached perfection. Some challenges remain. At the Agricultural Outlook Forum 2006, Joseph W. Glauber of USDA, in presenting a comprehensive and positive report on "The Agricultural Risk Protection Act 5 Years Later, in addition to discussing all of the program's accomplishments, also listed a number of challenges.

In the interest of time, I will not restate all of the accomplishments of the modern crop insurance program, including the provisions added by The Agriculture Risk Protection Act (ARPA) in 2000. Those facts have been summarized and reported on very well by USDA and others.

However, none of the reports that I am aware of has explained the fundamental characteristics of the modern crop insurance program that have made it successful.

We in AACI believe the program has succeeded beyond expectations because of these fundamental characteristics:

The Federal Crop Insurance Program is a unique public-private partnership that combines the financial resources of the Federal Government with the operating efficiency of private sector insurance companies, reinsurers and thousands of crop insurance agents over the country. Over the past 25 years the program has evolved from an arrangement in which agents were selling Government policies into a partnership where companies share the risk with the Government and have their own private capital at risk. The modern crop insurance program is based on the premise that, given the proper incentives and reasonable regulation, the private sector can deliver risk management protection to America's farmers more efficiently than the Federal Government.

The program is based on service competition. There has been no shortage of competition in the marketplace among the approved insurance providers. However, RMA sets the premium rates, and competition is about being of service to farmers in their purchase and use of the Federal Crop Insurance Program as a farm-income risk management tool. Competition has not been about price and price-related factors, including discounts, rebates and dividends, for a very good reason—price is a market-based term and the market did not give birth to the modern crop insurance program. The modern crop insurance program is a Federal program, with public policy goals and objectives. The non-price competition feature of the Federal program is a major contributor to building the current level of farmer confidence that Chairman Moran spoke of.

The program is based on universal availability. While the private sector companies and reinsurers are encouraged to take risk, the Federal Government is willing to take most of the risk in some high loss areas. This assures that crop insurance will be available to all parts of the country, whether low-risk or high-risk. This is absolutely essential to the political viability of the program. Can you imagine what some of the members of this subcommittee would say if crop insurance were not available in their district while it was available for the same crop in other congressional districts?

The program is based on non-discrimination. Since crop insurance is a Federal program, the industry must not discriminate against anyone because of race, sex, size, or any other reason. Non-discrimination means a small or limited-resource or minority farmer is equally entitled to purchase and has the same access to crop insurance as any other farmer. This also is a vital part of the political viability of the crop insurance program. We don't believe Congress would be willing to fund a program that encourages everyone in the insurance industry to compete for only the largest and most profitable farmers and deny service to smaller farmers.

To summarize these four points, the current crop insurance program works because it strikes the right balance between Government resources together with Government regulation and private sector initiative and ingenuity. The program has had the proper incentives for companies and agents to serve all farmers, regardless of size and location. The private sector delivery system has traditionally had incentives as well as a mandate to offer all farmers the best possible risk management advice, rather than try to cherry-pick only the largest farmers or try to sell all farmers a GRP or GRIP policy that requires very little adjustment service.

In spite of the success that the program has enjoyed, there have been some disturbing developments recently that threaten to undermine these four principles, and thus we fear possibly the political viability of the crop insurance program. I will identify some key issues that require immediate and proper attention based on AACI membership's collective knowledge about and thousands of man-years' experience with the crop insurance program throughout its modern life. These issues must be thoughtfully considered in a comprehensive manner rather than a piecemeal approach in order for the program to continue building on its record as a dependable risk management tool for all farmers regardless of size, location, enterprise or any other characteristic.

Program Challenge: Rebates, Discounts and Dividends

The crop insurance program has a long history of treating farmers equitably regardless of which company delivers the program. Farmers receive the same policy, the same terms, the same conditions and the same rating. Since the passage of ARPA, different schemes and devices based on a company or agents' corporate business structure have entered the market place in an attempt to give agents and companies a competitive advantage. Some examples are: (1) crop insurance cooperatives have been formed with the goal of making patronage dividends to policy holders, (2) one insurance company's business plan was developed exclusively to offer discounts to policy holders, and (3) more recently, mutual insurance companies are seeking a "cooperative" designation in order to pay dividends to policy holders. AACI believes a company's or agent's corporate structure should not impact the price paid for insurance by a farmer.

Rebates historically are not allowed in insurance because of discrimination issues as well as creating a marketplace which could inadvertently undermine the financial stability of insurers. Only two States—California and Florida—allow insurance rebating and it is closely regulated within those two States. The Standard Reinsurance Agreement strictly prohibits rebating, discounts and dividends within the crop insurance program for the same reasons. However, in an ad hoc way, several avenues for discounts and dividends have crept into the Federal program in recent years. Unfortunately, discounts and dividends within the crop insurance program have not been dealt with in a comprehensive way, either by Congress or the Risk Management Agency. AACI believes this issue is critical to the program and we urge Congress to address the proper role of discounts and dividends in the crop insurance program, including the regulatory role States should play.

The following are current discount authorities:

Premium Reduction Plan (PRP). In implementing its PRP programs, RMA has cited as authority section 508(e)(3) of P.L. 103–354, the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994. Strangely, RMA chose to ignore a more recent statute that supersedes, but does not repeal, the earlier statute. In P.L. 106–224, the Agricultural Risk Protection Act of 2000 (ARPA), Congress authorized a much more limited pilot program for premium rate reductions in section 523(d). In this provision, the premium rate reduction plan would be carefully tailored in a limited geographical area to test the efficacy of premium reductions without jeopardizing the integrity of the program. Thus, we believe section 508(e)(3) has been superseded by ARPA section 523(d).

While Congress failed to repeal the very broad and general premium reduction authority of the 1994 law, it is clear that Congress felt that times had changed and that the pilot program authority was a more appropriate way to proceed on an issue that could create chaos in the delivery system. In 1994, companies were being reimbursed at a rate that averaged around 32 percent. Currently, the average rate of reimbursement is less than 21 percent. Moreover, the pilot premium rate reduction program enacted in section 523(d) of ARPA is mandatory. ARPA required that the pilot program be initiated for the 2002 crop year.

When one very vague and permissive statutory authority is superseded by a much more specific mandatory provision, the agency should implement the mandatory one. Moreover, when a statute contains two different authorities to accomplish the same objective, it is a settled rule of statutory construction that the agency should give deference to the more recent statute.

Nevertheless, RMA first implemented a Premium Discount Program (PDP) for a single company in 2003. The PRP program allows companies with operating efficiencies to pay a discount to policy holders. The current PRP regulation allows companies to pick and choose States for discounts so it is possible to pay a discount in Iowa but not in Texas even though the efficiency may be accruing in Texas. For reinsurance year 2006, 9 of the 16 approved insurance providers have signed up for the opportunity to pay a discount under PRP. However, there is no indication of whether any of these companies will actually qualify to pay a discount, thus creating an opportunity for confusion and disappointment among farmers.

Cooperative and Trade Association Dividends—The Agricultural Risk Protection Act (ARPA) authorized cooperatives and trade associations that receive a payment from insurance providers to provide benefits to their members from the funds received by insurance providers (section 508(b)(5)(B)). Moreover, ARPA ties any payments made by cooperatives and trade associations to review and approval by State regulators. This provision of law is used by cooperatives, such as the Farm Credit Banks, to make patronage dividend payments to their members.

RMA has issued a Manager's Bulletin (MGR–01–024) in an attempt to regulate this provision of law. It has not issued a regulation for public comment. Since the issuance of the Manager's Bulletin, some cooperatives have been formed with the apparent sole intent of making patronage dividend payments to their members based solely on crop insurance premiums. Most recently, an insurance provider has sought a "cooperative" designation in order to make dividend payments to its members without the necessity of going through an existing cooperative. RMA is trying to accommodate this request.

AACI believes that Congress set forth a narrow exception to the prohibition against rebates in Federal crop insurance to allow payments "to the cooperative association or trade association." This statute makes no allowance for a single entity, a crop insurance provider to make payments directly to policyholders. The statutes require two separate entities, an insurance company and a separate cooperative. Any attempt to characterize payments from the insurance company (as an insurance company) to itself (as a cooperative) for later payment to the policyholder as a dividend is simply a conduit designed to circumvent the law and is a "sham" transaction with no economic, accounting, or factual reality.

Performance-Based Discounts—As an alternative to rebates, AACI would support Performance-Based Discounts. Performance-based discounts were a program component in the 1980's. When RMA instituted the Average Production History (APH) program, performance based discounts were phased out. ARPA reauthorized these discounts in section 101 (b). AACI believes performance-based discounts are the most equitable and least discriminatory method of providing crop insurance discounts to farmers. In addition, they would give farmers across the country a chance at a discount, which is far preferable to allowing discounting only for one company or a handful of companies who might concentrate on discounts at the expense of service to farmers. Unfortunately, this provision of law has not been implemented to date.

Role of the States—Traditionally the States have regulated insurance programs. Certain aspects of the State role are preempted within the crop insurance program, for example the discount authorized by PRP program. Other aspects of the crop insurance program are left to the States to regulate such as agency licensing and dividends and rebates allowed under 508(b) (5(B). The companies in actuality must respond to both regulators, RMA and the States. The role of the States with regard to discounts, dividends and rebates need to be clarified.

Request for the Committee to Halt PRP and the RMA to Halt Dividend Discounts

We recommend The House Agriculture Committee take action to halt the implementation of section 508(e)(3), the referenced authority for the PRP program, until a full and complete impact analysis of PRP and other discount programs is conducted. Discounts and dividends may have a role in the crop insurance program, but the ability of RMA to regulate discounts and dividends, the proper role of State regulators and the need to ensure that corporate structure not determine eligibility must be addressed in a comprehensive manner. We note that language was included in the fiscal year 2006 Agriculture appropriations bill to halt the PRP program for the 2007 crop reinsurance year. Similar action may be the most expedient means to halt PRP for the 2008 crop reinsurance year if this Committee determines it will not be possible to pass separate legislation this year.

For the reasons previously stated, we have also requested RMA to disallow any request by an insurance provider to declare itself a cooperative and pay dividends directly to farmers.

The Regulator—The Risk Management Agency (RMA)

The second element of the Federal Crop Insurance Program that I want to touch on in my testimony is the regulator "RMA. The Federal Crop Insurance Program needs an effective regulator to continue growing and developing in value to all farmers, ranchers and growers, while earning and maintaining the trust and support of Congress and the public.

Today's complex crop insurance program is growing more complex with each passing year. With this increasing complexity comes an ever increasing regulatory challenge for RMA. The main challenge of RMA is to manage and regulate a growing program that yearly becomes a more essential component of the financial infrastructure of American agriculture while not greatly increasing its budget.

With the budget deficits that our Government now faces, RMA must focus on the rebalancing of resources and prioritizing its goals. We in the private sector are forced to do this every year. As the program changes and new and different objectives and mandates are added, resources must be redirected to reflect the new priorities. To maintain an acceptable level of effectiveness there is one resource that must keep pace with change and that is information technology. RMA badly needs to upgrade its computer technology in order to communicate effectively and efficiently with its private sector partners.

We propose that RMA make its computer technology needs a top priority and find the funds necessary to modernize by reordering other missions and seeking new appropriations. We are willing to work with the agency in this regard and support them in the appropriations process. However, RMA should focus its information technology upgrade on its internal systems and on its role as a regulator. Some within RMA are attempting to duplicate the private sector role by developing direct user interfaces to farmers, a role which should properly be reserved for insurance companies and agents.

Using my company as an example of what I know to be the situation generally for RMA's private sector partners in the crop insurance program, we have invested heavily in establishing the best information technology available and we continuously add to the investment in order to maintain maximum capabilities. We depend on information technology not only to be on the leading edge of processing and operational efficiencies but also to provide our farmer-customers with the best possible services. RMA must become an equal with its private sector partners in the use of information technology. RMA is not there today.

In this regard, AACI commends the House Agriculture Committee for the position it has taken for no reductions in the fiscal year 2007 budget for agriculture and we appreciate the action taken to inform the Budget Committee of its views. Additionally, and for the record, we are absolutely opposed to the creation of a "premium tax" or "participation fee," as it is referenced in the administration's proposed budget. The Risk Management Agency (RMA) is a Federal entity, established to administer and regulate the Federal Crop Insurance Program—a public policy justified, developed and supported on the basis that benefits accrue to a broad cross section of the general population. Accordingly, all funds necessary for RMA to carry out its mission and purpose should be appropriated from the general funds of the U.S. treasury.

Finally, RMA should return to a more traditional form in its relationship with the private sector. We are encouraged by the reception and attitude regarding this possibility by the new management team. A more cooperative relationship, while maintaining all of the necessary conditions of an arms-length regulator, can serve to reduce demands on RMA's limited resources, allowing greater funding for top priority needs, especially computer technology.

In summary, we believe RMA management should reexamine the four unique features that I outlined at the beginning of the statement-—(1) the unique public-private partnership, (2) service-based competition, (3) universal service to all farmers, and (4) non-discrimination against any farmers. RMA's priority should be building on these critical reasons for the program's success rather than creating or allowing new marketing gimmicks such as PRP that serve only to divert the focus and resources of the agency, as well as the private sector, and result in less service to the people the program was created to serve—the American farmer.

This concludes my statement, Mr. Chairman. I will be happy to respond to questions at the appropriate time.

Statement of the Independent Insurance Agents & Brokers of America

The Independent Insurance Agents & Brokers of America, Inc. (IIABA) presents the following testimony to the U.S. House of Representatives Committee on Agriculture, Subcommittee on General Farm Commodities and Risk Management concerning the Federal Crop Insurance Program (FCIP). IIABA is the Nation's oldest and largest national trade association of independent insurance agents, and represents a network of more than 300,000 agents and agency employees nationwide. IIABA members are small businesses that offer customers a choice of policies from a variety of insurance companies. Independent agents offer all lines of insurance—property, casualty, life, health, employee benefit plans and retirement products.

In 1980, Congress transitioned the Federal Crop Insurance Program from a program administered solely by Federal employees to a private-sector/Government partnership project. In mandating this transition, Congress recognized that "the sales talents and experience of the private sector commissioned agents . . . are essential to fulfilling the goal of nationwide, generally accepted all-risk insurance protection." As a result of this demonstrated talent, Congress rested upon the agents' shoulders the "large burden of program delivery" and "providing full service to the client" including, but not limited to, sales. Independent agents, including IIABA members, have proved instrumental in achieving the program's goal of helping farmers make well-informed risk assessments and choices about the coverage that they purchase. These agents are knowledgeable about the technicalities of the crop insurance program and skilled at assisting farmers with concerns that directly impact their coverage, such as unit structures and yield guarantee weaknesses. They also have the training and experience necessary to encourage participation of small, limited resource and minority producers, as required under the Standard Reinsurance Agreement (SRA).

IIABA believes that the FCIP provides a vital risk management tool for our Nation's agriculture producers. The program also saves the Federal Government a significant amount of money in ad hoc disaster assistance by providing a more reliable system of payments for farmers who have protected themselves against the possibility of farming perils. We believe in the effectiveness of the program and would like to see it continue and offer farmers even greater protections in the years ahead. IIABA also believes that the independent agent network continues to be the most effective and reliable delivery system for crop insurance. Unlike the traditional property-casualty marketplace, a crop agent's responsibilities require a much more hands-on approach, which invariably increases the threshold for errors and omissions (E&O) exposure. On average, with advance meeting preparation, travel, and meeting time, an agent spends approximately 7 hours on a policy during the sales window alone.

A transaction begins with the agent explaining production reporting and supporting record requirements to the farmer. He explains different date requirements by crop and by coverage for application, the actual production history (APH), the acreage report, the farmer's options and claims. He completes APH-related forms for the farmer, calculates preliminary yields, reviews production early to determine if there is a revenue loss, reviews the APH form for completeness and accuracy, and forwards the signed form and any applicable worksheets to the company. The agent then must review approved APH from the company to ensure accuracy, explain approved APH yields to the farmer, and provide him with a copy. There are procedures for Preventive Planting, Yield Adjustment, Unit Division changes, Power of Attorney requirements, as well as other technical policy provisions. It goes without saying that this is a tremendous undertaking, and agents accept it and do so knowing that they are providing an important service to the agriculture community in their area.

IIABA is concerned that recent decisions by the Administration puts in jeopardy the future of this important risk management program, some of which we will outline below:

Fiscal Year 2007 Considerations

The President's fiscal year 2007 budget proposal seeks to make changes that have a direct impact on crop insurance. For instance, the Administrative and Operating (A&O) expense—the money the Government pays companies to administer the program—has a proposed reduction of 2 percent across the board. This is in addition to the previous reductions the companies have faced over the last few years. As an agents group, we view any reduction in company A&O as a possible reduction to the commissions provided to our members. Bear in mind that the workload involved in writing crop insurance remains static while the cuts in commissions continue to add up. As commissions begin to decline, it is only a matter of time before the agent network begins to follow a similar pattern.

The budget also proposes a participation fee, which is better regarded as a premium tax of 0.05% on the companies' premiums. This fee is described as a way to help the Risk Management Agency (RMA) modernize their outdated computer systems. However, what the proposal fails to take into account is the inherent duplicate expense this creates. Whenever RMA upgrades their computers, the industry stakeholders must upgrade theirs as well. If the companies are forced to pay the participation fee in addition to making any necessary upgrades to coincide with RMA, there is a need to recoup these losses, and conventional wisdom dictates that the most realistic revenue stream is through agent commissions.

The budget also proposes to absorb more of the companies' quota share. A quota share is a method of underwriting by which the companies decide which policies they want to retain risk on. By retaining risk they have the ability to share in the underwriting gain or loss. Last year the Government mandated that the companies share 5% of this underwriting retention, and the 2007 budget proposal increases this figure to 22 percent. If the Government continues to reduce the amount of retained premium and potential for underwriting gain, they will cause reinsurers to exit the crop insurance business since the risk reward ratio is not sufficient. This proposal, like all others related to crop insurance in the budget, will have a trickle-down affect on the agents.

Premium Reduction Plans

IIABA continues to voice serious concern over Premium Reduction Plans (PRP). IIABA contends that with continued reductions in the A&O reimbursement, the ability to efficiently operate below the A&O is an unrealistic endeavor, and therefore PRPs have outlived their reasonable shelf life. This is not to say that we are against competition; to the contrary, we believe competition is healthy and provides an important check-and-balance for our industry. However, PRPs actually undermine the competitive playing field by putting cost of service over quality of service. Competition has always existed in crop insurance, yet the driving force behind it is the level of service policyholders receive from their companies and agents. When a company attempts to create a surplus in their operating costs, corners are cut, service is undermined, and attention to detail is compromised.

Congress did the right thing when they eliminated funding for PRPs during the 2007 reinsurance year. This "timeout" was necessary in order to provide RMA the necessary time to complete a feasibility study of PRPs and to determine what, if any, their role in the marketplace should be. To this day no such study had taken place and therefore, we believe that Congress should reauthorize the funding restriction amendment in the 2007 Federal budget and commission a Government Accountability Office (GAO) study on this controversial program. This is a fair and reasonable approach to determining whether or not PRPs belong in the crop insurance marketplace.

We thank the Subcommittee for giving us the opportunity to express the views of the IIABA on this important Program. We hope very much that our concerns contribute to any additional action taken by the Congress to ensure prosperous growth and stability of the Federal Crop Insurance Program.

REVIEW OF THE FEDERAL CROP INSURANCE SYSTEM

WEDNESDAY, APRIL 26, 2006

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

The subcommittee met, pursuant to call, at 11:30 a.m., in room 1301 of the Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Members present: Representatives Johnson, Bonner, King, Neugebauer, Conaway, Sodrel, Goodlatte, Etheridge, Salazar, Herseth, Butterfield, Melancon, Pomeroy, Boswell, Larsen, Chandler, and Costa.

Staff present: Tyler Wegmeyer, subcommittee staff director; Bryan Dierlam, Craig Jagger, Callista Gingrich, clerk; Lindsey Correa, Clark Ogilvie, and John Riley.

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

Mr. MORAN. The Subcommittee on General Farm Commodities on Risk Management will come to order.

Mr. Etheridge, our ranking member, is in a series of votes in the Armed Services Committee, and will be joining us shortly, but we have his consent to proceed, and in his absence, we will designate the gentleman from North Dakota the ranking member of this subcommittee, and Mr. Pomeroy and I can once again work side by side, closely together.

We are here today to review the Federal Crop Insurance System, and I appreciate our witnesses joining us for this hearing. This is our second hearing of this year, that this subcommittee has held to specifically review the Federal Crop Insurance Program. Crop insurance, as we know, is an integral part of our producers' operations, and it is the goal of this subcommittee to ensure that participation is afforded to every producer, and to ensure that the program is administered effectively and efficiently.

In our hearing in mid-March, we heard from the administration and various industry representatives. While the testimony of our witnesses in March provided insight into the administration of crop insurance, it only provided part of the picture, and I am counting on today's witnesses to provide at least a good portion of the remaining picture of what is going on in regard to crop insurance and its delivery to our producers. Those producers are the direct beneficiaries of the crop insurance program, and will provide what they see as our successes and challenges facing the crop insurance program on behalf of farmers across the country.

It is important that we examine all aspects of the crop insurance system, including delivery, effectiveness, and participation. I hope to hear how things are working, and what we can do as a subcommittee, and the House of Representatives, to improve the crop insurance system. In concert with the testimony from the March hearing, the feedback gathered here today will help us determine if the crop insurance program is meeting the objectives it was designed to fulfill, and I look forward to honest and valuable testimony from our witnesses today.

In the past, this subcommittee has held numerous oversight hearings here in Washington and across the country, seeking input from farmers, farm organizations, commodity groups, the Risk Management Agency, and crop insurance companies, and agents, as to how improvements can occur.

As we all know, farming is a high-risk business. The goal of the American farmer is to profitable enough to pay all the bills and still have something left over for their own families. A farmer must use every available means to reach that goal: high quality seed, implement recommended best management practices, the use of new technology, but no amount of technology or other efforts can protect a farmer's crop from early freeze, flood, droughts, wildfire, or disease. Producers don't have control over the weather and these other variables. The nature of farming is one of the driving reasons many producers choose crop insurance to reduce some of the inherent risk in their operations.

The Federal Crop Insurance Program was created in 1930, and has undergone significant legislative reform in subsequent years, and we are willing to look at reforming that system further. Much progress has been made, with coverage of over 370 commodities, 80 percent of the acres planted are now covered, and that is good news. Much of that comes about as a result of the legislation, the Agricultural Risk Protection Act that we passed in 2000.

While that is progress, there is still much that can be done, and that is why we are here today.

I look forward to the testimony of our witnesses. I am pleased that we will be hearing testimonies from producers in my home State, Steve Baccus, who is the president of the Kansas Farm Bureau, as well as testimony submitted from one of my farmers, Keith Miller, from Barton County, Kansas. I would also like to recognize Kansas State University's Dr. Art Barnaby, who will be testifying on behalf of the Agricultural Economics, Research, and Extension at that university. And thank all of our other witnesses for their careful preparation.

I also appreciate the ability to change the time of this committee's commencement. We were originally scheduled to be earlier, but the Transportation Committee, that I am serving on, is conducting hearings on rail capacity, or lack of capacity, one that has significant implications for producers across the country. And so I appreciate the ability of people extending their stay in Washington for us to begin here at 11:30. I know that for many of you, Washington, DC is a long way from home, and on behalf of the subcommittee, I again thank you for being here, and for your testimony. I know that it takes significant effort to prepare.

Perhaps one of those who, I have no doubt is well prepared, but has enough experience not to have to spend a significant amount of time preparing and understanding agricultural issues is our first panelist, Governor Hoeven, welcome very much to this committee. I appreciate the chance to have you testify before our subcommittee, and I would like to recognize the gentleman from North Dakota for your introduction.

OPENING STATEMENT OF HON. EARL POMEROY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. POMEROY. Thank you, Mr. Chairman.

As I understand, I can make comments of an introductory nature, as well as the opening comments that our ranking member, Bobby Etheridge, might have advanced, but for his participation in votes in Armed Services.

So, first, by way of opening comments on behalf of the ranking member. The chairman has it precisely right. There are inherent risks in agriculture, risks that can't be managed. Production loss would qualify as a major body of those risks, and price failure, price collapse, another risk. In order to keep family farmers on the land, it has been essential for the Federal Government to advance risk management strategies that help families deal with these risks, and in the absence of Federal assistance in this risk management, inevitably, there will be a dramatic consolidation in agriculture production in our country.

Self-insuring the risk of production failure means deep, deep, deep pockets. It means a corporate style agriculture very different from the family farming tradition undergirding U.S. agriculture production. So, I have been strongly supportive of a farm bill that helps when prices collapse, and a crop insurance program that covers production failure.

I thought that our last hearing, Mr. Chairman, was an excellent discussion of what has been achieved so far. Keith Collins, Chief Economist at the U.S. Department of Agriculture and one who testifies here frequently, noted the progress made in the 1993–94 crop insurance reforms have broadened participation across the country in the crop insurance program. Dr. Collins noted the 1999 reforms, known as ARPA, which increases the Federal support, in terms of premium subsidy, and it has allowed farmers to insure higher values of their crop.

While those are notable achievements of this crop insurance program, it is notable what Dr. Collins said we had not achieved. We hadn't achieved an ability to insure 95 percent of cost exposure, and never would be able to, under his view of crop insurance. He stated to this committee that the only way you get coverage representing nearly that amount of a farmer's financial exposure is crop insurance, topped off with a disaster bill.

I mention this, Mr. Chairman, because we have a consideration of a disaster bill to assist farmers for 2005 production losses. It is pending in the Senate. It was approved in the Senate Appropriations Committee. It is going to be considered on the Senate floor.

As this comes to conference committee, in the event the Senate holds the disaster response in, I would hope that this subcommittee would lift its voice in support of disaster assistance to farmers. I am very pleased that this concept has broad bipartisan support in North Dakota, and indeed, Governor Hoeven is in town, in part, because of this hearing, and in part, because he is leading a delegation of North Dakota farmers, as they seek the kind of disaster assistance we need in order to deal with the losses of the 2005 session, and the staggering costs, driven by fuel costs, in getting the 2006 crop in.

I am very pleased that we have Governor Hoeven testifying this morning, Mr. Chairman, because this is a Governor that has a deep expertise in finance, MBA from Northwestern, vice president First Western Bank in Minot, a largely family-owned bank, before he ascended to the position of president of the Bank of North Dakota, the only State-owned bank in the entire country. During his tenure, their assets grew from $900 million to $1.6 billion, so this is a Governor that knows something about finance, and his reflections, I believe, on how crop insurance reflects critically to the individual financial circumstances of farmers, I think will be of great interest, and we may also want to hear his views on the disaster proposal pending before Congress.

So, I am very pleased to have our Governor here, and thank you for allowing me the privilege of introducing John Hoeven.

Mr. MORAN. I thank the gentleman from North Dakota. Governor Hoeven, welcome. It is a honor for this subcommittee to have the chief executive of the State of North Dakota with us, and we are delighted to hear your testimony. We look forward to that right now.

Thank you.

STATEMENT OF HON. JOHN HOEVEN, GOVERNOR, STATE OF NORTH DAKOTA

Governor HOEVEN. Chairman Moran, thank you for the invitation to be here. Thank you to all the members of the committee, and certainly, to Representative Pomeroy, thank you for the nice introduction. I appreciate it very much.

You have got my testimony. I submitted it earlier, and I understand that will be part of the record, and so, I won't read that, in part, because I think it takes about 12 minutes to read, and I understand I have got 5 minutes, and obviously, you can go through it at your leisure. But I would like to give you some of my thoughts on crop insurance, but also do it in the context of the farm bill, which you will be working on, I know, very diligently, already are working on very diligently, and disaster assistance, as Congressman Pomeroy mentioned. Because all three go together, and I think need to be considered together.

The heart and soul of the farm bill is the countercyclical safety net, and I believe that it is has worked very well, and perhaps more than anything, as a tool to help keep rural America strong, keep agriculture strong throughout our country. I see that countercyclical safety net as vital to our farmers, cost effective, but also something that truly benefits all Americans, because we have the highest quality, lowest cost food supply in the world, because of

American agriculture. And so, we need to continue that countercyclical safety net as we move into the new farm bill. We need to maintain planting flexibility, so that farmers can grow for the market. That not only helps them in terms of achieving better income, but it is cost effective for our farm policy, because they are growing for the market.

We need to have a long-term farm bill. This current farm bill is 6 years. We need a bill that is 6 years, because people have to be able to plan for the future, whether you are already in the business of farming, or perhaps if you are a young person looking to come into that business. You are making commitments. You need a planning horizon, and so that long-term nature is very important.

Those components, though, together with important titles like a conservation program, that works not only for farmers, but for all Americans, an energy title, I mean, farmers are already a huge part, and will be a much bigger part in the future, of our solution, in terms of energy sufficiency on the part of this country. Those are important titles as well.

But the things I mention all are important, in terms of keeping agriculture strong and rural America strong. Crop insurance fits right in with it. Now, I understand crop insurance isn't separate legislation, but as you look at the farm bill, we need to have crop insurance operating in tandem with the key provisions of the farm bill, and so, I encourage you as strongly as I can to look at it in that context. The biggest issue that we see, in terms of fixing or improving, enhancing crop insurance, is that producers have to be able to insure, to a higher percentage level, cost-effectively. Right now, I think approximately 90 percent of the farmers in North Dakota take out crop insurance, but they can only sure to about a 70 percent level cost-effectively, in terms of the cost of that premium. So what happens when they have a disaster? Well, think about that. They have a disaster. They can insure to about that 70 percent level. Even after getting their insurance proceeds, they end up with about a 30 percent loss, and oftentimes, it is more.

Now, think about any other kind of business. Think about any other kind of business. You can insure yourself to a level so that if you have a disaster, if you have a fire, a flood, a hurricane, a tornado, or whatever it is, that you rebuild the building. You get enough to recover your cost, and that is the key with crop insurance. Our producers have to be able to buy a level of coverage, so they don't go backward 30, 35, or 40 percent in a year. Then they have not only a disaster in the field, but a disaster in their balance sheet, and look where that puts them.

So, in North Dakota last year, we had producers that were fine. But in some areas of the Red River Valley in the north central part of the State, we had some torrential flooding in the summer, torrential summer storms, so in July, after they have got all their costs, all their inputs in the ground, they end up with the entire field underwater, OK? Those are the folks that have suffered the damage. Those are the ones that need that assistance. They need to be able to insure at a level where they don't go backward.

As was mentioned earlier, the second reason I am here, along with farmers from North Dakota, is to work on disaster assistance, and as they say, they really go together. If our producers could insure at a level where they could break even, we wouldn't need ad hoc disaster assistance. But until we address those things in crop insurance, we do need that ad hoc disaster assistance, and I would ask for your support, for the members of this committee's support, for that assistance, until we make the changes and improvements to crop insurance that I have talked about.

Again, Mr. Chairman, thank you for inviting me to be here. Thank you to the members of the committee. I appreciate it very much, and I would be happy to answer any questions, if you have them.

[The prepared statement of Governor Hoeven appears at the conclusion of the hearing.]

Mr. MORAN. Governor, thank you very much. We express our concern and compassion and care for the people who have experienced tremendous damage in North Dakota, due to weather related occurrences, and I will defer my conversation, questions of you, you and I have an appointment later in the day, and so, therefore, I would yield my time to the gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman, and not to pass up that opportunity, although, Governor, your presentation was complete and concise, and doesn't leave a lot of holes for curiosity.

But I would just point out the 70 percent level that can be insured at this point now, and I would ask you how might one go about providing for the additional level of coverage, so that one can recover their loss?

Governor HOEVEN. My suggestion would be that adjustments be made in the premium costs, so that once you start insuring above that 70 percent level, it is not prohibitively costly. In essence, it becomes a dollar for dollar exchange at that point. And so, I think that risk management really has to look at OK, how can we structure this policy with a reasonable premium so that again, throughout the entire policy spectrum, you have got reasonable premiums. We understand the actuarial nature of the program, but we have got to have some adjustments in that premium cost above the 70 percent level, so you can get up to a higher percentage, and it isn't prohibitively costly.

Mr. KING. And does that translate directly into subsidizing the premiums?

Governor HOEVEN. It depends on the rating you do throughout the entire policy spectrum. It could. It could.

Mr. KING. And are there other alternatives that you might have in mind?

Governor HOEVEN. In terms of the mechanics of how you do it, I don't know that I have a suggestion, other than looking at some of the policies, depending on the commodity, are re-rated every year. Others are done periodically. Maybe you have to look at certain commodity programs and re-rate them more often, and make sure you make premium adjustments, so that people can insure to an appropriate level.

Mr. KING. Governor, I would like to thank you for your testimony, and express our solidarity with the people that are under weather duress up in North Dakota. You have had many cycles of that over the last few years, and I have no further questions, and I yield back the balance of my time.

Mr. MORAN. Thank you, Mr. King. If the gentleman from North Dakota will allow me, let me see if the chairman of the full committee, the gentleman from Virginia, has any questions of our witness.

The CHAIRMAN. Thank you, Mr. Chairman. I do.

First, let me thank you for holding this hearing, and also, thank Governor Hoeven, who I have had the opportunity to meet on several occasions now, for coming back to testify before the committee. We very much appreciate your good work as Governor of an important State, and we are very interested in North Dakota's experience with crop insurance, because we know you have had a lot of tough experiences with various weather-related disasters, and crop insurance is intended to try to fill the breach.

We are also, from a national perspective, interested in ways that we can improve the crop insurance program, because we would like to continue the slow but steady march that we have had in the direction of trying to prepare for the inevitability of various types of crop failures, and do more of it, by preplanning and by insurance than we have. And hopefully, that can lead to less of it being done with disaster packages, which tend to take a long time to get done, tend to keep a lot of people in suspense for a long time while we work our way through it, and while we have, on many occasions, come through with those disaster payments, it is not an ideal way to address these problems.

So, I am very interested in, and would like to follow up on Mr. King's questions to you regarding expanding the crop insurance coverage upwards from the 70 percent level. As we look forward to writing the next farm bill, one of the things that we could do, and I don't know that we will, but could do, would be to provide a diversion of subsidies from other areas into paying for that increased coverage, but assuming that we did not do that, would it still be cost-effective for farmers, and would it be cost-effective, in your opinion, for those who administer this risk management program, to increase it, and not subsidize that differential that is raised above 70 percent?

Governor HOEVEN. It may be——

The CHAIRMAN. And how high would you raise it, by the way? You have a feel for that yet? If we went above 70 percent, how high would you go? Knowing that each step we take higher not only means that it is more costly for the farmer and potentially for the Government as a subsidy, but it is also going to mean more claims, because we are getting away from real disasters to years where you have a sub-par performance, and not an actual disaster, if you get up to 90 percent, say, or better.

Governor HOEVEN. Right.

The CHAIRMAN. Where would you draw the line, and would it be cost-effective if it didn't have Government subsidies?

Governor HOEVEN. Chairman Moran, Chairman Goodlatte, I appreciate the question. I also appreciate the opportunity to meet with you. You have been fantastic about meeting with us when we come down, and again, I appreciate—and your work on behalf of agriculture.

I think there is a number of different ways you could come at it. I think you wouldn't just look at the incremental cost of premium above the 70 percent level. I think you would have to look at the entire policy, and then make some evaluation on the premium rating that you do. The issue is being able to insure at a higher level, or a higher percentage than 70 percent, recognizing it would become more costly for each percentage you increase, but ideally, have the opportunity to be able to insure up to your costs in the ground, your costs of production in the ground.

The farmers I have talked to have indicated they would be willing to prove up those costs. I think with stronger enforcement mechanisms, and with some other adjustments in the farm program, it is possible you could do so on an actuarial basis. You didn't necessarily increase the subsidy. I understand that is what you would at least strive for. There are enhancements, I think, that you will be looking at in the farm program that will facilitate this, which is why I encourage you to look at crop insurance in tandem with these other titles, because you are going to do things, I believe, in energy, you are going to do things in conservation, like with some of the wetland programs and other incentive payments, that would, in effect, help in this area. For example, if you are flooded, and you are in proximity to a river, you may enter into one of these conservation programs, which actually reduces costs in the crop insurance program. It all goes together, and that is why I urge you so strongly to look at them together. I think there are synergies and opportunities there for you.

The CHAIRMAN. Well, in that regard, referring back to your example of the Emergency Watershed Protection program. As a tool for disaster reduction, do you feel that these types of alternative plans to avoid crop disasters are being pursued sufficiently by producers, and in particular, in North Dakota, are these programs being commonly sought out in the high risk areas in the State?

Governor HOEVEN. I think we are seeing improvement. I think it is a continuum. I think it is getting better. I think people are recognizing this as an opportunity. Again, that fits with your work on the farm bill. As you are able to strengthen those programs, and as the funding is there for those programs, we will see more use. So, it is moving the right direction. I think it is going to continue to be a benefit both for farmers, and for the cost-effectiveness of the farm program.

The CHAIRMAN. Thank you very much. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Chairman, for joining us. I appreciate your participation and attendance today. The chair once again recognizes the gentleman from North Dakota.

Mr. POMEROY. I thank the chair, and just in partial—my own reflection on the chairman's question is that the principal tool for basically taking acreage particularly susceptible to risk, and taking it out of production, has been the Conservation Reserve Program, and North Dakota has more than 3 million acres in, and that program has been fully utilized, and we believe that there will be a smaller number of acres re-enrolled by U.S. Department of Agriculture, but that has been one. Conservation Reserve Program, because it was phased in by watershed, we really didn't get much of a crack at that one, and so, the potential of the Conservation Reserve Program in North Dakota is largely untested, unfortunately.

Governor, thank you for your testimony. I thought it was excellent. I would like you to help us understand, maybe with your banker's perspective, as well as gubernatorial leadership, how this hits an individual farmer. The statement of administration policy on the supplemental appropriations bill in the Senate came out yesterday. I have only seen it this morning. But it indicates a view that agriculture disaster isn't necessary, because there is the farm program, and there is crop insurance. Now, the farm program really has got nothing to do with production loss, or not much to do with production loss, as I can understand it. That is more about protecting against the countercyclical support against price collapse. And the crop insurance, you have got the issues that you have addressed in your testimony, shallow loss, or coverage levels that don't reflect the financial exposure of a farmer, so I would like you to, if you would, reflect how in an individual farmer's circumstance, the existing crop insurance program and the farm program really don't alleviate the need for disaster assistance, at least as regards 2005 production losses.

I thank the chairman. I will yield back. I have no further questions.

Governor HOEVEN. First, relative to the Conservation Reserve Program, and taking land out of production. Just to follow that up, I think you have to differentiate between the concept or marginal and really high quality land. In my reference to Chairman Goodlatte's question, recognize that some of this land is high quality, high quality farmland. It is not land that would be put in CRP, but it is still land that may be flooded, particularly in a wet cycle, and so I think there is some opportunity there, as we discussed earlier.

Relative to your point, which I think is the right question. It is the key point. What is happening is you have got a situation where individual producers, and I brought pictures, if the committee would like to see them, but whether you are hit by a hurricane, a tornado, a fire, a flood, when you have farmland, where you have put all your inputs in the ground, you have got your seed in the ground, you have got your fertilizer in the ground. You have got a certain amount of chemical. You have made multiple passes. You have got all your costs in the ground, and then you get a torrential rain, and about the 10th of July, you look out in your field, and it is a lake, it is not a field. And then after getting crop insurance payment, you are still, you have got a loss in excess of 35 percent, that is a real hit to your financial situation. That is a hit not only to your farm operation, but obviously, your equity, to your balance sheet. Now, you come into a year where we have got very high fuel costs, and this is a very fuel intensive business, how do you keep going? And so, that is the issue, and that is clearly what you have to focus on in this ad hoc disaster package is those producers out there, whether they were hit by hurricane or flood, they are in the same situation. They need that help to get through. Ideally, if crop insurance were meshed well enough with these programs in the farm bill, and the farmer could insure to that level, where he or she didn't go backward, you wouldn't have this situation.

Mr. MORAN. The chair recognizes the gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Mr. Chairman, I would like to yield my time to the other gentleman from Texas, Randy Neugebauer.

Mr. MORAN. The gentleman from Texas, Mr. Neugebauer, is recognized.

Mr. NEUGEBAUER. I thank the gentleman from Texas.

Governor, I was glad to hear you talk about crop insurance, because I believe you are exactly right that, as we look at the next farm bill, in making sure that we have a comprehensive inter-agricultural policy for our country, it has to, I think, include some improvements in crop insurance. And one of the things that I hear from the producers in my district is the same thing that you are talking about, is that the 60 to 70 percent coverage that they can afford to carry is really not enough, and if you look at some of the average yields, that that you are really not insuring 60 or 70 percent, because a couple of low yield years brings down, really, the amount of coverage that you can have.

So, that is one of the reasons that I have introduced a piece of legislation, and I would encourage you and the producers in North Dakota to take a look at, is being able to add a policy that is already in place and been approved, and that is a GRP policy, and basically, what you would be able to do is carry the underlying multi-peril risk policy of 60 or 70 percent that you wanted to do, and you could put a 30 or 40 percent GRP policy on top of that. And what that does is that GRP policy then begins to, as you know, it is triggered by a county-wide yield, and so, basically, what that GRP policy really becomes is it is your disaster payment that you would be anticipating getting, if Congress had the political will to pass a disaster bill. And the good news about that is it is insurance, and so, you get it much quicker than waiting a year or two for Congress to decide whether you really, in fact, have had a disaster, and so, the producers and their lenders know exactly what kind of recovery that those particular producers are going to be able to expect from that policy. But I concur with you 100 percent, and I would encourage you to take a look at that, and if you and the folks in North Dakota think that is a good deal, we want to try to move that forward as we look at the next farm bill.

And I thank the gentleman for yielding, and I yield back the balance of my time.

Mr. MORAN. I thank the gentleman from Texas, Mr. Neugebauer, for his unending support for his piece of legislation. Never have you missed an opportunity.

The chair recognizes the gentleman from Colorado, Mr. Salazar.

Mr. SALAZAR. Thank you, Mr. Chairman, and Governor, thank you for being here.

As a farmer and rancher myself, I understand the odds that we all face in agriculture, and in southern Colorado, we are now facing a severe drought, something that I think that we have to address here in Congress. But as you know, the 2007 farm bill hopefully will have the energy provision that many of us are pushing for. Many of the crops that we raise for biodiesel, such as canola and others are not insurable.

Could you please comment on that, and your perspective, from a banker's perspective and the Governor's perspective?

Governor HOEVEN. You mean in terms of adding those crops, and making them eligible for insurance?

Mr. SALAZAR. That is correct.

Governor HOEVEN. Clearly, from our perspective, we would like to see that opportunity broadened to the extent possible, so that producers could insure, and we understand that they will be actuarially related, and risk rated, and that there is a cost-effectiveness in terms of doing that that has to go along with it. We understand that, but clearly, we feel that opportunity.

Again, conceptually, where we are coming from is businesses being able to adequately insure for risk, and same thing with our producers, our farmers and ranchers, how do we get them in a position where they can adequately insure to manage risk? And it is critically important for the younger people. We want this next generation in farming and ranching, I know everybody in this room wants that opportunity for young people, and I think it is very important for this country. And with the equity requirements when you look at land and livestock and equipment and operating and everything else, you have got significant capital requirements. And so, not only for existing operators, but to really bring young people into this business, we have got to offer them an opportunity to manage risk.

Mr. SALAZAR. Thank you. I appreciate it. I yield back.

Mr. MORAN. The gentleman from Indiana, Mr. Sodrel, is recognized.

Mr. SODREL. Thank you, Mr. Chairman. Being a new member of the committee, I find it more productive for me to spend my time listening than pontificating.

Mr. MORAN. You are a very popular new member of the committee. I thank the gentleman from Indiana.

Mr. SODREL. Agriculture is very important to Indiana. That is the reason I took it, and I have spent a lot of my time in the last 2-week break listening to farmers in the district, so I will continue to do that, and hopefully, I will be able to offer something to the committee.

Mr. MORAN. The gentleman from Indiana is welcome to our subcommittee. Chairman Goodlatte has welcomed you to the full committee, and we are delighted to have you as an active participant on this Subcommittee on General Farm Commodities and Risk Management, and we thank you for the brevity of your remarks.

We now turn to the gentleman from Louisiana, Mr. Melancon is recognized.

Mr. MELANCON. Thank you, Mr. Chairman.

I don't have any questions at this point in time. Governor, I was late in getting here, and I apologize for that. We are 8 months into trying to fix hurricane damage, including crops, and I appreciate your coming here. I hope that we can find some solutions to crop insurance that really work for American farmers. At this juncture in time, I think there are inherent problems in the system, and if we are going to continue to have safe, affordable food, we really need to address this.

Thank you, Mr. Chairman. I yield back my time.

Mr. MORAN. I thank the gentleman from Louisiana. It was my error. I should have recognized the gentleman from California, Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman. I do appreciate the Governor's testimony.

I don't know if I will be able to be here for the second panel, but I do want to make some observations as a third generation family farmer, as it relates to the crop insurance program and its application.

Crop insurance is important to our Nation's farmers and ranchers, but I think we need to be careful that we provide protection only as it relates to catastrophic losses. I think that we have a highly competitive nature of fruit, vegetable and nut markets that oftentimes get distorted as a result of some of the application of past insurance programs. I would suggest to members of the committee, as we consider the 2007 farm bill, that we note areas that we need to be cautious and careful about, as it relates to developing an implementation of crop insurance programs, on a national basis, so that we don't create regional advantages that create false markets. I don't think we should provide incentives for growers to expand acreage, as it relates to potential crop insurance programs. I think we need to consider a differential between permanent row crops, as they are juxtaposed with seasonal and perishable and fruits, as well as vegetable and nut crops. I don't think the program should encourage below market sales.

I think the program should be limited to coverage on losses that occur due to unpredictable or uncontrollable events, such as was testified earlier, like hurricanes, tornadoes, floods, and droughts. Those are unpredictable events, and there ought to be some ability to provide protection. I think also, we need to uniformly notify production agriculture around the country of any pilot programs that are established, and we always must recognize the differences on a regional basis, as it relates to local growing conditions and cultural practices, and also the difference throughout the country between irrigated agriculture and dry land farming. Those are all, I think, important aspects of any efforts to go forward with any crop insurance programs that allow for competitive marketplace forces to be engaged in the most positive ways that I think they should be.

So, I will be interested to look at testimony by the second panel, and the other witnesses, as we continue to take their input under consideration.

Thank you very much, Mr. Chairman.

Mr. MORAN. I thank the gentleman for his remarks, and this subcommittee has had a significant interest over a long period of time, of trying to determine how to improve crop insurance coverage for specialty crops, and we look forward to working with you to see that that occurs. This needs to be a broad-based program that insures the risks that farmers, producers face across the country, regardless of the crop they grow, and so, it is a challenge, but it is one that we very much want to meet.

I now recognize the gentlewoman from South Dakota, the more moderate weather Dakota State of the country.

Ms. HERSETH. Well, thank you, Mr. Chairman, and Governor, thank you for being here today. I know you enjoy a good working relationship with the Governor of South Dakota, as I do with my colleague to the north, from North Dakota here. There is one of each of you, and there is one of each of us, so we hang together pretty closely, and many of the issues that we have in our agricultural economies are similar.

I apologize for being late, and I know you have touched on this in response to other questions and in your testimony, but as we are looking toward the next farm bill, as this subcommittee, under Chairman Moran's leadership, has been very active in addressing issues under our jurisdiction, separate from reauthorization of the farm bill. We don't want to miss any opportunities, regardless of when we actually rewrite the next farm bill, and so, in your testimony, you call for a risk management title in the next farm bill, and traditionally, the full committee has dealt with crop insurance separate from the farm bill, and certainly under the jurisdiction of this subcommittee. In fact, the 2002 farm bill only contained six small changes with regard to crop insurance, so if, as you put it, our crop insurance tools "remain inadequate or too costly to protect the risk undertaken," then shouldn't we take a more comprehensive look at crop insurance, as Congress did in 1994 and in 2000, or could you just elaborate on why you believe that maybe a broader, more comprehensive title within the next farm bill is the best vehicle and avenue for us to pursue?

Governor HOEVEN. Mr. Chairman, Congresswoman, and you are right. Governor Mike Rounds and I have a tremendous relationship, and he does an outstanding job for North Dakota, and I know you and Congressman Pomeroy work together here, and we appreciate the very good relationship we have with our neighbor to the south.

I think that enhancements to crop insurance are very important. I think it does take us out of this ad hoc disaster bill situation. I think it enables farmers to plan for the future, to manage risk better. I think it will help bring the next generation into farming and ranching, because they will be able to better manage risk, and I think it puts farming and ranching on a basis that operates more like other business, where you use these tools to the very best extent you can to manage risk.

I believe that needs to be looked at in the context of the farm bill, because I think there are a lot of things that work in tandem here, that create opportunities, not only for farmers to better manage risk, and to enhance their income, but to reduce the cost of the farm bill. When you are looking at the countercyclical safety net, when you are looking at some of the other titles, like conservation and the energy titles, I think if you are looking at crop insurance in tandem with those programs, like we talked about the EWP program with Chairman Goodlatte, I think you have an opportunity for farmers to use multiple tools, when well coordinated, that enable them to better manage risks, to enhance their income, and reduce the costs of the farm bill. That is a win for everybody. That is better income for farmers and ranchers, stronger rural America. And again, we can't lose sight of the fact that everybody in America benefits from strong agriculture, highest quality food supply in the country, lowest cost food supply in the country, and last time I checked, everybody eats. So, we all benefit from that.

Ms. HERSETH. I appreciate your perspective, Governor, and I would agree that there are a lot of opportunities that we don't want to miss, and perhaps we can visit further as a subcommittee, about how these various tools would work in tandem. I know that others may have posed questions about the legislation that has been introduced in the House to establish a permanent agricultural disaster program, and how that may allow to provide an effective safety net, in light of the disasters that both North Dakota and South Dakota, the Gulf Coast, and so many other regions, as Mr. Costa was identifying, in the diversified agriculture sector that we have in this country.

So, at any time that you are willing to elaborate, and kind of identify, as you did, with the chairman of the full committee, as well as some other tools that you think would work in tandem, based on your experience, that we can integrate as we start discussing what these various existing titles, or any new titles might look like in the next farm bill, we would sure appreciate it.

Thank you. I yield back, Mr. Chairman.

Mr. MORAN. I thank the gentlewoman. The gentleman from Washington. I thank the gentleman.

Governor, as you can tell, you have been warmly received by our subcommittee. I hope you only have that kind of relationship with the legislature of North Dakota. We are delighted for your presentation, your remarks, and I personally thank you for being here, but look forward to our conversation later today.

I thank you.

Governor HOEVEN. Mr. Chairman, again, thank you and thank you to the members of the committee. I appreciate it very much.

Mr. MORAN. You are very welcome.

We would now call to the table the second panel: Mr. George Lamont, an apple producer from Albion, New York, on behalf of the U.S. Apple Association; Mr. Steven Baccus, president of the Kansas Farm Bureau of Minneapolis, Kansas; Mr. Mike Clemens, chairman of the National Sunflower Association, and a corn, wheat, and soybean producer from North Dakota, on behalf of the American Soybean Association and the National Barley Growers Association, the National Sunflower Association, and the U.S. Canola Association; Mr. Will Rousseau, chairman, Western Growers Association, from Tolleson, Arizona; and Mr. Steven Pigg, chairman, Public Policy Action Team, National Corn Growers Association of Bushnell, Illinois.

I thank our witnesses for being here. It is my understanding, committee members, that what I thought was votes between 12:15 and 12:30 have been postponed until around 1:15, so we will proceed with this panel. Before we do, Mr. Clemens, I want to personally thank you for providing the packets of sunflower seeds that our Agriculture Committee members enjoy. I have been a member of this committee for a long time, and I am a fan of peanuts. I eat them regularly. But it did bother me that something not grown in my home State was not available, and you all have been kind enough to remedy that circumstance. So, let me publicly thank the

Sunflower Association for providing a variety to the snacks that we are allowed.

Mr. GOODLATTE. But don't give up on the peanuts, Mr. Chairman.

Mr. MORAN. I recognize that those peanuts often say Virginia peanuts, so I know I am treading on difficult territory here, and I also am somewhat embarrassed to say that although the packets of sunflower seeds say Kansas Gold, they are grown in North Dakota. But it is a nice try, and I appreciate the effort on your part to accommodate me.

Very delighted to welcome you, and I recognize Mr. Lamont for your testimony.

STATEMENT OF GEORGE LAMONT, APPLE PRODUCER, LAMONT FRUIT FARM, INC., ALBION, NY, ON BEHALF OF THE U.S. APPLE ASSOCIATION

Mr. LAMONT. Good afternoon, Mr. Chairman, distinguished members of the subcommittee, and guests. My name is George Lamont. I am a sixth generation apple grower from Lamont Fruit Farm in Albion, New York. Our farm consists of 400 acres, entirely of apples. I am a member of U.S. Apple's Risk Management Task Force, past Chair of U.S. Apple Association, past president and executive director of the New York State Horticultural Society, and I truly appreciate the opportunity to testify on apple crop insurance before this subcommittee, on behalf of the U.S. Apple Association.

U.S.Apple is a trade association representing 7,500 apple growers, all segments of the apple industry across the country, including 36 State and regional organizations. U.S.Apple's mission is to provide the meanings for all the industry segments to join in collective efforts to profitably produce and market apples and apple products. And incidentally, the total U.S. apple farmgate revenue was over $1.7 billion in 2005, according to the USDA.

An improved crop insurance program has been one of the critical needs of U.S. apple growers for many years. We are facing increased international competition, rapidly increasing crop protection costs, compounded by the price of oil, and at the same time, are experiencing more damaging weather patterns. From 1998 to 2002, Michigan, western New York and eastern New York suffered devastating storms that in the past would be considered to be 50-year storms. These storms put many growers out of business, and threatened the financial stability of agricultural lenders as well. We desperately needed to find a way to hedge our risks.

In November 2000, the U.S.Apple Risk Management Task Force was formed to work in partnership with USDA's Risk Management Association to improve the apple crop insurance policy. This task force is comprised of growers, State association members, and insurance agent representatives, with the goal of continuously improving the apple crop insurance policy. We met several times via conference call with RMA officials, and provided a set of recommendations to RMA in the spring of 2004. The new policy went into effect for the 2005 season. We were able to work with RMA to achieve several improvements in the policy.

Among them were the basic grade was raised from U.S. cider to U.S. No. 1 Processing, while retaining an option for the grower to purchase coverage for fresh apples at the U.S. Fancy level. All weather related perils were covered, as opposed to only hail being covered from the previous policy.

These changes were very important to the industry, and we appreciate the willingness of RMA to work with the industry to make these needed improvements. However, there are additional features that would make the policy more valuable to growers. These would encourage growers to make more use of the policy, and we would like to enlist your support in encouraging RMA to adopt these features.

The first of them is the ability to create additional parcels. Because some weather events, such as hail, typically affect small areas, it is very difficult to qualify for legitimate weather related losses on larger blocks, because seldom will an entire block be hit. For example, if a 25-acre block is completely wiped out by hail, the grower can collect an insurance payment, no problem. However, if 25 acres out of a 100-acre block are hit, the grower will collect nothing, because the apples are adjusted on the average for the block. And as has been mentioned by the Governor previously, we are limited too by the amount of coverage, in our case, 75 percent is the highest coverage level that we can purchase. The task force requested that orchards divided by a road, an irrigation, or a drainage ditch, or some other permanent right of way be allowed to be insured as separate parcels.

Salvaging apples after settlement. In 2005, apple growers learned that apples salvaged after a claim had been settled and then sold as U.S. Fancy for fresh and U.S. No. 1 Processing would have to be reported as an amended form, and this would be deducted. This was a change from prior years, and was a real shock to apple growers. We feel that since we are insuring only part of our crop, we should be allowed to take whatever is left that we can salvage, if it is economically feasible, and let us make that decision.

Prices paid for damaging apples. This has been a real problem for us, because apples were previously paid at the cider apple grade. The price of cider apples dropped precipitously in the last few years, and we would like to see the prices moved up to the new policy, which reflects the U.S. No. 1 Processing. The policy was moved up, the growers are paying a higher premium, but RMA has not raised the price.

Extra Fancy Grade Option. Move very quickly here. In the apple industry, the general level of trade is U.S. Extra Fancy. Though we have been able to get the policy up to U.S. Fancy, there is still a big difference in quality standards, so our apples are being adjusted at U.S. Fancy, rather than the U.S. Extra Fancy, where we are trading.

Sales closing date. This is very important to us. The November 20 date just does not work for apple growers in the northern part of the country. We are still harvesting apples into November. At that time, our growers are mentally and physically exhausted, and in no shape to make important decisions such as crop insurance, and we would like to see that date moved into December, such as December 15.

These are some of the major changes we would like to see, that would make the policy more valuable and encourage greater participation. We do appreciate the willingness of RMA to work on policy improvements, and regret that we have not been able to make satisfactory progress in these areas.

We would again like to express my appreciation for this opportunity to address the subcommittee. I would be glad to answer any questions that you have. I would also like to state that I am available at any time to provide additional information on apple crop insurance programs to any of the committee members or any other interested Government officials. The Federal Crop Insurance Program is a very valuable tool in the production of apples, and we, as an industry, are committed to its constant improvement.

Thank you.

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

Mr. MORAN. Thank you, Mr. Lamont. Mr. Baccus.

STATEMENT OF STEVE BACCUS, PRESIDENT, KANSAS FARM BUREAU

Mr. BACCUS. Thank you, Chairman Moran and members of the committee. My name is Steve Baccus, and I serve as president of the Kansas Farm Bureau. I want to thank you for the opportunity to appear before you today, to share our concerns regarding crop insurance.

I am a fourth generation farmer from Minneapolis, Kansas, where we produce five different crops on a 100 percent no-till farm. Consequently, I understand all too well the problems associated with the current crop insurance program.

As you stated, Mr. Chairman, agriculture is a highly erratic industry that is impacted by a multitude of variables that are far beyond the producer's control. Farmers can use top quality seed, fertilizer, chemicals, and the best management practices, and still not be able to control the weather or the markets. If we do not have a viable crop insurance program, the alternative safety net for American agriculture is a continuation of the ad hoc disaster assistance we have seen.

Without price competition, crop insurance has become ineffective, inefficient, as well as unresponsive. The cost of crop insurance in Kansas has risen so much, primarily due to 6 years of drought, that it limits the number of producers who can participate at the level necessary to provide them the protection that is required to continue their operations.

The Risk Management Agency rules have made Federal crop insurance rigid and cumbersome. The crop insurance application, acres, and yield reporting, and claims processes need to be simple, clear, and efficient. In addition, newly imposed privacy restrictions have made it nearly impossible for the insurance agent or the adjustor to communicate with the local FSA office, as well as recent administrative rulings by the RMA have made it illegal for my agent, the guy I bought the policy from, the guy who is servicing my account and looking after my interests, to communicate the adjustor who is handling my claim. Private business would not, in fact private business could not operate in this manner.

If crop insurers are allowed to compete on both price as well as service, like private business does, then I believe market competition will make this program better for both the American farmer as well as the American taxpayer. Price competition will drive a reduction in premium costs, as the market dictates that insurance providers would offer better products at lower prices, passing the cost savings on to the consumer, instead of absorbing it along the way.

In addition to serving as president of the Kansas Farm Bureau, I also serve as chairman of the board of Farm Bureau Mutual Insurance Company. From that position, I can give one prominent example of how the industry is already beginning to shift toward these new risks management tools: the Premium Reduction Plan, more commonly known as PRP.

Crop1 Insurance, which is a wholly owned subsidiary of Farm Bureau Mutual, has been writing these policies since 2003. In that time, Crop1 has gone from zero premium to $75 million in written premium. If that is not testimony to the desire of the American farmer to utilize an improved risk management tool, then I am not sure what is.

Since 2003, Crop1 has helped its customers save over $4 million in premium. Much of that savings was not pocketed by the producer, but was used by farmers to buy up increased coverage.

The PRP discount premium program is crucial to tens of thousands of farmers. It provides farmers with a much-needed savings at a time of rising fuel, fertilizer, as well as other costs that you have already heard about this morning. PRP deserves congressional. support.

We desperately need to begin looking at ways to increase competition on both price and service within the crop insurance industry. In addition to PRP, the RMA could allow each company to adjust the premium rates, depending on market needs and industry or company efficiencies. This would not be a refund, as is the case with PRP, but an actual reduction in the premium rate at the time the policy is written.

To further reduce premium costs, we could allow companies to add, but not take away, underwriting rules. A producer who takes certain actions to reduce his chances for a loss, such as planting a particular drought resistant variety of a crop, and uses best management practices, as defined by the added underwriting rules, would become eligible for a discount.

And finally, to help counteract fraud and abuse, and to reward honesty, let us return to the days of experience rating, where the farmer with the lower loss ratio gets the better rate and vice versa.

Thank you, once again, for the opportunity to speak before you today. I have included considerably more information in my written testimony, and I ask that you carefully consider the problems associated with the current program, and help us bring new competition to an industry that has become inefficient, ineffective, as well as unresponsive to the needs of its clientele.

Thank you, Mr. Chairman.

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

Mr. MORAN. Thank you, Mr. Baccus. Mr. Clemens.

Mr. POMEROY. Mr. Chairman, if I might have the courtesy of the chair, I would just like to give a 20 second introduction.

Mr. MORAN. Please. I recognize the gentleman from North Dakota.

Mr. POMEROY. Happy is the morning in this subcommittee to have not one but two esteemed North Dakotans testifying before it. And the second, Mike Clemens, is someone whose family I have known for a long time, outstanding farmers in the northwest portion of my home county, and someone who is as highly regarded back home as he is within his National Sunflower Association. And I do agree with you, Mr. Chairman, they are simply excellent.

By the way, this reminds me, I am so pleased you sent us shelled ones, because Senator Dorgan, reflecting upon a time when he brought sunflower seeds to the committee, he found some of our urban friends eating them whole, without shelling them first. So, this works a lot better. It is kind of mistake-proof for Members of Congress.

Thank you, Mike, and thank you for the testimony you are about to give us. Thank you, Mr. Chairman.

Mr. MORAN. A very succinct 20 seconds. I thank the gentleman from North Dakota. Mr. Clemens.

STATEMENT OF MIKE CLEMENS, CHAIRMAN, NATIONAL SUNFLOWER ASSOCIATION AND CORN, WHEAT, AND SOYBEAN PRODUCER, WIMBLEDON, ND, ON BEHALF OF THE AMERICAN SOYBEAN ASSOCIATION, NATIONAL BARLEY GROWERS ASSOCIATION, NATIONAL SUNFLOWER ASSOCIATION, AND U.S. CANOLA ASSOCIATION

Mr. CLEMENS. Thank you, Mr. Chairman, and members of the committee.

Along with the sunflower seeds, I will tell you how you are going to be able to ramp up insurance coverage for all the minor oilseeds and other crops that producers can grow on their farms since the Freedom to Farm was passed in 1996.

I am a producer from Wimbledon, North Dakota, where we grow sunflowers, soybeans, corn, wheat, and I have even grown canola and barley in the past years. I am chairman of the National Sunflower Association, and I am here today on behalf of the American Soybean, National Barley Growers, and the U.S. Canola Growers Associations.

While each crop has various concerns, we support a national crop insurance program that ensures that all producers can obtain affordable coverage. Let me briefly discuss the major issues for each crop, and ask that my full statement be included in the hearing record.

In general, sunflowers and canola growers are pleased with RMA's overall response to their needs, including their rapid implementation of the similar crop provision that was included in the last year's Agriculture appropriations bill. This allows producers to cross different crops over. If you have been growing wheat, you can also get a sunflower established yield history, so you can grow sunflowers. We also thank Chairman Moran and members of the committee who supported work to make this change underlying statute. We do expect farmers outside the traditional growers for these crops will have increased ability to diversify in these crop rotations on their farms because of all this work.

However, we do have some further concerns. Sunflower growers believe that the formula to determine their revenue assurance, or RA price selection, should be restructured to be a usable program. Traditionally, the sunflower RA price selection has been determined based on the Chicago soybean oil futures contract. However, sunflower prices do not, and have largely divorced themselves from this traditional formula. While RMA has taken this new relationship between soy and sunflower prices into account when developing oil sunflower APH, actual production history price elections, they have yet to revise the RA formula.

Canola growers are concerned with the method used to set the APH price elections, because canola has coverage available for both spring and fall seeded crops. RMA sets the price election by June 30 the following crop year. However, spring canola growers produce 95 percent of the crop. This resulted in price elections that have been radically different from other oil spring oilseed crops, as well as the actual market price, because it is set so far in advance. RMA has stated that they are developing a product that would address the concerns by providing APH or RA coverage that recognizes three different price discovery periods, to match the respective available selling closing dates now in place, but it has yet to be put in place to our knowledge.

Beyond the timeframe, canola growers are also concerned about the wide variance of minor oilseed APH price elections they have received in recent years. Noticeably, canola is set at $9.65 per hundredweight for this year, while flaxseed is set at $13 per hundredweight. Oil sunflower seeds are set at $11.75 per hundredweight, while current new crop market bids for minor oilseeds are close to the loan level of $9.30, canola and sunflower contracts have both been available at higher levels. In contrast, new crop flax bids have not exceeded the loan rate. We have asked RMA more carefully to monitor new crop pricing opportunities for minor oilseeds in future years, while limiting the variances between price elections as much as possible.

Barley used to be a part of our farm's rotation. Years ago, that was one of our major crops in our farm. But one of the reasons why this acreage has declined about 70 percent in the last 20 years, barley growers believe the limited crop insurance policy available for barley have contributed to this decline. Malt barley producers in particular have serious concerns with the gap in coverage that they have, because crop insurance quality standards do not match the market standards. In North Dakota and Minnesota, wet conditions have resulted in a widespread outbreak of fusarium head blight, a scab which causes DON levels to increase in unacceptable standards for the malting industry. Many growers, including myself, have stopped planting barley entirely because of all this. We need contractual and quality standards between the crop insurance coverage and the marketplace removed. We have also urged that RMA work with us to approve a DON rider to specifically insure our growers against scab.

Soybean growers now strongly support RMA's decision to fund the soybean rust surveillance and reporting system, has proven to be a success in helping farmers understand where the soybean rust has been confirmed, as well as help them make decisions about it, as when to apply the fungicides. USDA's Economic Research Service confirms that this system prevented unnecessary fungicide applications last year, saving farmers millions of dollars, surpassing the $2.4 million provided by RMA to develop it.

We continue to remain committed, and have provided significant funding through check-off dollars to set up hundreds of sentinel plots beyond the RMA-funded plots. Soybean growers strongly believe that the losses due to soybean rust should and must be covered through crop insurance program, and the policy clearly states that soybean rust, as a disease, is an insurable peril. Administrator Gould previously reported to the subcommittee for the last year, to date, no crop insurance claims have been submitted that list soybean rust as the cause of loss. Because of all this anxiety about how RMA will handle rust seems to have lessened this spring, as growers make decisions about buying policies for this coming year. Nevertheless, the ability for the program to cover widespread losses due to soybean rust remains untested.

An issue that unites all farmers is the concern about multiple years of losses that lead to declining APH yields. The grower is then faced with the double whammy of lower crop insurance guarantees and higher premium costs. We support the Agency's effort to solve this national problem through changes in the existing policy or establishing new policies.

Thank you again for letting me provide this testimony, and I will be willing to take questions.

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

Mr. MORAN. Thank you very much. Mr. Rousseau.

STATEMENT OF WILL ROUSSEAU, CHAIRMAN, WESTERN GROWERS ASSOCIATION

Mr. ROUSSEAU. Mr. Chairman and other distinguished members of the subcommittee, thank you for the opportunity to discuss Federal crop insurance programs as they relate to growers of fruits, vegetables, and nuts.

I am testifying today on behalf of Western Growers, for which I currently serve as the chairman of the board. I am a fourth generation Arizona farmer of carrots, broccoli, onions, cantaloupes, and watermelons, and other produce crops. In recent years, I have had significant experience with Federal crop insurance programs.

Western Growers is keenly interested in working with Congress to improve Federal agricultural policy, in order to sustain an efficient and productive fresh produce industry. However, we have historically expressed strong reservations to Congress and to USDA's RMA agency with respect to Federal crop insurance programs for fruit, vegetable, and nut growers, and I wish to register such reservations again today.

Western Growers believes that Federal insurance programs must be carefully developed and implemented, so that they only provide protection from catastrophic losses, and do not disrupt highly competitive fruit, vegetable, and nut markets. Our industry is characterized by free markets, where producers must compete on a level playing field. The competitive structure of these markets can be easily distorted when Government programs attempt to reduce or eliminate the inherent risks involved with our industry. Western Growers remains firmly opposed to Federal crop insurance programs that might disrupt or distort traditional marketing patterns, or provide artificial signals that lead to increased acreage and supply.

The potential for distortion and disruption of highly volatile fruit, vegetable, and nut markets, and the corresponding adverse impacts on growers, can best be illustrated by citing the implementation of a pilot Federal crop insurance program for watermelons in 1999. Unfortunately, I had direct experience with this debacle, which caused serious financial losses for many established melon growers.

In 1999, watermelon growers in Arizona and California experienced perhaps the worst market ever in history. The supply of watermelons nationwide was much greater than in previous years. This was attributed to the fact that the watermelon pilot program provided substantial incentives for growers to expand production, and also, for new growers to enter this market. This atypical expansion of production was illustrated by a 79 percent increase in acreage in participating counties in Florida, and a 200 percent increase in acreage in participating counties in Texas, contrasted with a reduction in acreage in other parts of the Nation not eligible for this program. It is apparent that many new entrants into the market farmed the insurance program, and in doing so, destroyed the watermelon market for traditional producers. The Government-sponsored oversupply also rippled through the other summer melon crops, including honeydews, cantaloupes, and mixed melons, as retailers struggled to move the glut of watermelons. We believe this is strong evidence that the 1999 watermelon insurance program caused major disruptions in the market and serious adverse impact on growers.

Given the severe impacts that can result from well-intended but flawed crop insurance programs, the Federal Government must be extremely cautious in expanding such programs into the fruit, vegetable, and nut sectors. Moreover, we question the need for Federal crop insurance for fresh produce growers. I would note that private market insurance for policies such as hail and fire protection have been available for years without Government involvement. Protecting against natural disaster is often desirable, but providing insurance which goes beyond catastrophic coverage has great potential to take the inherent risk out of growing fruits, vegetables, and nuts.

Western Growers has found strong opposition to an expansion of Federal crop insurance to our industry among the majority of our members. To the extent that RMA does work with growers, and determines there is need for Federal crop insurance within segments of our industry, we believe any new program must adhere to the criteria outlined in my written statement in order to ensure the program does not disrupt existing markets.

Thank you, Mr. Chairman and members of the committee. I would be pleased to respond to any questions the subcommittee members may have. I would also like to add that I hope you don't hold it against me the treatment that my basketball team has shown yours.

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

Mr. MORAN. I thank you for reminding me of that. I haven't thought about that.

Mr. ROUSSEAU. You are welcome.

Mr. MORAN. The chair recognizes Mr. Pigg.

STATEMENT OF STEVEN PIGG, CHAIRMAN, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWER'S ASSOCIATION

Mr. PIGG. Mr. Chairman, thank you for the opportunity to provide some input on the Federal crop insurance program. My name is Steve Pigg. I am a 10th generation farmer, corn and soybean producer from Bushnell, Illinois, where I also own the Heartland Insurance Agency.

On behalf of the National Corn Growers Association, our over 32,000 plus members, and more than 300,000 corn producers who contribute to corn check-off programs across the country, I can assure you that the program we are discussing today is vitally important in the risk management plans of our producers. Because of the introduction of new and expanded insurance products, corn growers are in a much better position to choose the type of production that best protects their farm income.

In a year of huge increases in the cost of fuel, fertilizer, and other inputs, combined with low corn prices, the income protection offered by Federal crop insurance becomes even vitally more important in sustaining many family farms.

NCGA recognizes the tremendous challenge before the Risk Management Agency and this committee to adequately meet the wide range of risk management needs. Over the past 3 years, NCGA has surveyed our corn growers' views on Federal crop insurance, evaluated concerns over various administrative problems, and worked to address the policy priorities established by our membership. NCGA has developed several recommendations for consideration, that we believe would strengthen the Federal crop insurance system.

And in our examination of suggested solutions to eliminate or minimize inequities in premium rates, NCGA learned of a disparity between subsidized premiums for coverage using optional, or basic units, and the larger enterprise unit, or whole farm coverage. One unintended consequence of increased subsidies, coupled to levels of protection, is a system that does not recognize the risk exposure of enterprise in a whole farm that a producer incurs.

And although these premiums are discounted for enterprise and whole farm coverage, the reduction in cost does not fully reflect the declining variability in yield and/or revenue, as the producer aggregates acres into larger units. And one alternative for securing a more equitable amount of premium savings, we feel, is to decouple the per acre premium subsidies from the unit of coverage selected by the producer. The change NCGA proposes allows producers that wish to to continue the use of optional or basic units. While those producers that choose to, to reward them, the ones that assume more risk by using enterprise and whole farm coverage, in exchange for higher levels of revenue protection. With assistance provided by RMA legal counsel and congressional staff, NCGA is prepared to offer legislative language to authorize a pilot program that would take the first steps to remedy this flaw in the subsidy structure. We believe that this modification would create greater program efficiency without increasing cost to the taxpayer. Moreover, this proposed change, when fully implemented, would likely reduce the moral hazards and adverse selection of insurance coverage.

NCGA has continued to evaluate the effectiveness of Federal crop insurance as part of a comprehensive farm safety net. Despite reforms to the program and enhanced farm supports, growers remain very concerned by the severe impact that catastrophic crop losses can have on farm income and future crop insurance guarantees. More recently, we have focused on the large financial losses precipitated by back to back years of significant, shallow losses, typically uninsured at the 65 to 75 percent levels of coverage. We urge the committee to consider legislative reforms that will encourage more research of innovative, actuarially sound products.

And it is too bad Congressman Neugebauer is gone from here, but I am going to plus his bill here. One approach that offers the potential to filling part of this gap in crop insurance and the safety net as a whole is legislation introduced by Congressman Neugebauer, H.R. 721. And while we just received an analysis of this bill, NCGA appreciates the extensive work that has been done on the concept of combining an individual product with an optional Group Risk Plan. By supplementing an underlying individual policy with GRP, producers, we feel, will have a more affordable option to protect against catastrophic losses, and to some extent, shallow losses.

As you know, Mr. Chairman, corn production has expanded into new areas of this country made possible by advances in technology, modern production practices, and the planning flexibility of the 1996 farm bill. NCGA acknowledges the need for due diligence in administrating Federal crop insurance, but progress in the corn industry, and the Risk Management Agency's recent advances in enforcement and compliance, suggest an opportunity for more flexibility.

One example of difficulty some corn producers experience securing written agreements to insure their corn crop in a neighboring county, where there is limited but demonstrated production history. In the case of a grower in North Dakota, his request for coverage was denied on one county, despite the fact the land he rented had a past producer's history, and rather than reviewing an individual farmer's records for a possible exception, and more closely evaluating the better insurance experience for corn for grain, compared to corn for silage, the application for this agreement was rejected.

Another situation I need to bring to your attention is the matter of unsettled insurance claims filed by corn producers in Texas involving aflatoxin contamination in corn harvested in 2005. Due in part to the non-uniformity in sampling procedures, confusion over approved testing facilities and new restrictions placed on agents to provide assistance, some problems were inevitable. However, NCGA is very concerned by reports of protracted delays and inconsistencies by one company in particular in the settlement of claims long after harvest, and we urge the committee to look into this matter to ensure that producers' claims are handled equitably without further delay.

And finally, NCGA was advised last year the RMA has undertaken an effort to use annual premium adjustments to achieve more actuarially fair premium rates, and in light of a report released in 2005 by the Office of Inspector General, in its finding that corn crop insurance premiums paid exceeded indemnity payments by $1.4 billion, in a period from 1975 to 2003, we request that the committee help ensure the necessary rate adjustments to eliminate premium inequities across crops. And we also urge the development and introduction of premium discounts for growers with good claims experience, similar to those offered by the auto insurance industry.

Once again, Mr. Chairman, I thank you for this opportunity to appear here before this subcommittee, and we appreciate your leadership in the Federal crop insurance program.

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

Mr. MORAN. Thank you for your return. Let me see if the gentleman from Washington has any questions.

Mr. LARSEN. Thank you, Mr. Chairman, I do, in fact, for Mr. Lamont.

Mr. Lamont, in your testimony, you cited the need for an Extra Fancy Grade option, and although your testimony basically described what you wanted, but you didn't really get into why that was important for U.S.Apple. Can you talk a little bit about why the Extra Fancy option is important to apple growers?

Mr. LAMONT. Yes. Most of the apple business today is traded at the Extra Fancy grade level, and so, when a different grade, particularly a lower grade, is used for grading the fruit for insurance purposes, it provides the company and the grower with an inaccurate measure of the amount of damage that has occurred vis-a-vis the market.

Mr. LARSEN. So, the insurance policy is written on a lower grade, but most of your business is done with a higher grade.

Mr. LAMONT. That is correct.

Mr. LARSEN. And so, if you lose a higher grade, you are getting paid based on, basically, an actuarial amount developed looking at the lower grade apple. Is that about right?

Mr. LAMONT. I am sorry. Would you repeat the last thing you said?

Mr. LARSEN. I am not sure I understood enough to repeat it.

Mr. LAMONT. No, the basic——

Mr. LARSEN. It sounds to me like when they write the policies, they are writing it based upon the lower grade, and they are paying out based on that, when a lot of your business is done with the Extra Fancy.

Mr. LAMONT. Absolutely correct.

Mr. LARSEN. And so, there is a gap between your reality, and——

Mr. LAMONT. And we have talked to RMA about getting an Extra Fancy policy, but they have said they don't have the actuarial data at this time. In a conference call this past Monday with them, there may be some misunderstanding between us, and we may be able to resolve that problem with them.

Mr. LARSEN. So, you are moving forward on trying to resolve that particular issue?

Mr. LAMONT. Yes.

Mr. LARSEN. OK. And New York State is one of the States participating in the AGR Light pilot program, and my State is, as well, Washington State. Can you give us some insight under this program how growers in New York feel about it?

Mr. LAMONT. I think initially, there was some excitement that there was a program for the smaller growers, and then, that has cooled, and I am not sure exactly what the reason is, but there is obviously something there that did not meet their needs.

Mr. LARSEN. Yes.

Mr. LAMONT. You are referring to the AGR Light?

Mr. LARSEN. AGR Light, yes.

Mr. LAMONT. Yes. In terms of AGR, we have AGR on our own farm, over top of a cat policy.

Mr. LARSEN. And how does that work?

Mr. LAMONT. Thank God we haven't had to use it so far.

Mr. LARSEN. Yes. Good. Mr. Rousseau, do you have any comments on AGR Light as a specialty crop producer? I went through your testimony while you were reading it, and looked at your criteria that you suggested for producers in your category. Have you looked at AGR Light in Arizona? Have you heard of it, and any thoughts about it?

Mr. ROUSSEAU. Mr. Chairman, members of the committee, no is the short answer. I am not familiar with that product. In the things that we produce, we utilize fire insurance on our acres of wheat that we grow. When we used to grow cotton, we had hail insurance, but—and looked at that crop insurance products in those crops, but in our current crop mix, we don't utilize them at all, so I am not familiar with—I can guess what the acronym stands for, but——

Mr. LARSEN. Adjusted gross revenue.

Mr. ROUSSEAU. Right, but I am not familiar with the product.

Mr. LARSEN. Yes. OK. Thanks. Let us see. All right. Just for the panel as a whole, and you may have covered some of this already, but the legislation has been introduced to establish a permanent agriculture disaster program. This program would operate like previous agriculture disaster assistance packages. Do you think an additional permanent safety net would be a benefit to you and fellow growers? Can you go one by one?

Mr. LAMONT. I think if we had the crop insurance program that we would like to have, that that would solve our problem.

Mr. LARSEN. OK.

Mr. LAMONT. Now, how big a gap do we have, in terms of the fruit industry? I don't think we are too far away, but we seem to be moving very slowly in solving the problems.

Mr. LARSEN. Yes. Mr. Baccus.

Mr. BACCUS. I guess I would rather see us develop better and more effective risk management tools for agriculture to use. I would rather see the Government take less of a role in it, instead of more of a role, sir. I would like to see private industry be allowed the opportunity to develop and implement these risk management programs, rather than having the risk management agency do it. We can use the Government as a backup source for reinsurance, and as I said in my testimony, I think if we let private industry do this, I think we will end up with better products at a lower cost, and the farmer will be better protected.

Mr. LARSEN. Yes. Mr. Clemens.

Mr. CLEMENS. What I would like to see, as a producer out there, we look at 10 years history on our APHs. In North Dakota, for example, we just had our Ts for corn updated. They went up 25 percent. So, updating those more often, when you have shallow losses, maybe put instead of just a cap, you throw out the bad year, and so, that way, you remain always in competition for those dollars for your farm, that you can continue to operate profitably. Once you start declining, your APH yields, it really starts weighing down on your farm, and pretty soon, you have coverage that you are only covering the bottom half of the crop, which really, the coverage isn't needed there. It is needed more at the top side.

Mr. LARSEN. Yes. Mr. Rousseau, and no comments about basketball to me.

Mr. ROUSSEAU. It was a good game, though, wasn't it?

Mr. LARSEN. It was a great game.

Mr. ROUSSEAU. I thought so, anyway. I am not familiar, again, with the particular program that you are talking about. I would just revert to my testimony, that we are not in favor of any products for our industry. Unfortunately, under our probably flawed business model, our business relies on a disaster somewhere else in our country before we can start to make money, so——

Mr. LARSEN. OK.

Mr. PIGG. Traditionally, National Corn has not been supportive of disaster programs as a whole. Our Board has gone on record that they are in support of the current disaster legislation if it doesn't have to be offset, but I would agree with some of the other previous panel members that we would prefer to have improved products through improved risk management tools, rather than going through disaster again.

Mr. LARSEN. Yes. Thank you.

Mr. MORAN. Thank you, Mr. Larsen.

Mr. Baccus, let me just follow up with Mr. Larsen's question. This proposal in the Senate that is pending, in regard to disaster assistance. Do you have an opinion as to the necessity of that program, disaster assistance, at this point in time, as far as Kansas farmers, and perhaps, for purposes of this hearing, in regard to how that may affect crop insurance, and how it needs to be structured, so that crop insurance is protected and encouraged?

Mr. BACCUS. In answer to your first part of your question, everything I read says that the wheat crop from Interstate 70 south is beyond saving. My farm is 20 miles north of Interstate 70, and I have lost 70 percent of my wheat, and the other 30 percent will be gone in the next 7 to 10 days, if it doesn't rain. Yes, I think we need some help this year. We need some help this year, because we don't have an adequate crop insurance product that we can afford to buy. We can buy, as you heard earlier, coverage up to 85 percent level. You just can't afford to pay for it.

Mr. MORAN. In that regard, let me again reiterate that a primary focus of mine, since becoming a Member of Congress, but particularly, since becoming chairman of this subcommittee, has been trying to get RMA to develop a multi-year disaster policy, to augment or change what policies we have in place, what is available for farmers. To me, it has been the No. 1 issue we have faced in the Midwest and many places in the country, is premiums go up, coverage goes down, and as you indicated, no longer is crop insurance affordable for the return that one might receive, and we are anxiously awaiting a couple of pilot programs, suggestions, and I don't know whether Dr. Barnaby in the next panel can address this issue at all, but we are expecting some results and suggestions from RMA in the near future, although I have said that for quite a while now, that we are expecting some suggestions in the near future. So, perhaps there is something that is around the corner.

Let me ask Mr. Rousseau, which perhaps you provide the most, I don't know, radical has a bad connotation, but you provide the most unique testimony, which is, as I understand it, from a crop insurance perspective, Western Growers' request is just leave us alone. We don't want anything. Is that reasonably accurate?

Mr. ROUSSEAU. Yes. Other than the comment radical might be construed as picking on me about my basketball team, but yes, absolutely. I think that is simply what we are looking for. I would also like to add that we by no means want to preclude other commodities, or other regions in the country. I mean, my heart breaks for my colleague here that talks about his wheat crop. I have had a failed crop before, but our industry is just so different than other commodities across the country, that we would prefer to be left alone.

Mr. MORAN. And is that, is Western Growers unique? Is this a philosophical issue? Is this a pragmatic issue? Is it geographic, commodity-driven? Would the testimony be different if we had another specialty crop organization testifying today?

Mr. ROUSSEAU. I don't think so. I would hesitate to speak for them, but I don't think so. Our industry is so different, in that the acreage that we are talking about is so small, and the supply, it takes a very small amount of supply to totally disrupt the market forces. I mean, both faces. You can swing below what the desired supply is, and the market prices swing up dramatically. In the 1999 example, I don't know the acreage that was actually created, if you will, under that pilot program, but it was not significant, certainly not from a wheat and corn standpoint, and yet, it devastated our entire industry for the entire domestic shipping season. So, that is the kind of thing we want to avoid.

Mr. MORAN. Some day, I hope we get beyond the watermelon example. It has been a common one. And in my Kansas mind, Mr. Lamont, who is here on behalf of apple producers, he is a specialty crop grower, and his position is different than yours. Apples is different than what is grown in——

Mr. ROUSSEAU. Yes, sir. The carrots. One thing I would offer up is that in his instance, they have made a significant investment in a permanent crop. In our instance, most of our industry, with the exception of some of the nut producers, you are able to enter or exit the production of these commodities relatively easily. I mean, in some of our commodities, there is a very large capital investment, with carrots being the primary example, to be able to harvest, process, and distribute them. But that said, the properties that are associated with those are fairly interchangeable, as far as the actual dirt that we farm on, and the areas that we farm in. So, we don't want to have an insurance program for carrots that would allow new people to come in. There are some barriers to entry, but they are not significant. We are able to produce a crop of carrots in 150 days, from the seed going into the ground to harvest of it.

Mr. MORAN. So, it is a pragmatic position, at least in my estimation.

Mr. ROUSSEAU. Yes.

Mr. MORAN. That says that if there is crop insurance available, that may encourage additional entrants into this commodity market.

Mr. ROUSSEAU. It certainly could and has, and then, I would say that our industry's position is both pragmatic, obviously, but also philosophical, in that we accept the crazy business model that I alluded to earlier, and embrace it, but it is delicate, and it needs to be left alone.

Mr. MORAN. Are the risks for the crops that are grown by members of Western Growers, is it more related to weather, or is it more related to disease?

Mr. ROUSSEAU. More related to weather.

Mr. MORAN. Are there disease issues in——

Mr. ROUSSEAU. Yes, sir. But they are minor in comparison to our weather issues.

Mr. MORAN. Mr. Pigg, let me turn to you. One of the common questions that I get from folks in Kansas, or complaints, and I try never to admit that I have a subcommittee jurisdiction on crop insurance, because every time that is mentioned, it results in a conversation about how something didn't work quite right. But one of those is irrigation, and there is a legitimate concern, it seems to me, about how crop insurance does not provide coverage for something less than full irrigation. You are either a dry land farmer, or you are an irrigation farmer, and your premiums are based upon that. Any effort in regard to your associations, in regard to this issue? And perhaps you can better explain to me, if you think there is a problem, and potential solutions?

Mr. PIGG. To be honest, Chairman Moran, that is not an issue that we have looked at.

Mr. MORAN. This may be Kansas-specific or Midwest-specific, because of our declining aquifer, our water table, and drought conditions, and the expense of energy to bring water to the surface to irrigate, and so, there are many farmers who are trying to irrigate with less water, but their crop insurance premiums are either they are a dry land farmer, or they are an irrigation farmer, and I might ask Mr. Baccus if he has any comments to that question.

Mr. BACCUS. That is a big issue, Congressman Moran. I am not sure how far it extends. I would suspect into Colorado, Oklahoma, Texas, some of those areas, maybe a little bit into New Mexico. Where you had an 800 or 900 gallon well that is now putting out 200 gallons, you have enough water there to bring the crop up, you have enough water there to keep the crop alive, you do not have enough water to raise a 200 bushel corn crop. You might get 125 bushel corn crop, and you apply your inputs accordingly, so you can still make a profit on a crop like that, but the insurance doesn't allow for that.

Mr. MORAN. Mr. Baccus, let me follow up, because part of your testimony has been a significant support for greater market forces in crop insurance, particularly as it relates to the premium price. What are the factors that a farmer utilizes in determining what policy he or she purchases? What are the factors that would cause someone to buy a particular policy, as compared to another policy? Is there any price consideration at all in that determination?

Mr. BACCUS. Well, I think the price consideration is definitely a major part of it. You have to try to second guess what you think the weather is going to be like the next year, to determine what level of coverage you think you are going to need on your farm. You also look at your financial involvement in it. If you are financing 100 percent of that crop, you need a lot higher risk protection than if you are only financing 40 or 50 percent of that crop. So, you have to consider all those factors. You look at the different plans, and see which ones return what amount of you, based on whatever loss you typically have.

We talk a lot about a total wipeout. We have mentioned it several times today. The Governor from North Dakota mentioned it this morning, if you have a total loss. That does happen. More often than not, in Kansas, we are looking at a 30 or 40 percent loss, and sometimes, that can be far worse than a total loss, because you still have a crop out there that you have to go get, but it is about 60 or 70 percent of its value. Your harvesting costs don't change. They are still 100 percent of what harvesting cost is, regardless of what the yield is, plus the fact that you have that first 30 or 35 percent, or in some cases, 25 percent of the crop insurance, that is taken off now, that you have to lose before you collect anything from the crop insurance. Those kind of losses are far more detrimental to a farm than a 100 percent loss. Those things all have to be looked at when you decide which one of the multitude of plans is best for your operation.

Mr. MORAN. I characterized Mr. Rousseau's testimony as the most radical. In many ways, Mr. Baccus, yours may be the most controversial, because the premium reduction plan has generated a lot of interest over the last year or so, and at our hearing, and I think it was a year ago this month, a year ago May, the testimony by the Crop Insurance Research Bureau indicated that the PRP program should be put on hold, and their testimony was generally this. And they suggested that the plan be put on hold until a comprehensive study of the impact of the plan could be made. We are concerned that PRP will create a competition imbalance, promote industry insolvency, and will lead to discrimination against smaller producers, smaller agents, and States that have historically poor underwriting performances. These factors will threaten the basic premise of federally reinsured program universal access.

Are they just wrong? Are we satisfied the study has been done, and this is not the case, or are those still legitimate concerns, as we look for ways to put more price competition into the crop insurance program?

Mr. BACCUS. I think you are right, Chairman Moran, in that some of what I have had to say and will probably continue to say is going to be fairly controversial, and I look forward to having those discussions. In short, the answer to your question is yes, that information is simply wrong, and history has proven out that that information is wrong. We can go through each one of those one by one and answer them, and answer them fairly quickly, and if you would like, I can go back and do that.

But I don't want to lose sight of the fact that PRP is simply telling the industry, you operate efficient, and give the benefit back to the guy that bought the policy, period. That is all PRP is, and I think a lot of times, we lose sight of that. Now, if you want to go back through those, you talk about service, we are going to lose service, the one company that has been issuing PRP policies since 2003 is Crop1. The retention rate on Crop1 insurance policies is 94 percent, except people that have had a loss, in which case, the retention rate increases to 95 percent. That doesn't sound to me like bad service in that situation. Crop1 has been accused of ignoring the small farmer, when in reality, 60 percent of their policies are farmers with 500 acres or less. You know as well as I do, in Kansas, you are not even a weekend farmer with 500 acres.

We have been accused of cherry-picking, either the customer or different States. The fact is, we offer, and no offense to my North Dakota friends, but we offer insurance in North Dakota and Texas. Both are probably the two worst States, as far as claims/loss ratios are concerned, and we offer Crop1 insurance. Every agent that sells Crop1 insurance with our PRP has to sign an agreement that we take all comers. Anybody that walks through the door, we will write them.

Mr. MORAN. I thank you, Mr. Baccus, for those comments, and I don't mean to imply that controversy is anything that is foreign to us as elected officials, or you as a president of Kansas Farm Bureau. I appreciate your frank testimony, and am looking forward to working through this issue with you and others in the industry.

I now welcome and recognize the gentleman from North Carolina, my distinguished colleague, you have been gone so long I about forgot where you are from, my colleague and friend from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. I apologize for being out, and I may have to duck out again, so that our friends who are here, they will know, we are in the middle of a markup of a major homeland security bill on ports, and so, every time they have a roll call vote, I have to go, and we have had all morning wrapped up in it.

Mr. Baccus, let me return just a moment to you on the question of the PRPs for just a bit, because I think this is an area of contention, as you can appreciate. The chairman just raised one of the issues, and I think there is a lot of concern on the part of farmers, for that matter, because as soon as they get burned, they are the ones you hear from quickly, and rightly so, and many talk about the problem of cherry-picking and the small minority of disadvantaged farmers. And I guess if you are writing insurance, you look at a broad field, and that is not a big deal, but for those that are affected, that is 100 percent. If you are affected, you are in that 100 percent bracket, you are not in that 5 percent out there when you say 95 percent happy. That 5 percent becomes 100 percent real quick if it affects you.

And let me just ask you if you would just respond to one part of that again, do you think there is a concern that PRPs reduce profitability in some cases to the point where some companies who deal in reinsurance might just leave the industry due to low returns, if there becomes cherry-picking? Obviously, you are large enough, in terms of Farm Bureau, and across the multiple States. Do you see that as a problem? I would appreciate your comments on it, because I think that is one of those issues that we are certainly sensitive to.

Mr. BACCUS. Thank you for the opportunity to respond to that. We are losing insurance companies now. We have lost several in the last few years. That would indicate to me that the current system, in the first place, is not working, and in the second place, is certainly not guaranteeing the survivability of an insurance company.

Any time you change a system, you definitely run the risk of somebody falling out of that system. My contention is that if we allow companies to compete now, they only compete on service. If we allow them to, as well, compete on price, we make them better. We know in this country all too well that competition improves the end result to the consumer. It is one of the things Congress Moran referred to earlier, about railroad hearings. We need more competition in the rail line industry. We have had those conversations many times. I think we need more competition in the insurance industry. We can deliver a product for less money than what the Government is currently paying us to deliver, and that is strictly by efficiencies, and I think, sir, that Crop1 has proven, since 2003, that that is one company that has done it, and has done it efficiently. I think other companies have the same capability, if they would institute some of the similar policies that Crop1 has done. Whether or not we are going to lose companies, I can't say.

Mr. ETHERIDGE. Has the commissioner of insurance in Kansas weighed in on this issue of premium reduction plans? Have you had any contact with him, in terms of response on them?

Mr. BACCUS. I have not had any personal contact with Commissioner Prager. I do know there was concern at one time from some of the insurance commissioners that the premium reduction plan was a rebate, and in reality, it is something that is done upfront, and is done aboveboard, and is offered to any and all takers. They get the discount once it has gone through the auditing procedure. So, it really doesn't qualify as a rebate, and that was one of the concerns of the State insurance commissioners.

Mr. ETHERIDGE. The reason I ask that question is that it has been shared with us, and I don't know how many of the members of the committee, Mr. Chairman, but there is a resolution signed by something like 8 or 10 commissioners in opposition to the premium reduction plans, listing that among a host of other issues, and if you ever had a copy of that, I would hope you would have access to it, get your hands on it.

Mr. BACCUS. Yes, sir. I am not aware of that. I would very much like to get a copy of that, and we have the ability to do that. I would like to see that, and address it, because like I stated at the very beginning of my comments with Congressman Moran, sometimes we tend to complicate things. This is simply an opportunity for companies to operate more efficiently, and return that efficiency to the people that are buying their product, and I would think we ought not to lose sight of that, and apparently, some people do.

Mr. ETHERIDGE. No further questions, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Etheridge. Let me just give each of you the opportunity to, if there is something we haven't asked you, something that you have been sitting there waiting to tell us, let me make sure that you have that opportunity, before we ask the next panel to come forward. Anybody like to add anything to what they have said previously, or rather, to the questions? Mr. Baccus?

Mr. BACCUS. I am sorry, I feel like I am monopolizing things, but since you asked, I would like to tell you, Kansas Farm Bureau started a company a few years back called Agriculture Solutions, a wholly owned subsidiary of Kansas Farm Bureau, and the goal of that company was to help farmers with financial independence to develop risk management tools. We have done that. We have developed 3 risk management tools that are currently on the market today working, and that several producers around Kansas and Nebraska are utilizing. That is the kind of thing I would like to see the industry go towards, and would be more than willing to get together with you, Congressman Moran, or whoever you would like, explain those products, and tell you more about how we are utilizing them.

Mr. MORAN. Thank you very much. Mr. Lamont.

Mr. LAMONT. I am sorry. Cost very definitely makes a difference, and with the apple policies, RMA has structure it so that it subsidizes certain levels more than other levels, and I personally don't feel that is appropriate. And particularly, they are subsidizing some of the lower coverage levels at a higher percentage than the higher buy-ups, such as the 70 and 75 percent.

Mr. MORAN. Would you know, Mr. Lamont, if that is intentional or inadvertent on the part of RMA?

Mr. LAMONT. No, I don't.

Mr. MORAN. It is more expensive, I suppose, to subsidize higher levels of coverage, so it may be intentional.

Mr. LAMONT. But it is not just the amount of subsidy, it is the percentage subsidy, drops when they go up to the higher ones.

Mr. MORAN. OK.

Mr. LAMONT. And I feel that they should offer the same percentage across the board, and then, let the grower make the decision on his own circumstances, rather than to try to steer him to certain policies.

Mr. MORAN. Thank you very much. I have often wondered if crop insurance is more farmer/producer driven, or more lender driven, and my guess is that depends in part what crop you grow, and what part of the country you produce in.

Anyone else? Mr. Rousseau.

Mr. ROUSSEAU. Thank you.

Mr. Etheridge says whether you borrow money, I don't know, at least in Kansas, I don't know any farmer that doesn't.

Mr. ROUSSEAU. Nor in Arizona. I guess I would thank you for the opportunity to make one more comment. I was provided with the testimony of Eldon Gould, Administrator of the RMA, before this committee, and I noticed in it that early on in my reading, he references, and this is nothing against him personally, I am sure he is a fine gentleman, but he references covering, currently, RMA covering nearly 80 percent of the crop acres in the United States, or having the ability to on an acreage basis. Later in his testimony, he references the goal of RMA, that within 5 years, to potentially offer coverage for up to 98 percent of the crops on a value basis. That goes, obviously, completely contrary to testimony today, and it is just another reason for us to urge, at a minimum, caution with the RMA, and directed by this subcommittee, in the development of their products, and where they go with these products. Thank you.

Mr. MORAN. Thank you for that reminder. Mr. Rousseau, I don't know exactly—I don't know at all—where Tolleson, Arizona is, but this subcommittee will conduct a field hearing in Casa Grande, Arizona, on May 1, and it will not be directed at crop insurance, but more generally, about what provisions should be included in the next farm bill. So, I wanted to bring that to your attention, and other producers in Arizona.

Mr. ROUSSEAU. I am aware of that, and I would love to attend, if that is OK.

Mr. MORAN. We would be delighted to have you. Thank you.

Mr. ROUSSEAU. And Tolleson is not far from that. It is right outside of Phoenix.

Mr. MORAN. I appreciate the panel's testimony. Thank you for your time. And we will now call the third panel. We are expecting votes in 15 minutes or so, but I think it is best to get started.

Dr. Chad Hart is the agriculture economist for the Center for Agriculture and Rural Development and Food and Agricultural Policy Research Institute at Iowa State University; Dr. Art Barnaby, professor of Agricultural Economics, Research and Extension, Kansas State University; Dr. Keith H. Coble, agricultural economist, Mississippi State University; and Dr. Barry J. Barnett, associate professor, University of Georgia.

Dr. Hart, if you are ready, I would recognize you for your testimony.

STATEMENT OF CHAD HART, AGRICULTURE ECONOMIST, CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT AND FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE, IOWA STATE UNIVERSITY

Mr. HART. Mr. Chairman, thank you for the opportunity to appear before the subcommittee. My name is Chad Hart, and I am an agricultural economist. I work with two research institutes at Iowa State University, the Center for Agricultural and Rural Development, and the Food and Agricultural Policy Research Institute. I have also been employed in several private consulting projects within the crop insurance industry.

Mr. MORAN. Dr. Hart, I am having a little trouble hearing you, and maybe it is just a matter of pulling the microphone closer.

Mr. HART. OK.

Mr. MORAN. I thank you very much.

Mr. HART. My apologies.

Mr. MORAN. No student, I am sure, says that.

Mr. HART. I would like to direct my comments today on how crop insurance fits within the World Trade Organization's agricultural agreement. Federal crop insurance falls under the WTO guidelines for domestic support in agriculture. Since 1995, the United States has reported crop insurance support as non-product-specific aggregate measurement of support, or amber box support. Given this way of reporting crop insurance, it is considered trade-distorting support, and could possibly count against the U.S. domestic support limits. As crop insurance is being reported as non-product-specific, it does not count against U.S. support limits, unless the sum of all non-product-specific support, including crop insurance, is above a de minimis level, that is, 5 percent of the total value of U.S. agricultural production.

The U.S. computes crop insurance support as the net indemnities or insurance payments producers receive from the program, that indemnities are calculated as the total amount of indemnities paid out to producers, less the total premiums they actually pay to receive their insurance. Crop insurance has been the largest or second largest component of U.S. non-product-specific support, and while total non-product-specific support has risen over the period 1995 to 2001, it has never exceeded the de minimis level, thus crop insurance has never counted against our U.S. support limits under the WTO.

Based upon my estimates for 2002 to 2005, total non-product-specific remained below the de minimis level as well, so at least for that period, we will not have to report crop insurance against our support limits in that time. Crop insurance has experienced substantial growth in premiums over the last 15 years. This growth in premiums implies expected net indemnities are increasing as well. If the U.S. experiences a national agricultural disaster, such as we experienced during the droughts of the 1980's, the potential for crop insurance to count against our support limits increases dramatically. For example, if total indemnities in 2005 were twice the size of total premiums, a pattern that we saw in 1993, net indemnities paid out by crop insurance would reach nearly $6.3 billion, or approximately 3 percent of the value of total agricultural production in the United States.

The ongoing WTO agricultural negotiations and the conclusion of the U.S.-Brazil cotton dispute have also affected the standing of crop insurance within the WTO. The U.S. has produced reducing the de minimis exemption from 5 percent to 2.5 percent. If such a reduction were to occur, crop insurance support could easily exceed the de minimis level on its own, and be counted against our support limits. The ruling in the cotton dispute indicates crop insurance support is support to a specific commodity. This ruling raises questions about our reporting crop insurance as non-product-specific, and opens up the possibility that other countries could challenge our past reporting of crop insurance.

Thus, crop insurance faces several potential obstacles within the WTO. However, the agricultural agreement in the WTO does exempt agricultural income insurance from domestic support limits under certain conditions. Currently, Federal crop insurance meets some of those conditions, but not all of them. Crop insurance is available at coverage levels of 70 percent or below. In the vast majority of cases, indemnities are held to below 70 percent of the loss the producers face. And provisions in recent natural disaster relief programs have limited the combination of insurance payments and disaster payments to less than 100 percent of the loss. But no existing crop insurance policy is based on a 3-year average of past incomes, and this is one of the conditions for the exemption for income insurance. Thus, changes would likely have to be made to qualify any current crop insurance support as exempt under the income insurance provisions in the WTO. While some policies may unintentionally meet all the requirements, none are currently designed to do so.

Crop insurance could also be evolved to better fit the WTO guidelines for income insurance, but while the WTO guidelines are specific in some areas, they are left ill-defined in others. For example, how might the insurance coverage be adjusted if the producer changes their crop or livestock mix? Can the insurance coverage be taken on a single crop basis versus a whole farm basis? The answer to these questions and other questions hold the key to the ease with which U.S. might be able to shift its crop insurance program to fit under the income insurance guidelines.

In summary, crop insurance is like any other Federal agricultural support program. It falls under the domestic requirements of the WTO agriculture agreement. As a new agreement is being negotiated, the status of crop insurance under the agreement can change, as can the conditions for exemption of income insurance under the domestic support limits. Currently, the U.S. reports crop insurance as trade-distorting support that is exempt from support limits because of its relatively small size. However, as limits shrink and crop insurance grows, that exempt status may not last. There are potential challenges to U.S. crop insurance reporting, but there is also the possibility of transforming the program such that it would be exempt from support limits regardless of size.

And I thank the chairman and the committee for the opportunity.

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

Mr. MORAN. Thank you, Dr. Hart. Very timely testimony. Dr. Barnaby, before you commence, let me welcome you as a fellow Kansan to our subcommittee, but tell you how much difficulty you create in my life. There are so many Kansans who call me to tell me what you have said at a presentation, or what you have told them, and then ask me to respond, and most of the time, I don't understand what it is you have said.

I am anxious to be educated this morning.

STATEMENT OF G.A. (ART) BARNABY, PROFESSOR, AGRICULTURAL ECONOMICS, RESEARCH AND EXTENSION, KANSAS STATE UNIVERSITY

Mr. BARNABY. Thank you, Mr. Chairman, I think, anyway.

I came here as a representative, of course, of Kansas State University, and I do have my Powercat tie on this morning. I understand you might have some allegiance elsewhere, but I assure you, we now plan to play basketball with you guys. We have hired a new coach. I am sure you read about that. Probably what you——

Mr. MORAN. Excuse me, Dr. Barnaby, but I have now become politically correct.

Mr. BARNABY. Oh, OK.

Mr. MORAN. Although I do have a degree, a couple of degrees from a university away from yours, I have sent my first check to K State Housing and Dining Services for my 18 year old daughter. So, we are——

Mr. BARNABY. My story is worse than yours. My youngest son is now about to graduate from KU, and so, when you earn your check at K State, and you send it all to KU, that is not fun.

Anyway, I need to get on with a couple of comments here, before I use all my time. I went through, and I looked at a number of issues that producers hit me over the head with, and the first one I am going to start out with is, are Corn Belt farmers paying the losses for this program? I looked at that. That is in table 1. I am looking at 17 years of history, and that is all data in there. The short answer is in the Corn Belt, over that 17 years period, those farmers are paying, in Illinois, for example, are paying a dollar for every dollar in premium that they paid in, they have got back $1.07, so they have recovered their farmer-paid premium. However, when you look at the total premium, which includes the subsidy, for every dollar of premium paid in, they have paid out $0.56. That generates a $0.44 underwriting gain, and that offsets losses in other States. One that we are pretty fond of, Kansas, the loss ratio in Kansas over the same period, all policies, all crops, was $1.15.

In fact, I thought it would be higher, given our weather, but we do have a $0.15 underwriting loss. By looking at the farm level, the farmers paid in a buck and got back $2.39, so it is a pretty good deal in the State of Kansas.

Other ways that it is costing the program money without really any received benefit that I can see is the ability to select between RA harvest price option and CRC. They are effectively the same guarantee, exactly the same guarantee on soybeans, and yet, the premiums aren't the same. So, I have not met any farmers yet who select the one that costs the most to help out the Federal deficit. Most of them pick the one that costs the least, the payout is the same, so no reason to do otherwise.

The third issue that is floating around there is the GRIP contracts. I catch a lot of interest from this, primarily from the insurance industry. The thing is, the GRIP contracts, I think, are misunderstood. They are really not insurance. They are hedging tools. Not that that is bad, it is just not the same thing, and basically, what they are are put options on expected county revenue. The other one is a put option on expected county yield. These contracts have a basis risk that the producer is taking on, but at the same time, when you look at the loss experience, and again, table 2 has that, looking at Illinois, Iowa, and Indiana, where most of the GRIP contracts have been written at this point. In Illinois, for example, the loss ratio in the GRIP contract was $1.60. In fact, on that GRIP contract, those Illinois farmers paid in a buck and got back $3.60. By contrast, if they had bought an APH contract, the expected payout would have been $0.48. So, they have got a much higher expected payout with the GRIP contracts, but because of the way it has been rated, than they do on the other one. Now, even if we argue that the GRIP contract is rated actuarially sound, meaning a dollar in and a dollar out, it is still going to be preferred to the APH contracts, which are taking in a buck and paying out something in the neighborhood of $0.50 to $0.55.

So, that is creating an economic incentive. In Kansas, we have got situations where we had multiple year droughts, the GRIP and the GRP are one alternative to that, and I include an example from Rawlins County, and looked at the historical payout there. Have been some farmers that have switched to the GRP contract, primarily because their APH guarantees have dropped them so low, their premium has gotten so high, that in their view, they don't have much coverage anyway, and so, they are willing to go ahead and move to the GRIP contract, even taking on that basis risk.

I guess the other thing I really wanted to hit, I have got about 18 seconds here, and I am going to close with that, is the disaster program. The real disaster occurs not at 100 percent loss for the insured grower. It is the 40 percent yield loss that causes losses, and Steve, or excuse me, the president of the Farm Bureau, who spoke earlier, he will be fortunate if his crop completely fails. He does not want that 40 percent loss. Much better off with the 100 percent loss. Save the expenses on the harvest, you get the maximum insurance payment, and so, when you are looking at where the loss occurs, that is where it occurs.

A few years ago, Congressman Sam Graves introduced legislation that would target the disaster payment to the deductible, rather than to the part of the insurance curve that is insurable. That is where the loss is, is at the deductible, not at those 100 percent losses. It is in that first 40 percent is where you are going to discover you are going to come up really short. So, the bottom line is the disaster aid is sort of duplicating, and it really makes it best if you have either a total loss or an average yield.

I am going to stop there, and take questions later. OK? Thank you.

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

Mr. MORAN. Thank you very much, Dr. Barnaby. Dr. Coble.

STATEMENT OF KEITH H. COBLE, AGRICULTURAL ECONOMIST, MISSISSIPPI STATE UNIVERSITY

Mr. COBLE. Thank you, Chairman Moran, and members of the subcommittee. I appreciate the opportunity to be here today. I am an ag economist at Mississippi State University, and devote a significant amount of time research risk and policy issues.

Let me begin by first talking about an issue that has been mentioned previously today, and that is the significant increase in crop insurance participation over the years. I think one of the things that we should note, that largely has not been said, is that this program expansion, largely brought on by the increased subsidies of 1994 and the 2000 reforms, has real significant actuarial implications for this program.

My research suggests that prior to 1995, we were largely insuring the riskiest producers, and low risk producers were opting out of the program, even though they may have wanted or needed risk protection. The real dilemma for RMA at that time was that they were being asked to rate for producers who didn't participate in the program, and for whom RMA did not have the necessary data. I believe one of the things that we are going to see and are seeing now is that increased participation, along with several studies that have been commissioned by RMA under the authority of ARPA, are going to make significant strides to better rate, and this includes across regions, but also within counties, within producers of various types, and so forth.

I think in the next few years, that we are likely to see more of this research implemented, and that we really are making some advances in actuarial soundness of the program. I will note, however, that there are still problem spots, where there are high levels of catastrophic coverage, and other problematic issues, as people have suggested today. These issues need to be addressed, but I think fundamentally, we need to recognize that we are moving to a more sound program.

Another issue that I would suggest to you, that should be recognized, is the movement towards a unification of revenue products into what is referred to as the combo policy. I think there are a number of reasons why that is a good move. It reduced redundancy among programs. I think it is going to make the programs simpler for farmers, for agents, for companies, and for RMA to administer.

One of the things that I would suggest to the subcommittee is that we really need to make sure that programs fit together and do not overlap each other, and create the confusion, and additional program costs. Also, echoing something that the Governor said earlier, is that I really do encourage this committee to keep in mind, as it considers crop insurance, the interaction between commodity programs and crop insurance. These also interact with the private tools, such as futures and options, and those type of products as well.

It strikes me, as an economist, that ultimately, the Government's role is best served when it steps in where risk management tools are not available. But in cases where private tools are available, such as futures markets, the Government ought to seriously consider treading lightly, so that we don't damage those useful private risk tools.

Turning to another topic, a few weeks ago, Keith Collins, Chairman of the Federal Crop Insurance Board of Directors mentioned AGR and AGR Light as potentially cost-effective products with the ability to cover a variety of diversified crop and livestock farms that do not have traditional crop insurance products available to them. I will echo that statement, but I also want to note that these are actually very complex products. They may seem conceptually simple, but in fact, implementation of these products prove some of the most difficult underwriting and actuarial issues that RMA has in its portfolio.

For example, the adjustment of Schedule F income to an actuarial measure of accounting, of adjusted gross income, is complex, and there are a lot of issues there. The fact that the rates have to subsume a number of different enterprises makes them difficult to assess as well. I would suggest that the programs should avoid overlapping, with single crop revenue products, and that these products really have not been out there long enough, and that we need to continue to pilot them.

Finally, I will turn to the premium reduction plan, and also note that recently, some witnesses have come before this subcommittee, testifying and mentioning as an alternative the experience-based discounts. Sam Scheef of the American Association of Crop Insurance Insurers suggested that this would be an alternative. I have been involved in an ongoing contractual project with RMA looking at experience-based discounts. I have not been involved in premium rate reduction plans. One thing that I would say is that these are two very interesting issues. I largely see them as somewhat distinct issues, but I would tell you that our preliminary analysis suggests that there is potential to do experience-based discounts, but that RMA is currently reviewing the work, and looking at a number of implementation issues for experience-based discounts that are not fully resolved.

I thank you for the opportunity to testify today, and I will stop there.

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

Mr. MORAN. Thank you very much, Dr. Coble. Dr. Barnett.

STATEMENT OF BARRY J. BARNETT, ASSOCIATE PROFESSOR, UNIVERSITY OF GEORGIA

Mr. BARNETT. Mr. Chairman, members of the subcommittee, my name is Barry Barnett. I am an associate professor in the Department of Agricultural and Applied Economics at the University of Georgia, and I appreciate the opportunity to be here today to share some thoughts about the Federal Crop Insurance Program.

Federal crop insurance has expanded tremendously since historic changes were introduced in the Federal Crop Insurance Act of 1980. In 2004, I participated in a team that analyzed the portfolio of Federal crop insurance products, and prepared a report for the Federal Crop Insurance Corporation Board of Directors. A major finding from that report was that almost all crops of any economic significance are either currently insurable, or soon will be insurable under the Federal crop insurance program. Of course, insurance may not be available in every region of the country that produces the crop, but it is generally available in major production regions.

The primary exceptions to this conclusion are pasture, rangeland, hay, and forage, yet there is an important reason why these crops have such low crop insurance market penetration. They are among the most difficult to insure. The crop is often consumed by livestock on the farm, rather than being sold off the farm. Thus, it is difficult to get accurate and verifiable measures of yield. A number of important product development efforts for pasture, rangeland, hay, and forage insurance are currently underway.

The 2004 report estimated that the total value of U.S. crop production in 2003 was approximately $131 billion. Crops that are either one, covered under existing permanent crop insurance products, 2, covered under existing pilot products, or 3, targeted for pilot products by 2010, account for 97.5 percent of that total. The Risk Management Agency has decided not to pursue insurance products for various other crops, that together constitute another 2.3 percent of the total. These decisions were based on either the results of feasibility studies, or a lack of interest among producers of the crops, as indicated by earlier testimony. The remaining crops together account for only 0.2 percent of total U.S. crop value in 2003. Thus, our conclusion, that the Risk Management Agency has nearly exhausted the potential for adding additional crops to the Federal crop insurance program.

Livestock is the other significant source of agricultural production value in the United States. In recent years, the Risk Management Agency has introduced some pilot products that protect against livestock price risk. However, products that protect against livestock production risk have never been offered. Again, there are good reasons for this. Livestock species such as poultry and swine are typically produced under strict environmental control in confinement facilities, and this greatly reduces the production risk. Generally, the production risk of most concern to livestock producers is highly contagious diseases, but it is very difficult to insure against such diseases without creating economic incentives for producers to be less careful in their sanitary practices on the farm, thus creating even greater risk for the entire sector.

Many farmers can now choose from among several different Federal crop insurance offerings for the same crop. Different farmers have different risk management needs, so it is important to have such choices available. However, offering multiple products to farmers also heightens the need for careful maintenance by the Risk Management Agency. An old adage is that bad money drives out good. Similarly, bad insurance products drive out good. It is also important to note that the underwriting and rating of an insurance product is not done simply once and forever. Effective insurance products must be continually maintained, by adjusting the underwriting and rating to reflect changes in production practices or environmental conditions. For these reasons, the importance of maintaining existing Risk Management Agency products was a point of emphasis in the 2004 report mentioned earlier.

To conclude, I believe that at this time, the interests of both farmers and the Federal crop insurance program would be better served by focusing more of the Risk Management Agency's efforts on maintaining and improving the existing portfolio of insurance products available for crops that are currently insured, rather than by attempting to add new crop or livestock species to the program.

And this concludes my comments, and I will be happy to respond to questions at the appropriate time.

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

Mr. MORAN. It is the appropriate time, and we expect votes in about 5 or 10 minutes, so the questioning will be brief, which may make it easy for you all to catch flights back home.

Let me start with Dr. Hart. As I indicated earlier, your testimony is very timely. We were just in Geneva last week, discussing with USTR and our trade competitors and colleagues about our negotiation efforts there, and where they were going. But is USTR adequately negotiating an agreement? Are they aware of the issues that are there for crop insurance, and I guess I would have been better if I had had this conversation before going to Geneva. Is there something that we need to make sure that USTR is adequately prepared, negotiating and standing firm on, when it comes to protecting our crop insurance program?

Mr. HART. With crop insurance, I do believe they are aware of the issues involved where crop insurance stands. As I mentioned, the Brazil-U.S. cotton case definitely brought crop insurance into the forefront of issues within agriculture and the WTO. That being said, there are a variety of mechanisms that could be utilized to handle crop insurance, and it depends upon the structure of the crop insurance program how we might best proceed with our negotiations.

Within the exemption type provisions for agricultural insurance, those are within the green box specifications, which as far as I know, there has been little negotiation effort in that area, most have been concentrating on the amber box program.

Mr. MORAN. Let me ask, is there a distinction drawn between crop insurance coverage, from a WTO perspective, and disaster payments, disaster assistance?

Mr. HART. There definitely is. They are handled as separate categories. Also, depending upon the structure of the crop insurance, they can be handled as a separate category. But yes, they are handled separately.

Mr. MORAN. This is a broader question for any of you who would like to help me. I asked this question of the crop insurance companies and agents at our hearing a month or so ago, a couple months ago. Is there a way that I can know, as someone who not only cares about farmers, but cares about taxpayers, that the level of subsidization of both the companies and the agents is appropriate?

There is no company or no agent that visits with me, or testifies in front of our subcommittee, that is interested, I think, in less Government support, but I have a responsibility to try to make certain that what we are doing is the appropriate level. What are the criteria that I ought to be looking at, or that this committee ought to be looking at, to make sure that those levels are adequate for protection of the company, the agents, and the people they insure, but at the same time, don't overpay, to the detriment of the taxpayers of this country? Dr. Coble?

Mr. COBLE. Yes. I will just mention one thing, and this is a thought that I had earlier, during some testimony, is that the answer to your question is extremely difficult to know, and that is one of the reasons that you get a lot of different interpretations. Because the relationship between the companies in RMA is so complicated, and part of that has to do with the standard reinsurance agreement, because basically, it is there for risk protection, but the companies also have the opportunity to retain certain amounts of risk, at their own choice. They sometimes take that to private reinsurance markets as well, and so, to understand how well the companies are doing, for example, is difficult to ascertain, because it is intimately tied to the reinsurance agreement.

And so, one of the things I would say, as you look at these issues like the premium reduction plan, is that I think you have also got to look at the SRA at the same time, that those are intimately linked issues.

Mr. MORAN. Dr. Barnaby.

Mr. BARNABY. Yes, could I follow up on that just a minute?

One of the things that we haven't really talked about is how to bring some market forces on what the right rate should be, what the right underwriting rules should be. At the extreme end of that continuum, if you will, is Senator Lugar's plan, which was to give farmers a voucher, and they would buy private insurance. At the other extreme is the current system, that is totally rates and underwriting rules are completely set by RMA. I don't think Mr. Lugar's plan would work without a reinsurer of last resort. I think you are still going to have some Government involvement. But certainly, that is the most extreme private approach.

I would see the premium discount as sort of the first step between a totally controlled program and a totally market-driven program. They are giving a discount because of reduced administrative costs, but you could give discounts for other reasons. Accepting additional underwriting rules that lowers guarantees, the market could probably figure out how to handle a situation where people have limited water for irrigation. I mean, all this kind of stuff goes on in auto policies and other property casualty insurance, and I don't know that there is any reason to believe that if you allowed some market forces to work, and as I said, the premium discount is a little bit in that direction, with Mr. Lugar's plan being at the far extreme, and there is probably a whole area in between that you could get into.

Mr. MORAN. Anyone else? Because one of the questions I wanted to ask is your thoughts on bringing price competition into the delivery of crop insurance, and perhaps Dr. Barnaby has——

Mr. BARNABY. Revealed his hand?

Mr. MORAN. Revealed his hand, reduced the value of my question. If we are going to, well, me let me ask a specific question of Dr. Barnett, you have interesting testimony, because we are always talking about broader coverage, covering a greater number of crops, number of acres, covering at higher levels. If we were to put additional dollars into crop insurance, and this fits with what I have often said, although without the expertise of Dr. Hart, that it seems to me that crop insurance is going to take a more, greater focused role, a greater opportunity for crop insurance in light of WTO, that it may be a method by which we can deliver assistance to farmers, and not run afoul of WTO agreements. And so, crop insurance may become a more significant component of how we assist farmers across the country.

Having said that, Dr. Barnett suggests that that may not be the ultimate goal of covering more and covering at higher levels. If we were going to put more money into crop insurance, where is the bang for the buck? Is there some place that makes the most sense?

Mr. BARNETT. Well, let me clarify what I was saying. The point I think I was trying to make was that the bang for the buck, I think right now, is in trying to improve what we already have, and I think that follows up on several of the comments that were heard from the earlier panel, that there are ways to make the existing products more attractive for producers. My sense is that since ARPA, and ARPA has done a lot of wonderful things, I think, for this program. But one of the things it did is put a real emphasis on trying to get new crops into this program, and there is a huge cost within the Risk Management Agency of trying to bring new crops into the program, particularly if it is a crop that involves some new information technology system, or something of that nature.

I think what I would suggest is that putting money into better maintaining the products that we have for existing crops, and perhaps trying to make those products available in some regions where they are not currently available for those crops, would probably generate more crop insurance protection per additional dollar than going out and trying to find more small crops to bring into the program.

Mr. MORAN. Because of the cost associated with the necessary information, the production history, just the bureaucracy of determining those levels of coverage, those costs and pricing mechanisms, just because it is new, it costs more money, and there is fewer acres, fewer farmers to be covered.

Mr. BARNETT. So, the potential business is smaller, but the other thing is that the data systems that are necessary to develop these products are oftentimes very thin, for some of those crops.

Mr. MORAN. Mr. Etheridge has indicated he does not have questions, but Mr. Neugebauer has returned, so my time is beginning to evaporate. And Mr. Etheridge says he does. Let me finish with this, and then, I will move to my colleagues.

And I can't remember, Dr. Coble or Dr. Barnett indicated that we needed to stay away from, I think you, Dr. Barnett, of providing risk management tools that are Government subsidized when the private sector could perform that function, and you mentioned futures, I am sorry, Dr. Coble, thank you. You mentioned futures as an example of that. Do we tread, does the crop insurance or risk management programs tread upon futures today, diminish their use, reduce market forces at play?

Mr. BARNABY. Well, I think first of all, I think, in certain respects, we have dodged that bullet, but when we moved into revenue insurance, yes, we moved into price risk, as a part of that, as well. I think one of the interesting quandaries, thinking back to Keith Collins' testimony a few weeks ago, is for example, going into price risk. How far should we go in that direction, when there is an existing futures market? Then, you also have the question of if we try to insure something that doesn't have a futures market, then how does RMA implement that program? So, you get into something of a catch–22, but I do think that the world that producers live in today is a world where they have got commodity programs, they are sitting there looking at their loan rates. They are looking at the countercyclical program. They are making choices about which crop insurance to buy, whether they buy yield insurance or revenue insurance, and they think about foreign pricing. That is the decision that a farmer makes every spring, and in fact, with this complex system that we have, those are some pretty tough choices to make.

Mr. MORAN. Thank you very much. It occurs to me that before Dr. Collins testifies before our subcommittee again, and he is a regular participant, we have to send his prepared testimony to each of you, and ask for questions, so that we could better question Dr. Collins.

The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. I will be brief, Mr. Chairman. Dr. Hart, just one quick question. And it really intrigued me, as you talked about crop insurance versus disaster payments, as it relates to WTO. And I may want to follow this up later outside the committee, because I think this is an area that we are going to have to deal with specifically.

My question is this, though. At what level, when you are talking about insurance, because we have folks come before this committee on a regular basis, the insurance doesn't reach the coverage of covering the cost, much less the profit. So, at what level are we talking about that we get to, we have problems, or have you looked at that, and at what level do we subsidize the premiums that is again a problem for WTO?

Mr. HART. In this case, the provisions for agricultural insurance, for exemption of those, under our support limits, requires that we stay at 70 percent or below of the 3 year average income for the farm. And so, anything offered above that would immediately be qualifying for the amber box.

Mr. ETHERIDGE. To follow on that, though, the point is if you have had, if you have got 3 out of 5 years, and you have had substantial losses, then you are guaranteeing that farmer is going out of business.

Mr. HART. That is one of the issues, I think, within the WTO. The requirements are such that they do not take into account multi-year losses going on. They just set up very basic guidelines, if you will, for qualifications for exemption, and multi-year losses would be one area where it does present a significant problem, as far as implementation for within the U.S. of implementing a WTO-exempt agricultural insurance program.

Mr. ETHERIDGE. Thank you. Seems like we just may have to let them deal with us, rather than us having to deal with them on that issue.

Mr. MORAN. The gentleman from Texas. Your proposal was bragged about in your absence by a previous panel.

Mr. NEUGEBAUER. Well, I appreciate that, Mr. Chairman, and I think what I would just—and we have got a vote, and I would say to the panel is, if you haven't seen the proposal that we have laid out, where we are putting a GRP product on top of a multi-peril product, to provide additional coverage, and so, you could carry an underlying coverage of 60 or 70 percent, or 55, and then put a GRP type of product on top of that, to basically let them insure up to 100 percent.

I like that for multiple reasons. One is that it takes the Government out of having to be in the ad hoc disaster program, that we are able to finally give producers a coverage that covers the economic risk that they are taking. The second part of it is it is about sharing that with the private sector, in that you know, private insurance companies are going to be issuing that product, and not all of it would, in the event of a catastrophic event, and it would be triggered under that policy, that in fact, the private sector would be sharing in that.

And I think the other piece of it is that it is a better tool for producers, because the problem today is, if there is a disaster, and we have already, we have had some disasters even this year around the country, is the jury is out whether, if and when the Congress would make any economic adjustment for those producers.

And as I think somebody was alluding to a while ago, is the farming business has gotten to be a very big business now, and in my district, for example, people who used to farm a section of land, are farming 5 and 6 and 7, 8 sections of land, and these aren't big corporations. These are family farms. That takes a lot of capital to go do that, and so, in order to facilitate the risk of that kind of capital, I think we are going to have to do a better job of providing those risk management tools to our producers, and I like doing it through the crop insurance program, because it is a private sector-driven product in some ways. I know it has some Government subsidy to it, but it also has private sector participation.

And I think that also might help to make those products better. What I do know today is that producers tell me over and over again, is they don't feel like they have much say-so in how they manage their risk. They have very few choices, and many of those choices are trying to weigh the economic cost of one product over another, and how much of an input they can allocate to risk management.

So, I would encourage you, and would like for you to, and if you ever contact my office, we will be glad to get you a copy of that. Dr. Knight at Texas Tech has done an analysis of this, to take some scenarios. It is very interesting findings, and when we looked at the scoring on this particular bill, versus what we have spent in ad hoc disaster programs over the last number of years, it is a no-brainer to incorporate something like this.

So, I hope that you will have a chance to do that, and give us some feedback. And with that, Mr. Chairman, I yield back the balance of my time.

Mr. MORAN. Thank you, Mr. Neugebauer. Let me make sure, Dr. Barnaby, that I wanted to ask you, your comment about Representative Graves' proposal on disaster assistance. I remember communications from you the last time we went through a disaster package, and you were, again, highlighting the need for the coverage at those levels, not at the 100 percent loss, and your thought was that what Representative Graves proposed, or is proposing in this legislation has merit. Is that accurate?

Mr. BARNABY. That would be a correct statement, because it is targeting the payment to the deductible part of the guarantee, not to the insurable part. By the way, I have looked at Mr. Neugebauer's plan, and communicated back to your office. I thought it would work better if you would reverse the role of the two products. Let GRP be the lead contract. That way, you are only exposed on the basis risk, and the other thing is that that basis risk would show up in the individual APH guarantee, which is where these high premium rates are coming in places like the Great Plains. The GRIP will remove the systemic risk, and frankly, I suspect you would get a number of farmers surprised that the basis risk may not be as great as they think it is, and if it isn't, that would lower the overall cost of protection, and you would still be at that 90 percent level. So, I shared that back with your office.

Mr. NEUGEBAUER. Thank you. I appreciate that very much.

Mr. MORAN. Gentlemen, thank you very much for your excellent testimony. We are very grateful for the time that you have spent in preparation, and the presentation today. Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses to any questions proposed by a member of the panel.

The hearing on this Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 2:05 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF STEVE BACCUS

Chairman Moran and members of the committee, my name is Steve Baccus and I serve as the president of Kansas Farm Bureau. Thank you for the opportunity to appear before you today to share our concerns regarding crop insurance. Kansas Farm Bureau, the State's largest general farm organization, represents nearly 40,000 farm and ranch families through our 105 county Farm Bureau Associations.

I am a fourth-generation farmer in Minneapolis, KS where we produce wheat, milo, soybeans, sunflowers and irrigated corn on a 100 percent no-till farm. I understand all too well the problems associated with the current crop insurance program.

Agriculture is a highly erratic industry that is impacted by a multitude of variables that are far beyond the producer's control. Farmers can use top quality seed, fertilizer, chemicals and the best management practices, and still not be able to control the weather or the markets. Profit margins in this industry are such that it is critical that farmers have access to a menu of strong, viable and flexible risk management tools. The alternate safety net for American agriculture is a continuation of ad hoc disaster assistance.

Farm Bureau encourages the development of new crop insurance and risk management products, efforts to refine existing risk management tools, and continued producer education of risk management alternatives.

Kansas Farm Bureau has been a leader in this effort through the creation of Agriculture Solutions, a wholly-owned Kansas Farm Bureau company that is dedicated to developing innovative risk management products designed to protect the revenue stream of producers.

We currently have three such products in use out in the country; Beef Verification Solutions, an Animal ID program, Revenue Protection Solutions, a risk management program that can lock in a net profit even during a drought, and Delivery Protection Solutions, which protects producers when they want to forward contract their crop.

We support providing all producers with options for various risk management products that accurately reflect individual risk considerations when making production decisions.

Without price competition, crop insurance has become ineffective, inefficient and unresponsive. The cost of crop insurance in Kansas has risen so much, primarily due to six years of drought, that it limits the number of producers who can participate at the level necessary to provide them the protection that is required to continue their operations. In my own operation I often cannot financially justify the cost of buying up additional coverage to adequately manage my risks.

The coverage levels that are offered by Federal crop insurance do not reflect what farmers need or can afford. Though limits vary by State and crop, farmers can generally insure their crops for up to 85 percent of their actual production history.

Though premium discounts make this level of coverage more affordable, 85 percent coverage still costs more than the vast majority of producers can afford. As unaffordable as it is, even the 85 percent coverage level can be insufficient when a crop is destroyed by natural events.

When you combine a farmer's substantial production input costs, the high premium rates for higher coverage levels, include the current government-subsidized premium, and the historical tight profit margins even with a 100 percent crop, and the end result continues to be a net loss for the producer.

Ironically, the most costly and frustrating loss for the producer is not when a crop has been totally destroyed. It's when there is a loss in the 20 - 50 percent range.

The producer receives minimal return from the crop insurance coverage, and still has the harvest expense, yet is only harvesting a crop that is approximately one-half its value.

Beyond all this, the structure of the crop insurance program is rigid and cumbersome. It allows for no tolerance and no exceptions for mistakes; and if you do, you're left with no insurance.

The crop insurance application, acres and yield reporting, and claims processes need to be simplified and made much more efficient. In addition, newly imposed privacy restrictions have made it nearly impossible for the insurance agent or adjustor to communicate with the FSA office, and recent administrative rulings by the RMA have made it illegal for MY agent, the guy I bought the policy from, the guy who is servicing my account and looking after my interests, to communicate with the adjustor who is handling my claim. Private business would not, could not operate in this manner.

If crop insurers are allowed to compete on both price and service like private businesses, I believe market competition will make this program better for both the American farmer and the American taxpayer.

FOSTER COMPETITION AND INNOVATION IN THE MARKET PLACE

The current crop insurance program would benefit from increased and open price competition in the marketplace. Competition would drive a reduction in premium costs as the market dictates that insurance providers offer better products at lower rates, passing the cost savings on to the consumer instead of absorbing it along the way.

Moreover, increased competition would create incentives for individual insurance providers to create risk management products that would be responsive to their clients' needs. This would, in turn, create an environment in which insurance providers would be compelled to increase efficiencies in order to meet the demand of the consumer and reach their own desired revenue levels.

The creation of these market-sensitive risk management tools would assist farmers with their revenue protection needs. This would allow many farmers to access and purchase increased risk management protection, thus reducing the need for ad hoc disaster assistance programs.

Privatization of crop insurance also needs to be examined. We need to at least encourage consideration of the voucher plan proposed by Senator Lugar. Farmers can utilize vouchers to purchase whatever risk management tool best meets their individual needs from whichever company is offering the best price and service. Sounds a little like capitalism doesn't it?

In addition to serving as president of the Kansas Farm Bureau, I also serve as chairman of the Board of Farm Bureau Mutual Insurance Company. From that position I can give one prominent example of how the industry is already beginning to shift toward these new risk management tools: the Premium Reduction Plan, more commonly known as PRP.

Crop1 Insurance, a wholly-owned subsidiary of Farm Bureau Mutual, has been writing these policies since 2003. In that time, Crop1 has gone from zero premium to $75 million in written premium. If that's not testimony to the desire of the American farmer to utilize an improved risk management product, I'm not sure what is.

Since 2003, Crop1 has helped its customers save $4 million in premium. Much of that savings was not pocketed but was used by farmers to buy up increased coverage.

Moreover, Crop1 has a client retention rate of 94 percent. Retention increases to 95 percent among clients who have filed a claim, indicative of outstanding claims service! Both datapoints are well above industry averages and further demonstrate the high caliber of service delivered to customers using the PRP product.

The PRP discount premium program is crucial to tens of thousands of farmers. It provides farmers with the much-needed savings at a time of rising fuel, fertilizer and other costs. It is essential that Congress work to maintain the viability of this discount program that benefits so many farmers. We urge you to maintain this program.

INCREASED COMPETITION IN THE CROP INSURANCE INDUSTRY

We desperately need to begin looking at ways to increase competition on both price and service within the crop insurance industry. In addition to PRP, the RMA could allow each company to adjust the premium rates established by the RMA by a certain percentage, depending on market needs and industry or company efficiencies. This would not be a refund as is the case with PRP but an actual reduction in the premium rate at the time the policy is written. Again, capitalism at its best.

It is essential to a strong, vital crop insurance industry that companies are allowed to operate like a free enterprise system and to compete on price as well as service.

To further reduce premium costs, we could allow companies to add—but not take away—underwriting rules. With this concept, a producer who takes certain actions to reduce his chances for a loss, such as planting a particular drought resistant variety of a crop and uses best management practices, as defined by the added underwriting rules, would become eligible for a discount.

Finally, to help counteract fraud and abuse and to reward honesty, let's return to the days of experience rating where the farmer with the lower loss ratio gets the better rate and vice versa.

Thank you, once again, for the opportunity to speak before you today. I realize there is no easy solution to this increasingly complex problem. I do, however, ask that you carefully consider the problems associated with the current program that will be discussed today, and help us bring new competition to an industry that has become inefficient, ineffective and unresponsive to the needs of its clientele. Thank you. I stand ready to address any questions you may have.

STATEMENT OF BARRY J. BARNETT

Mr. Chairman and Members of the Subcommittee, my name is Barry Barnett and I am an associate professor in the Department of Agricultural and Applied Economics at the University of Georgia. I have conducted research on various issues related to the Federal crop insurance program for approximately fifteen years. Several of those research efforts have been funded by the Risk Management Agency (RMA). I also serve as an expert reviewer for the Board of Directors of the Federal Crop Insurance Corporation.Where to From Here?

Federal crop insurance has expanded tremendously since historic changes were introduced in the Federal Crop Insurance Act of 1980. In recent testimony before this subcommittee, RMA Administrator Gould indicated that approximately 370 crops are currently insured under the program. In 2004, I participated in a team that analyzed the portfolio of Federal Crop Insurance Products and prepared a report for the Federal Crop Insurance Corporation Board of Directors. A major finding from that report was that almost all crops of any economic significance are either currently insurable or soon will be insurable under the Federal crop insurance program. Of course, insurance may not be available in every region of the country that produces the crop but it is generally available in major production regions.

The primary exceptions to this general conclusion are pasture, rangeland, and forage. In 2003 there were almost 450 million acres of pasture and rangeland in the United States and another 65 million acres of hay and forage. However, insurance for these crops is currently only available in very limited areas. The 2004 report estimated the annual value of pasture, rangeland, hay, and forage (including silage) at approximately $18.6 billion. For 2003 only about $0.5 billion of that amount was insured with any type or level of Federal crop insurance coverage.

There is an important reason why pasture, rangeland, hay, and forage have such low crop insurance market penetration. These crops are among the most difficult to insure. The crop is often consumed by livestock on the farm rather than being sold off the farm. Thus, it is difficult to get accurate and verifiable measures of yield. A number of important product development efforts for pasture, rangeland, hay, and forage insurance are currently underway. These efforts include the use of indices based on rainfall or satellite imagery to "cross-hedge" pasture, rangeland, hay, and forage production risk.

The 2004 report estimated that the total value of U.S. crop production in 2003 was approximately $131 billion. This value includes pasture, rangeland, hay, and forage valued at $18.6 billion and a small number of aquaculture commodities that are treated as crops for RMA data purposes. Crops that are: 1) covered (though not necessarily available in all production regions) under existing permanent crop insurance products (including pasture, rangeland, and forage); 2) covered under existing pilot products; or 3) have been targeted by RMA for pilot products by 2010 account for $128 billion or 97.5 percent of the total value of crop production in 2003. At this time, RMA has decided not to pursue insurance products for various other crops that combined have production valued at approximately $3 billion or 2.3 percent of the total. The decision to not pursue insurance products for these crops was based on either the results of feasibility studies or a lack of interest among producers of the crops. The remaining 34 specialty crops have all been targeted by RMA for pilot products after 2010. Together they accounted for only about 2 tenths of one percent of total U.S. crop value in 2003.

Livestock is the other significant source of agricultural production value in the U.S. In recent years, the RMA has initiated some livestock pilot products. These products all protect against price risk rather than production risk. As with pasture, rangeland, hay, and forage, there are good reasons why products have not been offered for livestock production risk. Livestock species such as poultry and swine are typically produced under strict environmental control in confinement facilities. This greatly reduces production risk. Generally, the production risk of most concern to livestock producers is highly contagious diseases. However, it is very difficult to insure against such diseases without creating perverse incentives—that is, incentives for producers to be less careful in their sanitary practices, thus creating even greater risk for the entire production sector.

With the current efforts underway to develop products for pasture, rangeland, hay, and forage, it seems that the RMA has nearly exhausted the potential for adding additional crops to the Federal crop insurance program. The future of the current pilot products that insure against livestock price risk will be evaluated at the end of their respective pilot periods. Recognizing the potential problems that could be created, RMA has thus far chosen not to insure against livestock production risk. I consider that to be a wise decision. Any future efforts to investigate the potential for insuring against livestock production risk should proceed with great caution.

Many farmers can now choose from among several different Federal crop insurance offerings for the same crop. For example, in some regions, farmers can now select from among farm-level yield insurance, farm-level revenue insurance, area-based yield insurance, and area-based revenue insurance. Different farmers have different risk management needs so it is important to have such choices available. However, offering multiple products to farmers also heightens the need for careful maintenance by the RMA. A farmer should choose from among the various Federal crop insurance products being offered based on how well each product meets his/her risk management needs. The actuarial performance of the program can be threatened when mistakes in the design or rating of a particular insurance product cause that product to be relatively more attractive to farmers. An old adage (known formally as Gresham's law) is that "bad money drives out good." Similarly, bad insurance products tend to drive out good. It is also important to note that the underwriting and rating of an insurance product is not done simply "once and forever." Effective insurance products must be continually maintained by adjusting the underwriting and rating to reflect changes in production practices or environmental conditions. For these reasons, the importance of maintaining existing RMA products was a point of emphasis in the 2004 report mentioned earlier. At this time, I believe that the interests of both farmers and the Federal crop insurance program would be better served by focusing more of the RMAs efforts and resources on maintaining and improving the existing portfolio of insurance products available for crops that are currently insured (or targeted for pilot products by 2010) rather than by attempting to add new crop or livestock species to the Federal crop insurance program.

AREA-BASED PRODUCTS

The area-based products, Group Risk Plan (GRP) and Group Risk Income Protection (GRIP), are examples of efforts to improve the portfolio of risk management products available to U.S. farmers through the Federal crop insurance program. Let me be very clear in saying that many farmers will understandably prefer the farm-level yield and revenue insurance products (APH, CRC, RA, etc.) to the area-based products (GRP and GRIP). It is possible for a farmer to experience a loss on his/her farm and not receive an indemnity on either a GRP or GRIP policy if similar losses were not widespread across the county. So farmers, who are particularly concerned about their exposure to farm-level losses that are not correlated with county-level losses, should not purchase GRP or GRIP. It is also important to note that the National Agricultural Statistical Service (NASS) county-level yield data required to construct the area-based products is not available for all crop and regions.

However, where available, GRP and GRIP can provide lower cost risk management alternatives for farmers who are primarily concerned with protecting against exposure to risks, such as drought, that tend to be widespread rather than idiosyncratic. I disagree with those who argue that most farmers will be confused by GRP and GRIP. GRP and GRIP are essentially put options on county-level estimates of yield and revenue, respectively. In that sense, they are conceptually analogous to the options on futures contracts that are used by many farmers to hedge price risk. GRP and GRIP will not, and should not, replace the existing farm-level insurance products. But they can be a valuable alternative risk management tool for some farmers.

CALCULATING EXPECTED YIELD

An important current issue is the manner in which expected yields are calculated for the various Federal crop insurance products. For the farm-level yield and revenue insurance products that currently constitute almost 90 percent of total premium in the Federal crop insurance program, the yield or revenue guarantee depends directly on the Actual Production History (APH) yield for the insurance unit. In its most basic form the APH yield is a simple 4 to 10 year average of historical yields on the insurance unit. In contrast, the expected yield on the area-based products is a trend-adjusted forecast based on a longer time-series of county-level data.

In recent years, farmers in some regions have experienced multiple-year disasters that have caused their APH yields (and thus, their APH, CRC, or RA guarantees) to decrease dramatically. In contrast, the expected yields on the area-based products have tended to decrease less because they are based on a longer time-series of data. Thus, this difference in how expected yields are calculated has caused some farmers to switch from the farm-level products to the area-based products.

Allow me to make several comments about this. First, as indicated above, the area-based products offer very different risk protection than that offered by the farm-level products. Farmers should not switch to area-based products without carefully considering the extent of their exposure to idiosyncratic risks. Second, it is troubling that some farmers are switching between farm-level and area-based products based not on careful consideration of the different risk protections offered by the products but rather on differences in how expected yields are calculated.

Third, there is no perfect statistical procedure for estimating expected yields. The APH measure has the advantage of being simple and easy to understand. The disadvantage is that since APH yields are based on a simple 4–10 year average, they are sensitive to successive years of low yields (multiple-year disasters). Of course, the inverse is also true. A rare random sequence of unusually high yields can cause the APH measure to be well above the actual expected yield. Were this to occur, one would expect to see some people switch from the area-based products back to the farm-level products. In recent years, the RMA has put in place various procedures to limit the impact of multiple-year disasters on APH yields. However, if a significant number of farmers are making crop insurance purchase decisions based not on the risk management characteristics of the products but rather on differences in how expected yields are calculated, this is an issue that requires further attention.

Fourth, if, as some have argued, the APH measure of expected yield is too sensitive to successive years of low yields it is important to note that the magnitude of this effect will vary across crops and regions. For crops and regions that are characterized by high yield variability (e.g., wheat in the Northern plains or cotton in the Southern plains), there is potential for large errors in APH measures of expected yield that are calculated as a simple 4–10 year average The magnitude of the error should be lower for crops and regions with less yield variability.

Fifth, a significant challenge facing RMA is trying to determine whether a sequence of three or four successive low yields is, in fact, just a rare random occurrence or whether it instead reflects a structural change (e.g., changes in production practices, soil quality, water availability, weather patterns, or exposure to pests and disease) so that historical yields are no longer indicative of expected yields.

Sixth, another concern that has been raised about the APH measure of expected yield is that it does not adjust for technology trends (whereas the expected yield for the area-based products does adjust for trends). To the extent that yields trend upward over time, a simple 4–10 year average will underestimate the true expected yield—the larger the positive trend, the more that the APH measure will underestimate the true expected yield. But again, the inverse is also true. If yields are gradually trending downward (which is less common but does occur for some crops and regions), the APH yield will overestimate expected yield because it does not adjust for the downward trend.

Alternative measures of farm-level expected yield could be developed that would combine the farm-level yield data currently used to calculate APH yields with longer series of NASS county-level yield data. Because they would also utilize the longer series of NASS data, these alternative measures would reduce the magnitude of the sensitivity differences between the farm-level and area-based products. If one believes, as I do, that the current APH measure is too sensitive to successive years of unusually low (or high) yield events, these alternative measures should also improve the performance of the farm-level yield and revenue insurance products. Of course, the required NASS county-level yield estimates are not available for all crops and regions, but they are available for the crops and regions where area-based products are currently offered. It is also important to note that any measure that utilizes NASS data will be more complex and thus, less transparent to producers, than the simple APH measure. In addition, while it may be desirable to have a measure of expected yield that is less sensitive to successive unusual yield events than the current APH measure, it is also important that any alternative measure retain sufficient sensitivity that it can respond to true structural changes.

I know that the members of this committee are very interested in the impact of multiple-year disasters on the APH measure of expected yield. I applaud you for that interest but also caution that this is a challenging statistical problem. I understand that the RMA has funded two development contracts that are examining alternative measures of expected yield that could be used with Federal crop insurance products. This is an issue that has important implications for producers and for the actuarial soundness of the Federal crop insurance program. I am hopeful that alternative measures will be developed in the not too distant future. However, these alternative measures will be statistically complex. If they are to be implemented within the Federal crop insurance program, the RMA will likely need additional resources to hire individuals with the statistical skills required to develop and maintain these measures.

This concludes my comments. I will be happy to entertain questions at the appropriate time.

STATEMENT OF GOVERNOR JOHN HOEVEN

Good morning, Chairman Moran, and members of the subcommittee on General Farm Commodities and Risk Management. Thank you for inviting me here to testify. I am John Hoeven, Governor of the State of North Dakota, and I am here today to visit with you about crop insurance and its effectiveness as one of farmers' primary risk management tools. I want to discuss crop insurance as part of the comprehensive farm bill with its counter-cyclical safety net and its importance to North Dakota and to our Nation's farmers.

We all place a very high priority on maintaining family-based agriculture. Keeping families on farms is critically important to the economies of our States. We must support traditional agriculture with the kind of safety net that will allow them to operate and at the same time to make the types of investments in value added agriculture necessary to diversify their income.

The economic wellbeing of all our citizens depends on a healthy rural economy. However, rural areas are faced with economic challenges due to the income cycles of farmers—cycles greatly influenced by the risk of weather and other perils associated with crop production.

I believe that a good farm safety net is critically important to our Nation. North Dakota is one of the most agriculturally dynamic States in the Nation. Agriculture and associated industries account for $4 billion of our economy and make up 25 percent of our economic base.

We are proud to lead the Nation in the production of twelve different crops, including spring wheat, durum, barley, oats, dry edible beans, flax, dry peas, lentils, sunflowers and canola. We also lead the Nation as one of the highest in terms of percentage of acres insured. North Dakota producers are big user of the risk management tools that the Federal Government provides, and they appreciate the continued support of those programs. Nevertheless, I am here today, and in fact, in Washington this week, to advocate for additional help where the support offered by our farm bill and crop insurance are not enough to sustain the economic vitality of farmers, because of weather-related disasters and deficiencies in the crop insurance program.

Farmers need to be able to insure for and manage the tremendous risk that they undertake every time they put crop in the ground. They need to be able to obtain effective insurance so that when the do suffer a disaster in their fields, they don't also suffer a disaster in their balance sheets.

Producers need to be able to cover for the catastrophic loss, or the "shallow" losses, that over successive years lead to financial decline. What I call "shallow losses" are the 25 to 30 percent yield or quality losses that farmers cannot adequately insure against. These losses, however subtle, nevertheless have real impact on their profitability and, in fact, a negative impact on their actual production history.

Agriculture producers need to be able to manage the risks of not only diminished quantity, but also reduced quality due to factors beyond their control. They should be able to affordably obtain revenue protection products—crop insurance—that will help reduce exposure to market risk.

We appreciate the income protection tools that were authorized the late 1990's and that continue to be modified in an effort to assimilate market risk in combination with crop loss. However these tools remain inadequate or too costly to protect the risk undertaken. If these tools were adequately and affordably offered to farmers—if farmers could adequately insure like other types of businesses—they wouldn't need to come to Congress seeking ad hoc disaster assistance.

I am convinced that risk management improvements and legislation aimed at enhancing crop insurance should be considered as part of the forthcoming farm bill. Along with the other provisions of farm support legislation dealing with commodity programs, conservation programs and rural development, there should be a risk management title.

Historically, we have worked collaboratively to create a farm bill every five to seven years, but we only address crop insurance when it demands reform, as was done in 1980, 1984 and 2000. I, along with many members of this Committee, worked hard in 2001 and 2002 to create a long-term farm bill with an effective counter-cyclical safety net that allows for planting flexibility. In retrospect, it should be clear that effectual crop insurance—with provisions that meet the needs of a dynamic agriculture economy—should be included in the safety net that was conceived by and supported by farmers.

A good crop insurance system should work hand-in-glove with the right kind of farm bill, and we need to get it done.

Also, like the current farm bill, the next one should focus on providing an appropriate long-term, counter-cyclical safety net and planting flexibility. We need a bill that will ensure income stability and enable our farmers to plan for their future. Continuation of the counter-cyclical safety net and an adequate crop insurance program will keep agriculture strong. These measures are not only vitally important for our farms, they are vital to our country, in order for Americans to continue to benefit from having the highest quality, lowest cost food supply in the world.

I want to emphasize two additional key points: continued strong conservation incentives and an enhanced renewable energy title.

Farmers are good stewards of the land, and we, as a matter of national policy, should continue to encourage good conservation practices with the right kind of incentives—incentives geared to working lands. We need to see a strong conservation component in the bill. These programs should be voluntary, incentive-based efforts that will enhance farm and rangeland protection, as well as promote conservation efforts.

Of course, conservation programs can also help to reduce losses to producers, and thus to the crop insurance programs. Let me give you an example with the use of the Emergency Watershed Protection Program (EWP) in my State.

The Natural Resources Conservation Service (NRCS) is able to use the EWP to purchase easements on cropland that has a history of recurring flooding. The EWP floodplain easement program is offered as a tool to reduce the impact of flood disasters.

The easements provide long-term economic and environmental benefits to landowners and the public. More than one-hundred twenty easements on as much as 15,000 acres of land have been purchased in North Dakota in areas along the Red, Tongue, and Pembina Rivers where chronic flooding has reduced agriculture productivity and increased farmer risk. This program has helped to provide a revenue alternative for farmers. It has in addition taken the land out of production, reducing frequent crop insurance indemnities for losses. The result is lower collective loss ratios for everyone, and consequently, more affordable crop insurance premiums.

Finally, farmers are a big part of this country's energy solution. We in North Dakota have seen exciting growth in ethanol production from corn, but like the President, and all of you, I envision a time when our fuels may be produced from switch grass or other biomass.

American farmers are already supplying our country with an environmentally sound, affordable, domestic supply of bio-based fuel and energy. They are helping us reduce our country's dependence on imported energy, and at the same time, diversifying their revenue stream to create greater financial security for themselves and greater energy security for our Nation. Policy and incentives should be included in the farm bill that encourage investments in value-added bio-energy crop systems to help our Nation secure energy independence.

Mr. Chairman, and members of the committee, in closing, it is unfortunate that the features of the current farm bill and crop insurance together do not adequately protect farmers from crop disasters and chronic wet or dry cycles. While emergency supplemental assistance packages have helped, they fail to provide a long-term solution that could be achieved by supplementing the crop insurance programs to meet producers' needs.

As I said, I am in our Nation's Capitol this week along with several farmers from North Dakota, seeking help with chronic losses. They and I are here to lobby for disaster assistance. Our farmers and ranchers come from a strong and proud tradition. North Dakota producers would much rather get their income directly, from the crops they produce and the sweat of their labor. Unfortunately, however, sometimes forces outside their control make that impossible, and to secure our Nation's abundant, high-quality food supply, our farmers and ranchers need help. They insure more than 90 percent of their acres with some type of coverage, but it doesn't go far enough.

Until we are able to get the right kind of crop insurance tools included in the risk management tool box available to farmers, we are forced to once again ask for disaster assistance—assistance that comes without offsets from future farm spending.

It is important that a relief package be approved in a timely manner and is tailored to meet all disaster-related losses. Without needed assistance, viable farming operations will be lost due to factors beyond the control of our producers. I ask for your support in this effort.

Thank you, again, Mr. Chairman, for the opportunity to address this committee. I would be happy to respond to any questions.

STATEMENT OF WILL ROUSSEAU

Mr. Chairman and other distinguished members of the Subcommittee, thank you for the opportunity to discuss Federal crop insurance programs as they relate to growers of fruits, vegetables and nuts. I commend you for holding such a hearing and considering the views of our industry.

I am testifying today on behalf of Western Growers, which represents fruit, vegetable and nut growers in Arizona and California, for which I currently serve as Chairman of the Board. I am a fourth generation Arizona farmer of various fruit and vegetable crops, including carrots, broccoli, onions, cantaloupes and watermelons. In recent years, I have had significant experience with Federal crop insurance programs.

Western Growers is keenly interested in working with Congress to improve Federal agriculture policy in order to sustain an efficient and productive domestic fresh produce industry. We believe there is a vital role for the Federal Government, in partnership with the private sector, to implement policies that will enable growers to remain competitive in global markets. However, we have historically expressed strong reservations to Congress and USDA's Risk Management Agency with respect to Federal crop insurance programs for fruit, vegetable and nut growers, and we wish to register such reservations again today.

Western Growers believes that any insurance programs that "protect" growers from economic harm must be carefully developed and implemented so that they only provide protection from catastrophic losses and do not disrupt the highly competitive nature of fruit, vegetable and nut markets. Our industry is characterized by free and open markets where producers must compete on a level playing field. The competitive structure of these markets can be easily distorted when government programs attempt to reduce or eliminate the inherent risks involved with our industry. Western Growers remains firmly opposed to Federal crop insurance programs that might disrupt or distort traditional marketing patterns or would provide artificial signals or stimulus toward increased acreage and supply.

The potential for distortion and disruption of highly volatile fruit, vegetable and nut markets, and the corresponding adverse impacts on growers, can best be illustrated by citing the implementation of a Federal crop insurance program for watermelons in 1999. Unfortunately, I had direct experience with this debacle which caused serious financial losses for many melon growers.

In 1999, watermelon growers in Arizona and California experienced perhaps the worst market in history. The supply of watermelons nationwide was much greater than in previous years. This was attributed to the fact that the watermelon pilot program, implemented only in select regions of the country, provided substantial incentives for growers in those areas to expand production, and also for new growers to enter the market. This atypical and unnatural expanded production is illustrated by a 79 percent increase in acreage in participating counties in Florida and a 200 percent increase in acreage in participating counties in Texas, contrasted with a reduction in acreage in other areas of the Nation not eligible for the pilot program. It is apparent that many new entrants into the market "farmed the insurance program" and in doing so destroyed the watermelon market for traditional producers. Moreover, this government-sponsored oversupply rippled through the other summer melon crops, including honeydew, cantaloupe, and mixed melons, as retailers struggled to move the glut in watermelons. We believe this is strong evidence that the 1999 watermelon pilot insurance program caused major disruptions in the market and serious adverse impacts on growers.

Given the severe impacts that can result from well-intended but flawed crop insurance programs, the Federal Government must be extremely cautious in expanding such programs into the fruit, vegetable and nut sectors. Moreover, we question the need for Federal crop insurance for fresh produce growers. I would note that private market insurance polices, such as hail and fire protection, have been available for years without government involvement. Protecting against natural disaster is often desirable for growers. However, providing insurance which goes beyond catastrophic coverage has great potential to take the inherent risk out of growing fruits, vegetables and nuts, and may inhibit sound agricultural practices. Government programs that manipulate the natural levels of risk and reward which characterize our industry by artificially minimizing risk and/or creating false incentives to expand acreage is not in the best interests of growers, consumers or taxpayers.

Western Growers has found strong opposition to an expansion of Federal crop insurance to our industry among the majority of our members. To the extent that RMA does work with growers and determines there is demand for Federal crop insurance within some segments of our industry, we believe any new program must adhere to the following criteria in order to be successful:

- Programs should be developed and implemented on a national basis so that regional advantages are not falsely created;
- Programs should not provide incentives for growers to expand acreage and safeguards must be established to prevent any artificial influx of new acreage;
- Programs must take into consideration the differences between permanent row crops and seasonal, perishable fruits, vegetables and nuts;
- Programs should not encourage below-market sales;
- Programs should be limited to coverage of losses that occur due to unpredictable or uncontrollable events and should not provide for guaranteed income;
- Growers should be uniformly notified of pilot programs; and,
- Programs must recognize differences in local growing conditions and cultural practices such as differences between irrigated and dry land farming.

Again, Western Growers urges the Federal Government to move very cautiously with any new crop insurance programs for fruits, vegetables and nuts. Any such program must comply with the tenets listed above in order to prevent market disruptions and the resulting adverse impacts on growers.

Thank you, Mr. Chairman. I would be pleased to respond to any questions that subcommittee members may have.

Statement of Mike Clemens

Mr. Chairman and Members of the Committee, thank you for the invitation to testify today. I am a producer from Wimbledon, North Dakota, where we grow sunflowers, soybeans, corn and wheat on our farm, and we have grown canola and barley in past years. I am also Chairman of the National Sunflower Association. Today I am here on behalf of the American Soybean Association (ASA), the National Barley Growers Association (NBGA), the National Sunflower Association (NSA), and the U.S. Canola Association (USCA).

While the immediate concerns of each association vary, as farmers we support a strong, national crop insurance program that ensures that all producers can obtain affordable coverage. I will briefly discuss the major issues for each commodity and ask that my full statement be included in the hearing record.

Sunflowers and Canola

In general, sunflower and canola producers are pleased with RMA's overall response to their needs. Sunflower and canola growers commend RMA for the rapid implementation of the "similar crops" amendment, which was included in the fiscal year 2006 Agriculture Appropriations bill. The amendment gave RMA the legal authority to use similar crops in developing the three years of production history necessary for obtaining a written agreement to insure a crop. We also thank the Members of Congress who supported and worked to make this change to the underlying crop insurance statute, including Chairman Moran and other members of this Committee. As a result of this work, we expect producers outside the traditional growing areas for these crops will have the ability to diversify crop rotations on their farms. This will result in acreage increases for the minor oilseed crops.

However, we do have some further concerns regarding the crop insurance program. Sunflower growers believe that the formula used to determine the Revenue Assurance (RA) price election for sunflowers needs to be restructured for it to be a useable program. Traditionally, the RA price election has been determined based upon the Chicago soybean oil futures contract; by dividing the October CBOT soyoil futures price by two and subtracting one. However, sunflower prices have largely divorced themselves from this traditional formula. While RMA has taken this new relationship between soyoil and sunflower prices into account when developing Actual Price History (APH) price elections for oil sunflowers, they have yet to revise the RA formula.

Canola growers are concerned with the method used to set the APH price election for canola. Currently, RMA uses the USDA projected canola price, i.e. the season average expected price for both winter and spring canola, because NASS does not distinguish between fall and spring planted canola. And because the earliest sales closing date for fall seeded canola is August 31st, the price election by law must be announced by June 30th, or almost a year prior to the time-frame spring canola is planted, which currently comprises over 95 percent of the canola crop. This time lag has led to canola APH price elections that have radically departed from other spring seeded oilseed crops, as well as the market price. RMA has stated in the past that they are developing a product that would address these concerns by providing all canola growing regions with yield or revenue coverage that recognizes three different price discovery periods to match the respective available sales closing dates now in place. RMA predicted that this new product would be available for either the 2006 or 2007 crop, but it has yet to be put in place, to our knowledge.

Canola growers are also concerned about the wide variance minor oilseed APH price elections have had in recent years. Notably, canola has a $9.65 per cwt. for the 2006 crop year (the RA price is $10.90 per cwt.), while flaxseed was set a $13.00 per cwt. price election. Oil sunflowers are at $11.75 per cwt. While current new crop market bids for all minor oilseeds are close to the minor oilseed loan rate of $9.30 per cwt, canola and sunflowers contracts have been available at higher levels. However, new crop flax bids have not exceeded the loan rate. In the future, we urge RMA to more carefully monitor new crop price opportunities for these minor oilseeds, while limiting the variance between price elections as much as possible.

Barley growers believe that currently available crop insurance policies offer only limited risk protection for barley producers, which has been a contributing factor in the sharp decline in U.S. barley acreage during the past 20 years—down 73 percent from 11.9 million acres in 1986 to less than 3.3 million in 2005. Malt barley producers are particularly concerned with the lack of effective risk protection for their high value specialty crop, which comprises about 60 percent of the U.S. barley market. We see a wide gap in crop insurance coverage for malt barley, primarily because quality standards are different between the insurance policies and end user standards. This is particularly so in North Dakota and Minnesota where we have been plagued by Fusarium Head Blight, a fungal disease that results in the accumulation of DON in the barley seed and lowers the quality of crop. Many growers, including myself, have stopped planting barley entirely because of this. We need these contradictions in quality standards between crop insurance coverage and the marketplace removed. We also urge the RMA to work with us to approve a DON rider to specifically insure our growers against this disease peril.

Soybeans. The American Soybean Association strongly supported RMA's decision to fund the soybean rust surveillance and reporting system. The sentinel plots and on-line, real-time data system are a proven success in helping farmers understand where soybean rust has been confirmed and making decisions about if and when to apply fungicides. USDA's Economic Research Service confirms that this system saved farmers millions of dollars from applying unnecessary fungicides and that the value of the information in 2005 likely exceeds the $2.4 million that RMA provided to develop it.

Soybean farmers remain committed to the surveillance and reporting system and have provided significant funding through their check-off dollars to set up hundreds of sentinel plots, in addition to those funded by RMA. In 2005, State and national checkoffs spent $389,000 to set up 400 sentinel plots. In 2006, they are spending $368,000 on 165 sentinel plots, with more money spent per plot than in 2005.

The ability of the Federal crop insurance program to cover losses due to soybean rust has concerned ASA. RMA Administrator Gould previously reported to this Subcommittee that, to date, no 2005 crop insurance claims have been submitted that list soybean rust as a primary or secondary cause of loss. Anxiety about how RMA will handle rust seems to have lessened this spring as growers made decisions about buying policies for 2006. Nevertheless, the ability of the program to cover widespread losses due to soybean rust remains untested.

The American Soybean Association strongly believes that losses due to soybean rust should and must be covered through the crop insurance program. The policy clearly states that soybean rust, as a disease, is an insurable peril.

An issue that unites all farmers is concern about multiple years of loss that lead to declining actual production history (APH). The grower is then faced with the double-whammy of lower crop insurance guarantees and higher premium costs. ASA supports the Agency's efforts to solve this national problem through changes in the existing policy or the establishment of new policies.

Again, thank you for the opportunity to provide this testimony. We appreciate the Subcommittee's attention to the continued success of the crop insurance program.

STATEMENT OF KEITH H. COBLE

Chairman Moran and members of the subcommittee, I thank you for the opportunity to appear before you today. I am an Agricultural Economist at Mississippi State University and devote a significant portion of my time to researching agricultural risk and policy. As the Federal Crop Insurance Program has expanded and become an increasingly important part of Federal farm policy, I appreciate the opportunity to testify today.

INCREASED PARTICIPATION AND RATING IMPROVEMENTS

Let me begin by pointing out the significant increase in participation in the crop insurance program that has occurred in the last several years. When I began researching crop insurance in 1991, crop insurance participation was around 30 percent where offered and many fewer crops were covered than today. Now we have around 80 percent coverage on many major crops, and many more insurance products exist (Glauber, 2006).

This remarkable program expansion is in large part due to the changes in the program resulting from the crop insurance reform act of 1994 and the ARPA Act of 2000. Certainly, the additional subsidies have induced greater participation which has many policy implications. But I believe we should recognize the profound actuarial implications that have occurred. Some of my research strongly supports the well accepted premise that the program prior to the participation increases was strongly adversely selected (Coble, Knight, and Isik). That is, prior to 1995, the program insured the riskiest producers and low-risk producers opted out of the program even though they may have wanted and needed risk protection.

The problem was that RMA was being asked to correctly rate producers who did not participate and for whom RMA did not have the necessary data. I believe the increased participation along with several actuarial studies commissioned by RMA under the authority of ARPA have made great strides toward much more accurate rates. I also expect to see continued improvement in the next few years as more research is implemented. I readily admit there are problem spots where high levels of catastrophic coverage remain the norm and other problematic issues exist. These issues need to be addressed, but we are clearly moving toward a more actuarially fair program.

THE "COMBO" POLICY

I also want to note that the forthcoming "combo policy" should be a significant step toward simplifying the program for farmers, agents, companies, and RMA. The consolidation of the APH and various individual revenue products will eliminate duplicative policies that provide quite similar but not identical coverage. I believe the efficiency gains will be dramatic. Producers will be able to make more informed choices about which products to purchase. Furthermore, it will eliminate the potential for divergent rating systems to call into question program integrity. I believe common sense dictates that programs should not overlap each other to avoid confusion and additional program costs.

INTERACTION OF RISK MANAGEMENT INSTRUMENTS

Since this committee has oversight of commodity programs and crop insurance, let me also mention a topic often overlooked when discussing crop insurance and commodity programs. Producers also have private risk management tools such as forward contracts, futures and options available. My past research clearly shows that commodity programs such as Loan Deficiency Payments, Counter-Cyclical Payments, crop yield or revenue insurance, and hedging interact with each other (Coble, Miller, Zuniga, and Heifner). When considering the safety net for producers of program crops, commodity programs, crop insurance, and private risk tools such as futures markets are typically used by producers. Ultimately, I would suggest that the government's role is to step in where risk management tools are not available. But in cases where private risk tools such as futures markets are available then the government has less justification for intervention. An example of these choices are decisions that the FCIC must make with respect to livestock price risk management tools where in some cases futures markets exist and in other cases the markets do not exist. However, the lack of futures markets makes rating price risk management tools much more difficult.

AGR and AGR-Lite

Keith Collins, Chair of the Federal Crop Insurance Board of Directors, recently mentioned AGR and AGR-Lite as potentially cost effective products with the ability to cover a variety of diversified crop and livestock farms that do not have a traditional crop insurance product available. I agree with his conclusion and I will also echo his statement that these are actually very complex products. While on the surface AGR and AGR-Lite are conceptually simple, implementation of these relatively new products poses some of the most difficult underwriting and actuarial issues in the RMA portfolio of products. For example, the adjustments to Schedule F accounting are complex, and rates subsuming several enterprises are difficult to accurately assess. I believe RMA has correctly attempted to strike a balance between extreme complexity to avoid abuse and preventing the program from becoming overly burdensome on companies, producers, and agents. I suggest that these programs avoid overlapping with the new "combo" revenue products and continue to be piloted for further actuarial and underwriting refinements.

Expansion of GRP and GRIP Participation

Recently attention has been given to the rapid expansion of GRP and GRIP. My sense is two reasons are driving this shift. First, some producers have observed declining APH yields and are opting for a product that is based on longer time series. In other regions there is a perceived greater pay-out for the GRP and GRIP products than other products, in part due to price declines causing pay-outs for the GRIP program. I believe that some of this movement will reverse when more normal weather conditions occur and price movements go in the opposite direction. What price and weather variations will be like in the future is extremely difficult to guess. RMA implicitly forecasts losses, as do various agricultural economists, crop insurance agents, and producers at the local level. All make different assumptions and generally get different answers. Ultimately, more than a few years of experience are necessary to evaluate any crop insurance program and that will prove true for this situation as well.

Premium Reduction Plan and Experience-based Discounts

The Premium Reduction Plan has been widely debated and witnesses recently before this sub-committee have presented a number of arguments pertaining to this issue. I have not investigated this issue and will allow others to address the specifics of premium reduction plans. However, recent testimony by Sam Scheef of the American Association of Crop Insurers suggests that performance-based discounts would be a useful alternative to the premium reduction plan. While the two programs differ significantly, I have been involved in an ongoing contractual project funded by RMA which is investigating experience-based discounts. Our preliminary analysis suggests there is potential for Experience-based discounts to reward producers much as "good driver" discounts operate in automobile insurance. However, several implementation issues are currently being investigated and are not fully resolved.

WTO Implications

Crop insurance has certainly not received the scrutiny other commodity programs have under WTO such as in the recent Brazilian cotton case. However, USDA has chosen to report crop insurance support in the amber box. My understanding is that whole-farm income insurance or income safety nets clearly appear to be WTO-compliant when coverage levels do not exceed 70 percent of expectations (Schnepf). However, when revenue designs go beyond this specific form, WTO status is less clear. For example, whether commodity-specific programs would meet this criterion is questionable.

Statement of Keith Miller

Mr. Chairman and members of the subcommittee, thank you for this opportunity to provide testimony on crop insurance, the farmer's safety net.

My name is Keith Miller. I live in Great Bend, Kansas and have been a farmer for 30 years. I currently farm 7,500 acres of rented land in Barton County. Of that acreage, 3,000 are planted in wheat; I also grow alfalfa, milo, corn, beans, straw and hay. In addition, I have 300 head of cattle.

On the surface, that sounds like a pretty prosperous business. But I live in a region of Kansas that is suffering through its sixth year of drought and low crop yields. Because we're dependent on the weather, crop insurance is vital to me and other farmers. Whether we have a single catastrophic event or years of drought, crop insurance is the only guarantee that farmers will be around next year, producing the food and fiber that Americans need.

I pay $25,000 per year for crop and hail insurance that covers 5,000 acres of grain; crop insurance doesn't cover hay. Most farmers I know have crop insurance that covers 70 percent of their normal yield, figured over a ten-year average. You can buy insurance that covers 80 percent of your yield, but that's pretty expensive. The lowest coverage you can buy is about 55 percent of your yield. Regardless of the range of coverage, increased production costs on the farmer's end have resulted in a situation where you would need to get 100 percent of your normal yield back just to break even.

While crop insurance is the farmers' safety net, there are several problems that I think need to be corrected if we're to keep the farmers of western Kansas—and their fellow farmers nationwide—in business.

Last year, my insurance payments on crop loss from the drought were held up for several months because I couldn't prove the yield on a farm I'd worked in 1996. That's because the insurance companies use a ten-year average each year to determine that year's payout. 1996 was one of the last good rain years we had in Western Kansas, and I had a good milo yield. But because I didn't have the paperwork from 1996 on a farm I haven't worked since 1998, that high-yield year was thrown out of the formula. That hurt my ten-year average, which increased my premiums. For most farmers, increasing premiums means you buy less coverage, and that makes your safety net smaller.

I wasn't the only farmer affected: my agent had 25 clients last year who had to prove yields before the year 2000. Even the IRS doesn't require you to keep records that long.

In fact, my suggestion is that farmers not be required to keep records longer than three years, the same standard as the IRS. Farmers are already subject to an audit as soon as we turn in our yields. I don't mind if insurers want to check one or two years back, but ten years is excessive. They've had one chance to audit us; now they're trying to do another, long-term audit and I think that's inappropriate.

As I mentioned earlier, western Kansas is in the grip of a six-year drought that's not likely to let up anytime soon. Currently, when farmers have either an extremely low yield or no yield at all, the insurance company plugs in 60 percent of the county's "t-yield," (the average county production) as his yield for that year. For large farmers like me, the county average is lower than what I see in a decent year, and then in bad times we only get 60 percent of that county average.

So the suggestion I'd like to make today is that if the area has been declared a disaster area, which most drought-stricken counties have been, then insurers should either plug in the full t-yield or the farmer's actual production history (APH), whichever is higher. My yields are consistently higher than the county's, which keeps my insurance guarantee up.

In spite of that, because of the drop in my APH over the ten year average due to the drought, my expenses are more than what my insurance pays me.

Over the past 10 years, I've seen an average loss of 8–10 bushels per acre per year because of the drought. My premiums have increased 20 percent, but I have 25 percent less coverage. When you add that to increased production costs, it's a "triple whammy" for those of us in western Kansas. For instance, my fuel costs have increased by about $30,000 within the last 3 years. Three years ago, I paid 60 cents per gallon for fuel for the summer; 2 weeks ago, I paid $2.26 per gallon. My fertilizer costs have doubled.

The second problem is we need to have a level playing field across county and State lines. A wheat farmer in western Kansas can get 60 percent coverage on one field of wheat, but if he's got another field of wheat that's just across the county line, he may get 80 percent coverage for that wheat. My brother produces sorghum and grass seed and can get coverage for those crops in Nebraska but not in Kansas. We need to remove the artificial boundaries and focus on where the crops are planted. That would allow us to go to a tapered system that would adjust the percentage of coverage throughout the State, depending on production levels.

A third problem is communication. If I file a claim, by agent is not allowed to talk to the insurance adjuster. That's because of a policy change by the RMA Administrator that would help eliminate insurance fraud. I turned in my losses last fall, and by January I still had not received my crop insurance check. I called my agent to see what the problem was, but she didn't know because she isn't allowed to talk to the adjuster. It seems to me your insurance agent should be the mediator between the farmer and the adjuster. If a tree fell on your house and destroyed your roof, shouldn't your insurance agent be talking to the adjuster? And would you want to wait several months for the check to repair that roof?

Also, we need to change the way we report certified yields for the crop insurance. Currently we have to make a report out to our crop insurance agent of how many acres we've planted. It's an estimate to our best abilities and is made shortly after planting. We also have to certify the acres with the Farm Service Agency (FSA). They measure my fields by GPS, and if my earlier estimation is off by more than a couple percentage points, I get penalized for it. Why can't we just report to the FSA office and let them transfer our data to crop insurance, since it's being done already?

I mentioned increased costs earlier in my testimony. What many people don't realize is that farmers are the end of the trail on costs. Because of high fuel prices, we're hit with a surcharge to ship cattle to markets or grain to elevators. We can't pass those costs on, though, because the consumer won't buy our product.

Because of the drought and no income, farmers in western Kansas are ready to walk away from medium-sized farms that have been in their families for three or four generations. My hay and cattle operations are keeping me solvent right now, but I can't depend on those forever. In fact, if we don't do something to help the economy in western Kansas we're going to lose a lot of farmers. Making the changes that I have listed would help in bad years to keep our farmers solvent.

We need to find a way to make crop insurance available and affordable in good times and in bad so that we can keep farmers in business and avoid coming to you for ad hoc disaster aid.

Statement of George Lamont

Good morning, Mr. Chairman, distinguished members of the subcommittee and guests. My name is George Lamont; I am a sixth generation apple grower and co-owner of Lamont Fruit Farm, Inc. in Albion, New York. Lamont Fruit Farm is a 400-acre orchard, with apples as the only crop. I am a member of the U.S. Apple Association's Risk Management Task Force, a past chair of the U.S. Apple Association, and a past President and Executive Director of the New York State Horticultural Society. 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 7,500 apple growers and all segments of the apple industry. Members include 36 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 collective efforts to profitably produce and market apples and apple products. Total U.S. apple farm-gate revenue was over $1.7 billion in 2005, according to the U.S. Department of Agriculture (USDA). An improved apple crop insurance program has been one of the critical needs of U.S. apple growers. We are facing increased international competition, and at the same time have experienced more damaging weather patterns. From 1998 to 2002, Michigan, Western New York and Eastern New York suffered devastating storms that in the past would be considered to be 50-year storms. These storms put many growers out of business and threatened the financial stability of agricultural lenders as well. We desperately needed to find a way to hedge our weather risks.

In November 2002, the USApple Risk Management Task Force was formed to work in partnership with USDA's Risk Management Agency (RMA) to improve the apple crop insurance policy. This Task Force, which still works on crop insurance issues, is comprised of growers, State association members, and insurance agent representatives with the goal of continuously improving the apple crop insurance policy. We met several times via conference call with RMA officials and provided a set of recommendations to RMA in the spring of 2004. The new policy went into effect for the 2005 season. We were able to work with RMA to achieve several improvements in the new policy. Among them were:

The basic grade was raised from U.S. cider to U.S. No. 1 Processing, while retaining an option for the grower to purchase coverage for fresh apples at the U.S. Fancy level.

All weather related perils were covered as opposed to only hail being covered in the previous policyThese changes were very important to the industry and we appreciate the willingness of RMA to work with the industry to make these needed improvements. However there are additional features that would make the policy more valuable to growers. These would encourage growers to make use of the policy and we would like to enlist your support in encouraging RMA to add these features.

The ability to create additional parcels. Because weather events such as hail typically affect small areas, it is very difficult to qualify for legitimate weather related losses on larger blocks because seldom will an entire block be hit. If a 25-acre block is hit completely by a disasterous weather event, the grower can collect an insurance payment. But, if 25 acres out of a 100 acre block are hit, the grower will collect nothing because the apples are adjusted on the average for the block. He will still have 75 percent undamaged apples and 75 percent is the highest coverage level that can be purchased. The Task Force requested that orchards divided by a road, an irrigation or drainage ditch, or some other permanent public right of way, be allowed to be insured as separate parcels as long as the grower had maintained separate information on the blocks. This would be a very valuable addition and would encourage greater grower participation.

Salvaging apples after settlement. In 2005, apple growers learned that apples salvaged after a claim has been settled and then sold as U.S. Fancy for fresh and U.S. No. 1 Processing for processing fruit would have to be reported on an amendment to the claim. The value of the salvaged apples would then be deducted from the indemnity payment. This represents a change from previous years when growers were allowed to keep and sell any apples they salvaged at the most profitable grade.

Salvaging apples requires additional work to sort through and grade the apples for each end-use. Growers have relied upon that revenue to pay for labor that was already contracted for harvest and to help compensate for the difference between the insurance payment and the normal revenue from a crop. The maximum amount a grower can insure is 75 percent of his crop, so insurance seldom makes a grower financially whole, and salvaging some of the apples may reduce his losses. Crop insurance never fully compensates growers for losses, but this policy implies that it does. We feel growers should be allowed to salvage what they can from damaged orchards to maximize their revenue without reducing the indemnity payment.

Prices Paid for Damaged Processing Apples. In 2003, the USApple Risk Management Task Force requested that the indemnity price for processing apples be moved up from the cider grade price to the U.S. No. 1 Processing grade price. The U.S. No. 1 Processing price reflects the price paid for higher quality apples, which go into canned and frozen products such as applesauce, pie filling and apple slices. Many apple growers grow their apples for processing and sell them at the U.S. No. 1 processing grade. This would put the price in line with the base grade of the new policy for which growers are paying a higher premium.

The price of cider grade apples has dropped considerably in the last several years and is now below the cost of production. However, according to the new policy procedures, RMA pays claims on processing grade apples at prices that are lower than market prices for U.S. No. 1 Processing grade apples.RMA uses a composite price which includes both U.S. No. 1 Processing and cider apple prices. Cider apple prices are approximately 50 percent below the No. 1 Processing price and their inclusion brings down the average price for processing apples.

Extra Fancy Grade Option. In 2004, the apple industry asked RMA to establish an option to purchase coverage for U.S. Extra Fancy grade apples. RMA indicated at that time that they were unable to establish that option because they had no pricing data on Extra Fancy Grade apples for actuarial analysis. RMA promised the apple industry it would collect that data to establish that option. This option continues to be a high priority for the industry and we urge RMA to establish it at the earliest possible opportunity.

Sales Closing Date. The apple industry also asked RMA to extend the deadline for signing up for crop insurance to a more reasonable date after harvest. The current closing date of November 20 occurs during harvest in most parts of the country and forces growers to make a major financial decision without adequate time to select an appropriate policy for their needs.

These are some of the major changes we would like to see in the apple policy that would make it more valuable to growers and encourage more participation. We urge your support in encouraging RMA to adopt these changes. We do appreciate the willingness of RMA to work on policy improvements and regret that we have not been able to make satisfactory progress in these areas. I would again like to express my appreciation for this opportunity to address the Subcommittee. I would be glad to answer any questions that you have. I would also like to State that I am available at any time to provide additional information on the apple crop insurance program to any Subcommittee members and other interested government officials. The Federal Crop Insurance Program is a very valuable tool in the production of apples and we are committed to its constant improvement.

STATEMENT OF STEVEN PIGG

Mr. Chairman, thank you for the opportunity to provide you some input on the Federal crop insurance program. My name is Steve Pigg. I am a corn and soybean farmer from Bushnell, Illinois where I also own the Heartland Insurance Agency. On behalf of the National Corn Growers Association (NCGA), our 32,000 plus members from 48 States and more than 300,000 producers who contribute to corn check off programs, I can assure you that the program we are discussing today remains extremely important to risk management planning in our farm operations. Because of the introduction of new and expanded insurance products, particularly revenue-based policies, corn growers are in a much better position to afford and choose the type of protection that best protects their farm income against sharp declines in prices and significant crop losses.

NCGA appreciates the bipartisan support of the Federal Crop Insurance Program that is demonstrated year in and year out by the leadership and members of the House Agriculture Committee. We also want to commend your work to ensure that the program was protected from any funding reductions in the FY2006 budget reconciliation legislation. Our members continue to recognize this "shared cost" program as a critical component of the farm safety net in today's farm bill. The liability protection for corn in 2005 exceeded $14 billion for just over 63 million acres. While last year's corn harvest was our second highest ever, many producers were impacted by substantial crop losses from severe drought, flooding and other adverse weather conditions resulting in indemnity payments exceeding $675 million. In a year of huge increases in the costs of fuel, fertilizer and other inputs combined with very low corn prices, the income protection offered by Federal crop insurance becomes even more critical for sustaining many family farms.

There is no question that the reforms adopted in the Agriculture Risk Protection Act of 2000 (ARPA) have dramatically impacted the percentage of insured corn acres, increasing from 42 percent in 1989 to 77 percent in 2004. Additional resources and restructuring of premium subsidies have also enabled growers to ensure their corn crops at higher levels of coverage for multi-peril, revenue assurance and crop revenue coverage. In fact, an estimated 46 percent of the policies for corn in 2005 were written for Crop Revenue Coverage (CRC) and Revenue Assurance (RA) at buy-up coverage levels ranging from the 70/100 to 85/100. Over the past of couple of years, we have seen considerably more producers, including previous nonparticipants, purchase group risk income protection (GRIP) polices at the 85/100 and 90/100 levels. In some cases, the GRIP policy, which is based on a county's average production history and the national average price, offers a producer a very good option to other revenue based plans. To date, the numbers indicate that the number of GRIP policies on for 2006 have nearly doubled from last year to more than 28,000 polices for 85/100 and 90/100 buy-up coverage. Clearly, changes in financial incentives, the coupling of premium subsidies to the level of coverage as well the expansion and improvements of existing products are enhancing the program's effectiveness.

NCGA recognizes the tremendous challenge before the Risk Management Agency and this committee to adequately meet the wide range of risk management needs in our diverse agriculture industry. Over the past three years, NCGA, through its Public Policy Action Team, has surveyed corn growers' views on Federal crop insurance, evaluated concerns over various administrative problems and worked to address the risk management policy priorities established by our membership. Building on the progress facilitated by ARPA, NCGA has developed several recommendations for consideration that we believe would strengthen the value and integrity of the Federal crop insurance system.

In our examination of suggested solutions to eliminate or minimize remaining inequities in premium rates, NCGA learned of a disparity between subsidized premiums for coverage by optional (field) or basic (all crop land of a single crop into one insurance unit) units and the larger enterprise unit (all cropland by county of a single crop) and whole farm coverage. One unintended consequence of increased subsidies couple to levels of protection authorized under the Agriculture Risk Protection Act of 2000 is a system that does not recognize the lower risk exposure of enterprise and whole farm. Most policies purchased today provide coverage for optional and basic units because of a greater economic incentive to insure at the "field level. In fact, less than 3 percent of acres are covered using enterprise units compared to almost 61 percent for optional units and 36 percent for basic units.

Although premiums are discounted for enterprise unit and whole farm coverage, the reduction in costs does not fully reflect the declining variability in yield and/ or revenue as a producer aggregates acres into the larger units. One alternative for securing a more equitable amount of premium savings is to decouple per-acre premium subsidies from the unit of coverage selected by the producer. The change NCGA proposes allows producers to continue use of coverage by optional or basic unit while rewarding producers who assume more risk (enterprise unit or whole farm) in exchange for higher levels of revenue protection. With assistance provided by RMA legal counsel and congressional staff, NCGA is prepared to recommend for your consideration legislative language to authorize a pilot program that would take the first steps to remedy this flaw in the subsidy structure. NCGA believes this modification would create greater program efficiency without increasing costs to the taxpayer. Moreover, this proposed change, when fully implemented, would likely reduce moral hazard and adverse selection of insurance coverage.

Since the passage of the 2002 farm bill, NCGA has continued to evaluate the effectiveness of Federal crop insurance as part of the comprehensive farm safety net. Despite reforms to the program and enhanced farm supports, growers remain very concerned by the severe impact of catastrophic crop losses can have on farm income and future crop insurance guarantees. More recently, we have focused on the large financial losses precipitated by back to back years of significant, shallow losses uninsured at typical 65 to 75 percent levels of protection. NCGA appreciates your attention to this hole in the safety net and your efforts to advance development of new insurance products or methodologies to mitigate the costly effects of declining average yields and successive years of crop losses. In the absence of regulatory or administrative solutions, we urge the Committee to consider legislative reforms that will encourage more research of innovative, actuarially sound products.

One approach that offers the potential to filling part of this gap in crop insurance and the safety net as a whole is legislation introduced by Congressman Neugebauer, H.R. 721. While we just received an analysis of the bill, NCGA appreciates the extensive work that has been done on the concept of combining individual yield or revenue coverage optional Group Risk Plan (GRP). By supplementing an underlying individual policy with, producers will have a more affordable option to protect against catastrophic area losses and to some extent shallow losses. NCGA's Public Policy Action Team looks forward to working with Congressman Neugebauer on this measure and urges the Committee to give it serious consideration.

As you know, Mr. Chairman, corn production has expanded into new areas of this country made possible by advances in technology, modern production practices and the planting flexibility approved by Congress in the 1996 farm bill. Despite minimal changes in total planted acres, the fact is farmers have more options to diversify their operations and are responding to the marketplace. NCGA acknowledges the need for caution and due diligence in administering Federal crop insurance, but progress in the corn industry and the Risk Management Agency's recent advances in enforcement and compliance suggest an opportunity for more flexibility in overall management of the program.

One example is the difficulty some corn growers experience securing written agreements from the RMA to ensure their corn crop in a neighboring county where there is limited, but demonstrated production history. In the case of a grower in North Dakota, his request for coverage was denied on one county despite the fact the land he rented had a past producer's history. Another complication for the same grower is the narrow legal interpretation of the special provisions allowing for production history of a similar crop. Rather than reviewing an individual farmer's records for a possible exception and more closely evaluating the better insurance experience of corn for grain compared to corn for silage in the county, the application for a written agreement is rejected.

Another situation we need to bring to your attention is the matter of unsettled insurance claims filed by corn producers in Texas involving the levels of aflatoxin contamination in corn harvested in 2005. To determine the quality of losses and value of the aflatoxin-infected crop, the loss adjustment process must take into consideration the level of discounts, mild, severe or a destruction order which results in paying a full loss. Due in part to the non-uniformity in sampling procedures, confusion over approved testing facilities and new restrictions placed on agents to provide assistance, some problems were inevitable. However, NCGA is very concerned by reports of protracted delays and inconsistencies by one company in particular in the settlement of claims long after harvest. Despite considerable assistance from the

Oklahoma City RMA office, it appears that many of the producer complaints will have to be handled through arbitration or formal legal action. We urge the Committee to look into this matter to ensure these producers' claims are handled equitably without further delay and to reexamine the procedures and regulations that may have contributed to the inconsistent settlement of claims among the private insurance companies.

Finally, NCGA was advised last year the RMA has undertaken an effort to use annual premium adjustments to achieve more actually fair premium rates that better reflect the incremental increases costs that accompany higher levels of coverage. In light of a report released in early 12005 by USDA's Office of Inspector General's and its finding that corn crop insurance premiums paid exceeded indemnity payments by $1.4 Billion from 1975 to 2003, we request that the Committee help ensure the necessary rate adjustments to eliminate premium inequities across crops. NCGA also urges the development and introduction of premium discounts for growers with good claim experience similar to those offered by the auto insurance industry.

Once again, Mr. Chairman, I thank you for this opportunity to share with this committee NCGA's views on the Federal crop insurance system and what we consider to be opportunities for improving its products and administration. We appreciate your leadership and continued support of this very valuable risk management tool.

STATEMENT OF CHAD HART

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee. My name is Chad Hart, and I am an agricultural economist employed at Iowa State University. I work in two research centers at the university, the Center for Agricultural and Rural Development (CARD) and the Food and Agricultural Policy Research Institute (FAPRI). Both CARD and FAPRI receive funding from annual USDA special research grants to conduct their research efforts. I serve as a U.S. agricultural policy and insurance analyst for both organizations. I have been employed in several private consulting projects within the crop insurance industry.

Based on consultation with subcommittee staff, I have decided to direct my testimony at examining the implications of the World Trade Organization (WTO) agricultural agreement on the Federal crop insurance program. The Federal crop insurance program falls under the WTO guidelines for domestic support in agriculture. Since 1995, the United States has reported its domestic support to the WTO and has reported crop insurance support as non-product-specific aggregate measurement of support (AMS). Given this way of reporting crop insurance, it is considered as trade-distorting support and could possibly count against the U.S. domestic support limits. As crop insurance is being reported as non-product-specific, it will not count against the U.S. support limit unless the sum of all non-product-specific support, including crop insurance, is above the de minimis level, 5 percent of the value of total agricultural production for the United States.

The U.S. computes crop insurance support as the net amount of indemnities or insurance payments farmers receive from the program. Net indemnities are calculated as the total amount of indemnities paid out by the crop insurance program less the total amount of premiums actually paid by farmers participating in the program. Over the period of time the U.S. has reported its domestic support, 1995–2001, crop insurance support has ranged from $119 million in 1997 to $1.77 billion in 2001. At these levels, crop insurance has been the largest or second largest component of U.S. non-product-specific support. And while total non-product-specific support rose over this period, it never exceeded the de minimis level. Thus, crop insurance has never been counted against the U.S. domestic support limits.

Data published by the Risk Management Agency for the 2002–05 insurance years indicates net indemnities peaked in 2002 at $2.89 billion and have steadily fallen since then. Based on my estimates of total non-product-specific support, the U.S. will not have to count crop insurance against the support limits for the 2002–05 period. The declining pattern in net indemnities has mainly been driven by extremely good crop production over the period, especially the record production year in 2004. However, this pattern is not likely to last. The crop insurance program has experienced substantial growth in premiums over the last few years as agricultural producers have utilized the premium subsidies provided by Congress to purchase higher levels of crop insurance protection and/or switch to higher priced revenue insurance policies. In 1995, total premiums for the crop insurance program were just over $1.5 billion. By 2004, total premiums exceeded $4 billion. This growth in premiums implies that expected net indemnities from the crop insurance program are increasing as well. Combine this growth in the crop insurance program with the potential for a national agricultural disaster, such as we experienced during the droughts of 1983 and 1988 and the floods of 1993, and the potential for crop insurance to count against domestic support limits increases dramatically. For example, if total indemnities in 2005 were twice the size of total premiums, a pattern we saw in 1993, then net indemnities would have nearly $6.3 billion. That is approximately three percent of the value of total agricultural production in the United States. Adding in additional non-product-specific support could bring us to the point where crop insurance counts against the support limits.

The ongoing WTO agricultural negotiations and the conclusion of the cotton dispute between the U.S. and Brazil will likely affect the standing of crop insurance in the WTO. The U.S. has proposed reducing the de minimis exemption from 5 percent of the value of agricultural production to 2.5 percent.[1]

If such a reduction were to occur, crop insurance support could exceed the de minimis level on its own and be counted against support limits. The ruling in the cotton dispute indicated that crop insurance support is "support to a specific commodity." [2]

This ruling raises questions about against our reporting crop insurance as non-product-specific and opens up the possibility that other countries could challenge our past reporting of crop insurance. If crop insurance was declared product-specific support, then some crop insurance net indemnities should have been counted against the U.S. support limits. For example, in 2001, crop insurance net indemnities for corn, upland cotton, canola, flaxseed, sunflower seed, peanuts, rice, and soybeans would have been counted against the limits, adding $874 million to our reported AMS total. Thus, crop insurance faces several potential obstacles within the WTO.

However, the WTO agricultural agreement does exempt agricultural income insurance or income safety-net programs from domestic support limits under certain conditions. Paragraph 7 of annex 2 of the WTO Agreement on Agriculture specifies these conditions. Eligibility for support can only be determined by agricultural income loss and the loss must be greater than 30 percent of average gross income or its equivalent in net income terms. Income guarantees must be based on a 3-year average of past incomes. Insurance payments can compensate for up to 70 percent of the income loss. Payments are tied to income and not to individual components, such as yields, prices, or factors of production. The total payments from income insurance programs and natural disaster relief programs have to be less than 100 percent of the income loss.

Currently, the Federal crop insurance meets some of these conditions. Crop insurance is offered at coverage levels at or below 70 percent. In the vast majority of cases, indemnities are less than 70 percent of the loss. Revenue insurance programs, such as Income Protection, Adjusted Gross Revenue, and Revenue Assurance without the harvest price option, have payments that are triggered on revenues, not by prices or yields individually. Provisions in recent natural disaster relief programs have limited the combination of insurance indemnities and disaster payments to less than 100 percent of the loss.

But no existing crop insurance policy is based on a 3-year average of past incomes. Adjusted Gross Revenue policies are settled on a 5year average. Most other crop insurance policies are based on 4- to 10-year yield histories and annual prices. Thus, changes would likely have to be made to qualify any current crop insurance support as exempt under the income insurance provisions. While some policies may unintentionally meet the requirements, no current crop insurance policies are designed to do so. For example, Adjusted Gross Revenue guarantees based on 5 years of incomes may fall below the specified 70 percent of the 3-year average income. If so, those policies could qualify for exemption under the income insurance conditions. But the vast majority of current crop insurance policies do not fully meet the conditions.

Crop insurance policies could be evolved to better fit the WTO guidelines for income insurance. But while the WTO guidelines are quite specific in certain areas, other issues are left ill-defined. How might the insurance coverage be adjusted if producers substantially change their crop and/or livestock mix, adding and/or eliminating production on the farm? Can insurance coverage be offered on a single-commodity basis or must the coverage incorporate all enterprises on the farm (whole-farm coverage)? The answers to these and other questions hold the key to the ease

1 Office of the U. S. Trade Representative. "U.S. Proposal for Bold Reform in Global Agricultural Trade." Doha Development Agenda Policy Brief, December 2005. Available at *www.ustr.gov/assets/Document—Library/Fact—Sheets/2005/asset—upload—file281—8526.pdf.*

2 World Trade Organization. "United States—Subsidies on Upland Cotton, AB–2004–5, Report of the Appellate Body." WT/DS267/AB/R, March 3, 2005.

with which the U.S. might shift its crop insurance program to fit under the income insurance guidelines. Recent work on which I have collaborated[3]

Crop insurance, like other Federal agricultural support programs, falls under the domestic support requirements of the WTO agriculture agreement. As the negotiations for a new agriculture agreement continue, the status of crop insurance under the agreement could change, as could the conditions for exemption of income insurance from domestic support limits. Currently, the U.S. reports crop insurance as trade-distorting support that is exempt from support limits due to its relatively small size. However, as limits shrink and crop insurance grows, that exempt status may not last. There are potential challenges to the U.S. reporting of crop insurance, but there is also the possibility of transforming crop insurance into a program that would be exempt from support limits, regardless of size.

Thank you for providing me this opportunity to discuss these issues with you today.

STATEMENT OF MICHAEL E. BELCH

Chaimian Moran, Ranking Member Etheridge, and distinguished members of this subcommittee:

My name is Michael E. Belch. I am a cotton. corn, and soybean farmer from Conway, North Carolina. Also until this year, I grew peanuts for 26 years. I am a member of the North Carolina Farm Bureau and the North Carolina Peanut Growers Association.

I appreciate the opportunity to make a few comments about ways to strengthen our Federal Crop Insurance Program. The farmers of this country have been faced with many challenges as farm policy has changed and will continue to change in the future. I feel that Federal crop insurance has not kept up with these changes by allowing producers the ability to insure their crops at levels sufficient enough to keep their operations viable.

My concerns about our federal crop insurance policy may be summarized in four brief points:

1. Producers need the ability to insure any commodity at a contract price since many commodities are grown mainly under contract, especially peanuts.
2. Higher and more affordable levels of coverage should be available to producers so they can insure their crops at 100 percent of value much like their homes, vehicles and equipment.
3. Investigate and punish fraud to the fullest so that a small percentage of people don't ruin a program that could keep a larger majority of our producers in business after drought and natural disasters.
4. I would encourage Congress to move all of their subsidies in Federal Crop Insurance from the lower levels of coverage to much higher levels as to make them more affordable. This would help provide our producers with coverage much closer to 100 percent value so they can cover sky rocketing production costs.

If producers could buy sufficient levels of crop insurance at an affordable price to cover all their production cost, when disaster strikes, you have a fully functional system in place to take care of the needs of producers without having to fund and write disaster legislation.

I have been farming for 26 years and this is the first year I will not plant peanuts. In 2005 we had a disastrous peanut crop caused by drought. I cannot buy enough coverage on my peanuts to insure my cost of production even with some of the highest production history in my county.

We need change. I urge you to reform the Federal Crop Insurance and to get it up to speed with current farm policy and production costs. Thank you again for allowing me to testify today.

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3 Bruce A. Babcock and Chad E. Hart. "How Much 'Safety' Is Available under the U.S. Proposal to the WTO?" Briefing Paper 05-BP 48, November 2005. Center for Agricultural and Rural Development, Iowa State University. Available at *www.card.iastate.edu/publications/DBS/PDFFiles/05bp48.pdf.* explores one possible evolution of crop insurance, designed to fit within the WTO guidelines for both exempt and non-exempt support programs. The work shows the potential for such changes, but also the changes in infrastructure and support flows that might occur.

Testimony of G.A. (Art) Barnaby, Jr.[1]
Professor of Agricultural Economics
Research and Extension
Kansas State University
Manhattan, Kansas 66506
Before the Subcommittee on General Farm Commodities and Risk Management
U.S. House of Representatives
April 26, 2006

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear before this hearing to have an overview of the Federal Crop Insurance System.

I would like to discuss the economic reasons why growers make their choices on crop insurance products and perhaps even selecting no crop insurance under the expectation of disaster assistance being provided. Currently, the Risk Management Agency (RMA) meets the test of actuarial soundness defined as total indemnity payments equaling total premiums paid based on the entire book of business over the past 17 years. The premiums paid including subsidies (table 1).

<u>Are Corn Belt Farmers covering losses in high risk States?</u> Growers in the Corn Belt have often questioned if they are paying for losses in other states. Illinois ranked 49th with a loss ratio of 56 cents over the past 17 years based on all crops and all contracts (table 1). This would represent a 44 cent underwriting gain. However, the farmer paid premium loss ratio was $1.07 over the 17 year period meaning that on average Illinois growers paid in $1.00 and received a $1.07 back in indemnity payments. Farmer paid premiums have not been shifted to other states but other states have benefited by capturing more of the federal subsidy and also the "unintended subsidy" to cover underwriting losses for the entire book of business.

There continues to be discussion about fraud, waste and abuse and the belief by many growers that their premiums would be lower if public policy could eliminate this activity. While some people have tossed around the word fraud rather loosely, it is doubtful that anyone has any hard statistics on the amount of fraud that would meet the legal test. It is likely most of this activity being labeled as fraud probably comes under the heading of abuse or adverse selection.

A classic adverse selection example is the ability for growers to buy either Crop Revenue Coverage (CRC) or the Revenue Assurance with the Harvest Price Option (RA-HPO).[2] These products provide essentially the same coverage but with different premiums. This allows growers to select the product that has the lowest premium cost. The result is reduced premiums paid in to the system with no impact on the indemnity payments paid out of the system.

Because growers have choices between products it is very important that rates and underwriting rules be relatively "correct" between products. Otherwise it will encourage growers to

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[2] Academics would argue this is not adverse selection because the information is not asymmetric. However, unless RMA acts on the information the underwriting results are the same even if the information is not asymmetric.

shift to the product that will generate higher expected net indemnity payments. Since RMA owns both the CRC and the RA policies they are the only ones who can correct the ability of growers to "adversely select" between these two products. A simple solution would be to remove from the market CRC on any crop in a county that has an RA contract available. RMA's future plans are to combine CRC and RA into a single product but making this simple change will allow for that effort to go forward without allowing growers to continue "adversely selecting".

One issue with the CRC contract is it has a liability limit of no more than a $1.50 price increase on corn, while RA with the Harvest Revenue Option (RA-HPO) has no liability limit. Effectively insurance companies and their reinsurers have a liability limit because of the stop loss in the Standard Reinsurance Agreement (SRA), therefore only the government technically has an unlimited liability.

If RMA decides to follow the CRC model and include a liability limit then some thought should be given to making those liability limits consistent. For example, the current liability limit in cotton is about double the long run average cotton price. If the same standard were applied to corn the liability limit would be somewhere between $2.50 and $2.70 rather than the current $1.50. Obviously, the higher the liability limit the more valuable the contract is for producers who are using the policy as a method for lowering their risk of hedging and otherwise forward pricing grain or cotton.

It is extremely difficult to rate the higher limit levels because it would take an extremely large catastrophic event to trigger indemnity payments that would exceed the current liability limits in CRC. The 1996 wheat price narrowly missed exceeding the CRC liability limit therefore one must consider it is possible to exceed the current CRC liability limits.

Is public policy causing a shift to GRIP/GRP? Another insurance and lending industry's concern is current public policy shifting growers out of APH based products that have generated underwriting gains in the Corn Belt to county yield based products that so far have generated reduced underwriting gains and perhaps may even generate underwriting losses? While the data is currently very sparse, table 2 shows the performance results for Group Risk Income Protection (GRIP) and Group Risk Protection (GRP) versus APH based products that include; CRC, RA and APH. Coverages in table 2, only included those Illinois, Indiana, and Iowa corn contracts with 70 percent coverage and greater.

Illinois generated a GRIP corn loss ratio of $1.60 over the past 7 years, representing a 60 cent underwriting loss. During the same time period, APH based products in Illinois had a 48 cent loss ratio or a 52 cent underwriting gain (table 2). Those underwriting gains from the Corn Belt have been used to offset underwriting losses in higher risk states. Those underwriting gains have allowed RMA to hit the targeted loss ratio of 1.0.[3] If large numbers of growers in the Corn Belt shift from APH based products to GRIP, and these GRIP loss ratios don't change then the affect will be to generate an underwriting loss at the national level.

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[3] In the past the RMA targeted loss ratio was 1.07 but a target loss ratio of 1.0 would be necessary to cover all indemnity payments.

An alternative for producers suffering multiple year droughts and declined APH's combined with substantially increased premium costs to the point crop insurance no longer makes sense is to switch to a group policy. Because these policies are based on county yields they are using a longer run historical yield data set to generate premiums and expected indemnity payments. GRIP is a "put option" on expected county revenue while GRP is a "put option" on expected county yield. In that sense these products are not insurance but effectively hedging instruments. Like price hedges these county based options have a basis risk. Growers who purchase these policies are accepting the basis risk between their individual farm level yield and the county level yield.

A Kansas wheat grower in Rawlins County was considering the purchase of either GRIP or the GRP contract. The analysis reported in table 3 is for Rawlins County wheat. National Agricultural Statistics Service (NASS) county yields were available for Rawlins County back to 1937. One can not simply use the raw county yield to generate rates and guarantees because improved technology has caused yields to trended upwards over the past 69 years. In table 3 yields are reported both for harvested yields and yields per planted acre. The GRP contract for winter wheat in Rawlins County is based off of planted acres as it should be. Notice the 2004 county yield based on planted acres was 5.5 bushels and that was the second lowest yield ever. The previous low yield was in 1939 but when yields were adjusted for improved technology the 2004 yield was the worst ever!

This data suggested Rawlins County wheat will likely generate underwriting losses under GRIP/GRP over the next 30 years if Kansas has similar weather patterns. However, this analysis simply consider historical payouts assuming these contracts were available and does not account for any changes in rates that may occur in the future. Also, it is simply a static model and no Monte Carlo simulation or other similar analysis was applied. In addition, a long-run average volatility number was used for rates rather than a volatility number that would vary year by year.

The individual grower's historical farm yield records generated a near perfect correlation between his yields and the county yields. However the number of farm yields available was very small. It is fair to say his yields were highly correlated with the county yields but probably not a perfect fit as the data would suggest.

This particular grower did make a switch to GRP based on these numbers. This farm is a multi-generational farm and covers a "large" amount of acreage. Large farms are more likely correlated with county yields than small farms. If a grower farms the entire county then the county yield and the farm yield are the same. However, if a person only owns a quarter section of land the level of correlation is probably much less especially in areas that are prone to hail damage. In this particular situation the landlords continue with their APH based contracts because it is very likely their yield correlations with county yields are substantially lower. Besides few growers would want to explain to their elderly landlord how it was possible to have no yield, receive no insurance payment but still owe premium payments.

Basis risk in APH based products. Obviously there is basis risk in an option designed insurance contract but there is also basis risk in the current APH based products. In the revenue products, for example, futures markets prices are used to adjust losses but growers are selling in to a local cash market. If the price basis widens between the local cash market and futures prices the results will be less than expected under the revenue products.

Another source of basis risk in any APH based product is quality loss adjustments. The RMA quality loss formulas don't account for the real market value loss caused by quality damaged grains. This is another form of basis risk that is not covered by APH based products or county based products. The basis risk is obviously substantially higher in the option based products. The most obvious GRIP/GRP basis risk is hail damage particularly on a smaller farmstead that could drive yields to zero, without having any major impact on county level yields.

Should GRIP/GRP cause insurance agents any concern? The roll of the insurance agent is to advise growers on alternative insurance products and help them to select the product that best fits their needs and risk tolerance. Some insurance agents have assumed the introduction of GRIP/GRP was for the purpose of eliminating the need for crop insurance agents. As long as growers are given product choice, the roll for agents is increased and the top agents over time will capture a larger market share. Remember the landlords for the cited Kansas wheat farm continued to insure with APH products. The agent continues to maintain the grower's historical yields, leaving open the alternative for the grower to switch back to an APH based product in the future. The more complicated the program, the more valuable a top agent's service will be to the producer.

Ad Hoc disaster aid is an alternative "crop insurance" product. Another form of risk protection is ad hoc disaster aid, and another example of how growers tend to select against the current public policy. Disaster assistance is simply a crop insurance contract with the government paying 100 percent of the premium costs and all of the administrative costs. Under current policy, growers are taking a risk that ad hoc disaster payments will not be provided. However, there have been enough disaster assistance programs that some producers have come to depend on those payments being provided. While the details are not final in the current proposed disaster assistance program, it does not currently carry a limit on combined disaster aid and crop insurance payments. Under the prior ad hoc disaster assistance program, growers could not collect more than 95 percent of their "expected revenue" from combined crop sales, insurance payments and disaster assistance payments. Therefore, growers who purchase high levels of crop insurance, in some cases, had their disaster assistance reduced creating an additional incentive not to buy crop insurance.

Insured growers are better off with an average yield or total crop failure with the greatest financial loss occurring with a "shallow" yield loss. The worst outcome for an insured grower is to have a 35 percent "shallow" loss and for the national average price to increase to the strike price on the counter cyclical payment and eliminate the government payment too. The "shallow losses" are significant but have not been addressed by either ad hoc disaster assistance or crop insurance. The ad hoc disaster assistance programs have targeted payments to the part of the yield curve that could have been covered under crop insurance. Currently ad hoc disaster policy provides this individual grower nothing and the benefits from crop insurance will be limited once premiums are deducted because most crop insurance contracts are purchased at 75 percent coverage or less.[4]

[4]A portion of a direct payment would also be paid under the current proposal that was not included in past ad hoc disaster programs, so producers with "shallow" losses would receive a payment of this provision remains.

An alternative is to target the disaster assistance to the part of the yield curve that is not insurable, i.e. the deductible part of the yield curve.[5] Under this policy ad hoc disaster aid would have a lower deductible than the current 35 percent and then a stop payment once losses exceeded 55 percent. This policy assumes yield losses from 50 percent to 100 percent were covered under the crop insurance program and would create an incentive for future crop insurance purchases.

Often growers have had some of their best financial years when they have had a total crop failure. In many cases they collected both, a maximum crop insurance payment and the maximum disaster assistance payment combined with the elimination of harvest expenses. The real "hole" in the safety net is not with a 100 percent yield loss, but it is with a 35 to 40 percent "shallow" yield loss. A 35 percent yield loss causes a significant reduction in revenue but the producer must still cover all expenses including harvest expenses.

An example farm was created to demonstrate this "hole" in the safety net. The largest financial loss for the example farm occurred with a 35% "shallow" yield loss generating $123.58 financial loss versus $89.31with a total crop loss for the RA insured grower (table 4 and 5). The uninsured grower would suffer a $164.18 loss and traditional ad hoc disaster aid would provide no payment for this loss. The targeted companion disaster aid approach would provide help and reduce the loss for the RA insured grower by $22. The amount paid will depend on the size of the budget authorized by Congress so the payment could easily be more than the $22 in the example.

The cost for this program would depend on whether Congress authorized a "full" price for a lost bushel or a percentage of the price as is currently being proposed in the current disaster Bill. Obviously, with a lower deductible more agricultural producers will have claims but claimants with severe crop losses would have smaller indemnity payments. A larger number of claimants are the effective driver in the cost of this approach. This targeted disaster payment would encourage more growers to purchase crop insurance coverage rather than depend on ad hoc disaster aid.

Finally, fraud is fairly straight forward but has a very high legal threshold that must be met. The Risk Management Agency is clearly pursing fraudulent activities through the legal system. The legal system requires a large amount of time between the actual acts and when the case is finally settled. Recently RMA has announced some high profile cases resulting in lengthy prison terms for growers, loss adjusters, and insurance agents involved in committing criminal fraud. Fraud is an issue in all property-casualty insurance and must be kept to a minimum through the legal system.

Are corn growers' premiums subsidizing wheat growers' indemnity payments? Corn growers have suggested they are subsidizing the rest of the crop insurance system. For that reason, all corn contracts were compared with all wheat contracts (tables 6 and 7). The data based on the history of the program over the past 17 years would suggest there is some basis for the argument. Across the entire United States corn generated a 78 cent loss ratio that would represent a 22 cent underwriting gain. Over the same period of years wheat growers generated a 1.17 loss ratio or a 17 cent underwriting loss. While clearly there have been wheat generated underwriting losses there would have been no net corn growers' paid premiums shifted to cover wheat losses. However, there would have been tax revenues used to cover those losses. Another way to think about it is

[5]US Representative Sam Graves (R-MO) introduced legislation in 2003 that would have targeted disaster payments to the insurance deductible.

wheat captured more than a "fair" share of the subsidy while corn growers did not capture their full share of subsidy. On average, both corn growers and wheat growers were better off by purchasing crop insurance but clearly wheat growers benefited even more.

This could change in the future, primarily because corn growers now have the choice of switching from APH based products to the GRIP or GRP contracts. Assuming GRP and GRIP are rated correctly and this is more likely to be the case because only county yields drive the losses and over the long run corn loss ratios are expected to trend towards 1.0 from the current level of 0.78.

Summary. Growers have been perfectly rational in their decisions on managing risk based on current public policy. Growers who farm in states that have generated tremendous underwriting gains from their APH products have seriously considered switching to the GRIP and GRP contracts. These growers expect their premiums will no longer generate underwriting gains resulting in greater returns on the premiums they have spent.

Many insurance industry professionals have argued that this is not risk management. The risk transferred will depend on the farm-county yield correlation to transfer risk, a technical matter that might be true for some growers. "Large farms" are more likely to be highly correlated with county yields resulting in transferring risk. But the data would suggest a major motivating factor is growers are simply demonstrating they are willing to trade off a higher basis risk in return for higher expected payouts, a perfectly rational economic decision. So if public policy wants to eliminate the incentive to switch from APH to GRIP/GRP products based on higher expected returns from crop insurance then the premium rates for GRIP/GRP need to generate similar expected payouts to APH. The data clearly shows this is possible and certainly producers have reached the same conclusion based on the observation they are switching products.

In states that have had recent back to back disasters driving down APH's and increasing premium costs may also find the GRIP/GRP policies to be the preferred product. In fact, GRP may provide better protection for growers than GRIP in counties that have been suffering multiple year disasters. Until the APH based guarantees reflect a longer run data set than the current 10 years, it is likely that GRIP/GRP will be the preferred alternative for growers who suffer multiple year disasters.

Another perfectly rational alternative by some producers is simply to buy no insurance and count on ad hoc disaster assistance. Under the present policy, ad hoc disaster assistance has applied the payment to the same part of the yield curve that could have been insured under crop insurance. Providing disaster assistance obviously gives producers an alternative to the purchase of crop insurance. One alternative method is to target any disaster assistance to the deductible in the insurance contract rather than targeting the payment to the yield curve that could have been insured. That would help the growers with the biggest financial loss, which is caused by "shallow" losses, plus it would also provide an incentive to purchase crop insurance because the insurable yields would have none or only limited disaster aid coverage under this policy.

How to adjust premium rates in a timely matter to reflect changes in new technology or to identify producers who are abusing the crop insurance system is a more difficult question. Because government is limited in its ability to adapt quickly to changes in new information, probably the most efficient method to reflect changes is using the private sector. The most extreme proposal is

Senator Lugar's plan that would provide insurance vouchers to growers and they would simply use it to purchase a private insurance contract. In order for coverage to be widely available especially in the Great Plains it would likely require the government to continue as a reinsurer of last resort. If government were to provide only a reinsurance function that protected against catastrophic losses with a stop loss, then Senator Lugar's plan would likely work and insurance coverage would be widely available. It would really depend on where the stop loss was set in the reinsurance agreement.

This policy would likely raise a new issue because some producers would likely want to cash in the voucher and purchase no insurance. Of course the issue then will be, those same growers would return to Washington asking for disaster assistance. In the 1994 legislation the argument for the CAT contract was for it to provide a minimum level of coverage to all growers and therefore eliminate any future demands for disaster assistance.

A less extreme alternative would be for RMA to continue setting premium rates and a minimum set of underwriting rules. Then allow companies to deviate within specified limits perhaps 3 ½ percent on rates and allow them to add additional underwriting rules. If companies were given that flexibility, then APH, CRC, and RA rates in the Corn Belt would likely decline while rates in Great Plains would likely be increased on average. However, this would not be true for individual growers and the results may be very different. Also, based on current data it is likely that GRIP premium rates would be increased in the Corn Belt.

In the past RMA offered a good experience discount, something that is common in the auto insurance business. If companies will allow some flexibility in rate setting, it is likely some companies will provide good experience discounts. Other companies may offer lower rates in return for accepting additional underwriting rules that require adoption of certain risks reduction technologies. There are perhaps "100 other methods" that no one has even considered but profit motivated companies would find the niche.

Table 1. 1989-2005 Crop Insurance History for USA Crop Insurance, All Crops, All Insurance Plans[1]

St	Aggregate Total Liabilities 000	Liab Rank	Aggre-gate Net Acres 000	Aggregate Total Premium 000	Aggre-gate Total Subsidy 000	Aggre-gate Farmer Paid Premium 000	Aggre-gate Total Indemnity 000	Aggre-gate Total Loss Ratio[2]	Rank Total Loss Ratio	Aggre-gate Total Farmer Loss Ratio[3]	Rank Farm Loss Ratio	Aggre-gate Total Farmer gain[4] 000	Rank Aggre Total Farm gain	Aggre-gate Total Farmer gain/ Acre[5]	Rank Aggre Total Farm gain/ Acre	Aggre-gate unin-tended Subsidy[6] 000	Rank Extra Sub-sidy
AL	3,984,722	29	14,761	379,684	185,900	193,784	557,818	1.47	6	2.88	19	364,033	14	24.66	7	178,134	6
AK	4,375	50	69	544	396	148	605	1.11	23	4.09	4	457	48	6.57	28	60	29
AZ	1,754,789	33	4,697	95,882	52,385	43,497	130,464	1.36	9	3.00	16	86,967	32	18.52	12	34,583	17
AR	5,752,426	20	59,657	551,836	389,675	162,161	455,240	0.82	38	2.81	23	293,079	18	4.91	36	0	38
CA	30,322,844	4	46,921	1,618,907	1,042,111	576,796	1,113,402	0.69	45	1.93	39	536,606	10	11.44	17	0	30
CO	5,543,751	21	48,042	604,855	322,156	282,699	781,136	1.29	13	2.76	25	498,437	12	10.37	18	176,282	8
CT	601,437	39	279	23,503	15,949	7,554	37,882	1.61	4	5.01	1	30,327	38	108.61	1	14,378	20
DE	365,224	43	2,808	27,093	17,013	10,080	23,853	0.88	33	2.37	31	13,774	42	4.90	37	0	39
FL	20,629,742	8	14,677	834,713	573,146	261,567	940,748	1.13	21	3.60	7	679,181	8	46.27	3	106,035	10
GA	10,416,122	13	34,026	952,684	510,047	442,637	1,287,791	1.35	11	2.91	18	845,153	6	24.84	6	335,107	4
HI	1,130,102	36	299	12,979	8,223	4,756	5,184	0.40	50	1.09	49	428	49	1.43	48	0	48
ID	4,458,370	27	20,542	317,870	167,692	150,178	244,625	0.77	40	1.63	44	94,447	31	4.60	39	0	41
IL	36,234,250	2	198,241	2,017,277	961,882	1,055,395	1,134,229	0.56	49	1.07	50	78,834	33	0.40	50	0	50
IN	16,930,412	10	86,537	1,074,673	504,423	570,250	722,087	0.67	46	1.27	47	151,836	27	1.75	47	0	47
IA	51,602,766	1	274,699	2,788,496	1,220,358	1,568,137	1,785,126	0.64	47	1.14	48	216,989	23	0.79	49	0	49
KS	19,490,966	9	214,192	1,885,440	977,829	907,611	2,170,918	1.15	20	2.39	30	1,263,307	3	5.90	33	285,478	5
KY	4,526,069	26	20,510	301,641	170,150	131,491	257,151	0.85	35	1.96	38	125,659	29	6.13	30	0	34
LA	4,835,489	23	36,748	445,793	288,160	157,633	481,665	1.08	24	3.06	13	324,031	17	8.82	21	35,872	16
ME	558,087	40	1,103	38,459	26,539	11,920	40,303	1.05	26	3.38	11	28,382	39	25.74	5	1,844	26
MD	1,280,765	35	7,850	94,793	59,628	35,165	78,594	0.83	37	2.24	35	43,430	37	5.53	34	0	36
MA	538,891	42	336	22,453	14,401	8,052	36,407	1.62	3	4.52	3	28,355	40	84.50	2	13,954	21
MI	6,912,262	19	40,501	511,034	305,028	206,006	428,456	0.84	36	2.08	37	222,450	22	5.49	35	0	37
MN	35,801,922	3	225,151	2,637,485	1,298,087	1,339,398	2,267,259	0.86	34	1.69	42	927,862	5	4.12	41	0	43
MS	5,412,930	22	41,491	499,228	301,221	198,006	557,153	1.12	22	2.81	22	359,147	15	8.66	22	57,925	15
MO	9,046,834	15	81,730	915,848	542,618	373,230	662,467	0.72	41	1.77	41	289,236	19	3.54	43	0	44
MT	7,070,525	18	172,241	746,121	354,248	391,873	923,463	1.24	18	2.36	32	531,590	11	3.09	45	177,342	7

[1]Source: Risk Management Agency, USDA, Washington, D.C., WEB Page: http://www.rma.usda.gov/data/, for years 1999 to 2005. The 2005 losses are not complete.

[2]Aggregate total loss ratio is the sum of the 7 years of indemnity payments divided by the sum of the 7 years of premiums paid (includes premium subsidy and premium discounts).

[3]Aggregate total Farmer paid loss ratio is the sum of the 7 years of indemnity payments divided by the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[4]Aggregate total farmer gain is the sum of the 7 years of indemnity payments less the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[5]Aggregate total farmer gain per acre is the aggregate total farmer gain divided by the sum of the 7 years of insured acres.

[6]Aggregate unintended subsidy is the amount that the 7 year total indemnity payments exceed the 7 year total premium payments paid (includes premium subsidy and premium discounts).

Table 1. Continued. 1989-2005 Crop Insurance History for USA Crop Insurance, All Crops, All Insurance Plans[1]

St	Aggregate Total Liabilities 000	Liab Rank	Aggre-gate Net Acres 000	Aggregate Total Premium 000	Aggre-gate Total Subsidy 000	Aggre-gate Farmer Paid Premium 000	Aggre-gate Total Indemnity 000	Aggre-gate Total Loss Ratio[2]	Rank Total Loss Ratio	Aggre-gate Total Farmer Loss Ratio	Rank Farm Loss Ratio	Aggre-gate Total Farmer gain 000	Rank Aggre Total Farm gain	Aggre-gate Total Farmer gain/ Acre	Rank Aggre Total Farm gain/ Acre	Aggregate Unintend-ed Subsidy 000	Rank Extra Sub-sidy
NV	85,447	47	304	7,415	4,677	2,737	12,732	1.72	1	4.65	2	9,994	45	32.93	4	5,317	23
NH	67,570	48	106	2,767	1,964	803	2,827	1.02	27	3.52	8	2,025	47	19.17	11	61	28
NJ	542,000	41	1,616	26,028	21,303	4,725	18,103	0.70	44	3.83	5	13,378	44	8.28	24	0	33
NM	766,083	38	8,136	95,992	59,945	36,046	97,352	1.01	28	2.70	27	61,305	35	7.54	25	1,360	27
NY	1,690,066	34	7,566	108,798	78,387	30,411	107,070	0.98	30	3.52	9	76,659	34	10.13	20	0	31
NC	13,224,399	12	36,020	784,310	408,520	375,791	1,131,877	1.44	7	3.01	15	756,087	7	20.99	8	347,567	3
ND	23,306,521	7	287,334	2,632,468	1,332,124	1,300,345	3,303,755	1.26	17	2.54	29	2,003,410	2	6.97	27	671,286	2
OH	10,037,264	14	58,837	630,913	319,826	311,087	582,546	0.92	31	1.87	40	271,460	20	4.61	38	0	40
OK	4,811,387	24	68,593	543,887	296,285	247,602	684,553	1.26	15	2.76	24	436,951	13	6.37	29	140,666	9
OR	4,156,633	28	12,343	145,343	81,003	64,340	237,451	1.63	2	3.69	6	173,111	25	14.03	15	92,108	13
PA	1,926,302	32	10,593	177,866	112,627	65,239	212,406	1.19	19	3.26	12	147,167	28	13.89	16	34,539	18
RI	15,760	49	26	674	447	226	381	0.57	48	1.68	43	154	50	6.00	32	0	35
SC	3,405,589	31	13,227	267,099	161,525	105,574	361,617	1.35	10	3.43	10	256,043	21	19.36	10	94,518	12
SD	15,645,865	11	162,495	1,693,746	887,800	805,946	1,797,327	1.06	25	2.23	36	991,380	4	6.10	31	103,580	11
TN	4,608,233	25	18,882	282,136	187,627	94,509	256,088	0.91	32	2.71	26	161,580	26	8.56	23	0	32
TX	26,431,874	6	213,311	3,786,003	2,051,369	1,734,634	4,986,564	1.32	12	2.87	20	3,251,931	1	15.25	14	1,200,562	1
UT	154,150	44	1,942	19,152	9,547	9,605	29,350	1.53	5	3.06	14	19,744	41	10.17	19	10,197	22
VT	100,888	46	628	6,974	4,840	2,134	4,967	0.71	42	2.33	33	2,834	46	4.52	40	0	42
VA	3,729,563	30	12,197	242,744	124,562	118,181	307,565	1.27	14	2.60	28	189,384	24	15.53	13	64,822	14
WA	8,266,648	16	34,266	388,444	217,982	170,462	273,497	0.70	43	1.60	45	103,034	30	3.01	46	0	46
WV	147,378	45	675	16,120	9,315	6,805	20,271	1.26	16	2.98	17	13,466	43	19.95	9	4,151	24
WI	7,876,190	17	48,730	601,732	336,488	265,244	605,324	1.01	29	2.28	34	340,080	16	6.98	26	3,592	25
WY	811,222	37	13,102	59,554	30,648	28,906	82,359	1.38	8	2.85	21	53,453	36	4.08	42	22,805	19
US	446,499,985		2,839,049	33,983,718	18,043,704	15,940,013	33,893,434	1.00		2.13		17,953,420		6.32		4,214,125	

[1]Source: Risk Management Agency, USDA, Washington, D.C., WEB Page: http://www.rma.usda.gov/data/, for years 1999 to 2005. The 2005 losses are not complete.

[2]Aggregate total loss ratio is the sum of the 7 years of indemnity payments divided by the sum of the 7 years of premiums paid (includes premium subsidy and premium discounts).

[3]Aggregate total Farmer paid loss ratio is the sum of the 7 years of indemnity payments divided by the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[4]Aggregate total farmer gain is the sum of the 7 years of indemnity payments less the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[5]Aggregate total farmer gain per acre is the aggregate total farmer gain divided by the sum of the 7 years of insured acres.

[6]Aggregate unintended subsidy is the amount that the 7 year total indemnity payments exceed the 7 year total premium payments paid (includes premium subsidy and premium discounts).

Table 2. 1999-2005 Illinois, Indiana, & Iowa Crop Insurance History for Corn by Insurance Plans[1]

St	Type of Policy[2]	Poli--ces Sold	Aggregate Total Liabilities 000	Aggre-gate Net Acres 000	Aggregate Total Premium 000	Aggre-gate Total Subsidy 000	Aggre-gate Farmer Paid Premium 000	Aggre-gate Total Indemnity 000	Aggre-gate Total Loss Ratio[3]	Aggre-gate Total Farmer Loss Ratio[4]	Aggre-gate Total Farmer gain[5] 000	Aggre-gate Total Farmer gain/ Acre[6]	Aggre-gate unin-tended Subsidy[7] 000
IL	GRIP	6,090	891,262	1,710	55,452	30,856	24,596	88,498	1.60	3.60	63,902	37.36	33,046
IN	GRIP	9,990	1,167,604	2,377	70,051	37,091	32,961	58,945	0.84	1.79	25,984	10.93	0
IA	GRIP	1,856	241,459	529	16,021	8,999	7,022	9,290	0.58	1.32	2,269	4.29	0
	Total	17,936	2,300,324	4,616	141,524	76,945	64,579	156,734	1.11				
IL	GRP	6,049	690,928	1,525	22,428	11,801	10,626	4,213	0.19	0.40	(6,413.52)	(4.21)	0
IN	GRP	8,999	889,782	2,208	27,559	12,078	15,481	13,399	0.49	0.87	(2,081.85)	(0.94)	0
IA	GRP	10,059	750,787	2,085	17,831	9,148	8,683	402	0.02	0.05	(8,280.87)	(3.97)	0
	Total	25,107	2,331,496	5,818	67,817	33,028	34,789	18,013	0.27				
IL	APH	291,436	9,874,864	37,330	755,325	344,670	410,656	361,231	0.48	0.88	(49,424.58)	(1.32)	0
IN	APH	106,998	4,226,572	16,623	376,311	171,203	205,108	235,215	0.63	1.15	30,106.96	1.81	0
IA	APH	414,182	14,584,825	57,189	1,088,125	511,488	576,637	365,579	0.34	0.63	(211,057.61)	(3.69)	0
	Total	812,616	28,686,262	111,142	2,219,761	1,027,361	1,192,401	962,026	0.43				

[1]Source: Risk Management Agency, USDA, Washington, D.C., WEB Page: http://www.rma.usda.gov/data/, for years 1999 to 2005. The 2005 losses are not complete.

[2]Analysis includes coverages greater than 70% only. APH polices includes APH, CRC and RA policies.

[3]Aggregate total loss ratio is the sum of the 7 years of indemnity payments divided by the sum of the 7 years of premiums paid (includes premium subsidy and premium discounts).

[4]Aggregate total Farmer paid loss ratio is the sum of the 7 years of indemnity payments divided by the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[5]Aggregate total farmer gain is the sum of the 7 years of indemnity payments less the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[6]Aggregate total farmer gain per acre is the aggregate total farmer gain divided by the sum of the 7 years of insured acres.

[7]Aggregate unintended subsidy is the amount that the 7 year total indemnity payments exceed the 7 year total premium payments paid (includes premium subsidy and premium discounts).

Table 3. Rawlins County, KS Wheat GRP and GRIP Historical Simulated Indemnity Payments based on 30 Years of Trend Adjusted Yields (No Practice Specified)

RMA's 2005 Expected County Yield 36.4
KSU's 2005 Expected County Yield 33.6
150% Maximum Liability

Plan Year	Havst Year	County[1] Yield	County[1] Planted Yield	KSU Trend Adj. Expect Yield	RMA Set Trend Adj. Yield	90% Cov GRP Pymt Rate	APH[2] Price	GRP Pymt	7.81% GRP Prem	Plant[3] Price	ırvest Price	90% Coverage GRIP Pymt Rate	GRIP Pymt	9.50% GRIP[4] Prem	90% GRIP-HRO Pymt Rate	GRIP-HRO Pymt	11.45% GRIP-HRO[3] Prem
1972	1973	36.9	36.3	28.6		0.0%	2.00	0.00	6.71	1.88	2.59	0.0%	0.00	7.67	0.0%	0.00	9.24
1973	1974	30.1	29.2	30.4		0.0%	2.00	0.00	7.12	3.75	4.05	0.0%	0.00	16.24	0.0%	0.00	19.58
1974	1975	34.5	32.5	30.6		0.0%	2.50	0.00	8.97	4.38	3.15	15.2%	30.63	19.12	15.2%	30.63	23.04
1975	1976	37.2	36.2	31.9		0.0%	2.50	0.00	9.36	4.28	3.76	0.0%	0.00	19.47	0.0%	0.00	23.47
1976	1977	32.7	29.3	33.6		3.1%	2.50	3.86	9.83	3.56	2.36	35.9%	64.28	17.03	35.9%	64.28	20.52
1977	1978	32.0	28.7	34.3		7.0%	2.50	9.07	10.05	2.50	3.05	0.0%	0.00	12.21	7.0%	11.06	14.71
1978	1979	37.1	29.2	34.5		6.1%	3.00	9.49	12.14	3.06	4.09	0.0%	0.00	15.06	6.1%	12.94	18.15
1979	1980	40.5	38.3	33.9		0.0%	3.50	0.00	13.89	4.25	4.09	0.0%	0.00	20.53	0.0%	0.00	24.75
1980	1981	22.2	18.2	35.4		42.9%	3.50	79.85	14.52	4.88	4.22	50.7%	131.35	24.63	50.7%	131.35	29.69
1981	1982	34.7	34.2	33.4		0.0%	4.50	0.00	17.63	4.56	3.64	9.2%	21.04	21.72	9.2%	21.04	26.17
1982	1983	45.0	40.1	34.6		0.0%	4.00	0.00	16.23	3.92	3.58	0.0%	0.00	19.37	0.0%	0.00	23.35
1983	1984	38.2	23.1	35.6		27.9%	4.00	59.64	16.67	4.05	3.65	35.1%	75.85	20.53	35.1%	75.85	24.75
1984	1985	57.2	53.5	33.9		0.0%	3.75	0.00	14.88	3.54	3.20	0.0%	0.00	17.07	0.0%	0.00	20.58
1985	1986	39.5	37.1	37.0		0.0%	3.30	0.00	14.29	2.74	2.44	1.0%	1.56	14.44	1.0%	1.56	17.41
1986	1987	41.7	39.8	36.5		0.0%	2.60	0.00	11.13	2.39	2.64	0.0%	0.00	12.44	0.0%	0.00	14.99
1987	1988	36.2	30.7	37.2		8.3%	2.60	12.08	11.32	2.78	3.79	0.0%	0.00	14.73	8.3%	17.61	17.75
1988	1989	20.5	15.3	37.4		54.5%	3.00	91.78	13.16	3.65	4.14	48.3%	98.94	19.45	54.5%	126.65	23.45
1989	1990	44.2	43.7	35.1		0.0%	3.45	0.00	14.20	3.69	3.29	0.0%	0.00	18.47	0.0%	0.00	22.26
1990	1991	31.4	29.8	37.7		12.2%	3.00	20.62	13.25	3.07	2.86	18.2%	31.68	16.49	18.2%	31.68	19.88
1991	1992	27.9	21.7	37.4		35.5%	3.00	59.65	13.14	3.05	3.59	23.9%	40.89	16.24	35.5%	71.44	19.57
1992	1993	41.6	36.6	35.9		0.0%	3.00	0.00	12.61	3.20	2.87	0.0%	0.00	16.37	0.0%	0.00	19.73
1993	1994	40.4	38.7	35.8		0.0%	3.25	0.00	13.64	3.00	3.37	0.0%	0.00	15.34	0.0%	0.00	18.49
1994	1995	42.9	41.9	36.0		0.0%	3.35	0.00	14.14	3.52	4.24	0.0%	0.00	18.08	0.0%	0.00	21.79
1995	1996	28.3	25.8	36.4		21.3%	3.55	41.33	15.16	3.91	5.76	0.0%	0.00	20.29	21.3%	67.06	24.46
1996	1997	37.6	35.2	34.9	36.9	0.0%	3.85	0.00	16.64	4.13	3.64	6.4%	14.52	21.69	6.4%	14.52	26.15
1997	1998	50.4	47.5	34.8	37.2	0.0%	3.65	0.00	15.91	3.95	3.04	0.0%	0.00	20.94	0.0%	0.00	25.24
1998	1999	49.7	47.9	35.8	37.5	0.0%	3.30	0.00	14.50	3.16	2.84	0.0%	0.00	16.87	0.0%	0.00	20.33
1999	2000	30.3	28.8	37.3	35.0	8.5%	3.15	14.05	12.92	3.34	3.02	17.3%	30.37	16.67	17.3%	30.37	20.09
2000	2001	42.8	40.2	36.0	35.1	0.0%	2.80	0.00	11.51	3.31	3.07	0.0%	0.00	16.56	0.0%	0.00	19.95
2001	2002	30.9	28.7	37.4	35.2	9.5%	3.15	15.85	12.99	3.34	3.09	16.3%	28.75	16.75	16.3%	28.75	20.19
2002	2003	41.9	40.9	36.7	36.8	0.0%	3.15	0.00	13.58	3.73	3.14	0.0%	0.00	19.56	0.0%	0.00	23.58
2003	2004	16.3	5.5	37.8	37.0	83.6%	3.35	155.45	14.52	3.40	3.77	81.8%	154.40	17.93	83.6%	174.94	21.61
2004	2005	33.6	30.0	33.6	36.4	8.4%	3.50	16.10	14.92	3.56	3.28	15.6%	30.38	18.47	15.6%	30.38	22.26
Total Farmer Paid Premium; Indemnity Payment								588.8	194.2				754.6	260.29		942.1	313.7
Farmer Paid Loss Ratio									3.03					2.90			3.00
Frequency of Claim									42%					42%			55%
Total Premium Including Subsidizes									431.5					578.43			697.2
Industry Loss Ratio									1.36					1.30			1.35
Break Even Premium Rate									10.66%					12.39%			15.47%

[1]NASS county yields for the 2006 wheat harvest will not be released until about April of 2007. Any GRIP/GRP claims will only be paid after the NASS county yield is
[2]MPCI-APH and GRP in the past used different price elections. This year GRP will use the MPCI-APH announced price but not the market price if one is offered. In future
[3]The RMA has converted the future GRIP price elections to the CRC price elections. There is also a $2.00 price limit move up or down.
[4]The assumed price volatility factor of 0.20 was used to calculate GRIP and GRIP-HRO premiums. Like price elections the volatility is reset each year.

Table 4. Government Payments, Indemnity Payments + Corn Sales, 86.7 bushels Yield and $1.93 Price and a Companion Disaster Assistance Program (CDAP)

#	Traditional Disaster Aid				Companion Disaster Assistance			
	No Ins.	MPCI	CRC/ RA-HPO	RA	No Ins.	MPCI	CRC/ RA-HPO	RA
1 **Production & Sales**								
2 APH/Historical Yield	133.3	133.3	133.3	133.3	133.3	133.3	133.3	133.3
3 Current Year's Crop (bu)	86.7	86.7	86.7	86.7	86.7	86.7	86.7	86.7
4 Harvest Average Price	1.93	1.93	1.93	1.93	1.93	1.93	1.93	1.93
5 Gross Sales	167.27	167.27	167.27	167.27	167.27	167.27	167.27	167.27
6 **Crop Insurance**								
7 Coverage Level		70%	70%	70%		70%	70%	70%
8 Bushels Guaranteed		93.3	93.3	93.3		93.3	93.3	93.3
9 Price Election\Base Price		2.20	2.32	2.32		2.20	2.32	2.32
10 $ of Coverage \ Acre		205.26				205.26		
11 Min Revenue Guarantee			216.53	216.53			216.53	216.53
12 Final Guarantee			216.53	216.53			216.53	216.53
13 Lost Bushels		6.6				6.6		
14 Revenue to Count			167.27	167.27			167.27	167.27
15 Indemnity Payment		14.59	49.26	49.26		14.59	49.26	49.26
16 Less Farmer Paid Premium[1]		6.16	10.83	8.66		6.16	10.83	8.66
17 Net Indemnity Payment		8.43	38.43	40.60		8.43	38.43	40.60
18 Sales and Indemnity Payments	167.27	175.70	205.70	207.87	167.27	175.70	205.70	207.87
19 Non-harvest Expenses[2]	297.18	297.18	297.18	297.18	297.18	297.18	297.18	297.18
20 Harvest Expenses	34.27	34.27	34.27	34.27	34.27	34.27	34.27	34.27
21 Net to Labor and Management	(164.18)	(155.75)	(125.75)	(123.58)	(164.18)	(155.75)	(125.75)	(123.58)
22 **Ad Hoc Disaster Assistance**								
23 Traditional Disaster Aid (TDA)[3]	65%	65%	65%	65%				
24 TDA Bu. Pymt Trigger Yield	86.7	86.7	86.7	86.7				
25 TDA Payment Bushels	0.0	0.0	0.0	0.0				
26 Enter MPCI Price Election	2.20	2.20	2.20	2.20				
27 % MPCI Price Election	50%	50%	50%	50%				
28 TDA Payment Rate per lost bu.	1.10	1.10	1.10	1.10				
29 TDA Payment	0.00	0.00	0.00	0.00				
30 Companion Coverage (CDAP)[4]					80%	80%	80%	80%
31 CDAP Bu. Pymt Trigger Yield					106.7	106.7	106.7	106.7
32 Stop Payment Yield (55% loss)[5]					60.0	60.0	60.0	60.0
33 CDAP Payment Bushels					20.0	20.0	20.0	20.0
34 $ CDAP Paid					22.00	22.00	22.00	22.00
35 Net with Disaster Aid	(164.18)	(155.75)	(125.75)	(123.58)	(142.18)	(133.75)	(103.75)	(101.58)

[1]The farmer paid premium was calculated based on the Kansas average farmer paid premium rate for MCPI-APH, CRC and RA times the example farm's insurance liability. The average Kansas farmer paid 2005 premium rate for corn was approximately 3% for MPCI-APH, 5% for CRC, and 4% for RA.

[2]Source: Fogleman, S. L. and S. R. Duncan, Corn Cost-Return Budget in Northeast Kansas, MF-571, Department of Agricultural Economics, Agricultural Experiment Station and Cooperative Extension Service, Kansas State University, October, 2005.

[3]The Traditional Disaster Aid maximum payment as defined in past programs will equal 133 bushels times 65% times 50% of the $2.20 MPCI-APH price election set in 2005.

[4]The Companion Disaster Assistance Program coverage level was set at an arbitrary coverage level of 80%. One could increase the deductible from 20% or lower the percent of price payment rate to a lower USDA budget costs.

[5]The Companion Disaster Assistance Program stop loss was set at a 55% yield loss assuming losses greater than 55% would be covered under crop insurance because most contracts including CAT trigger with a 50% or less yield loss.

Table 5. Government Payments, Indemnity Payments + Corn Sales, a Zero Yield and $1.93 Price and a Companion Disaster Assistance Program (CDAP)

#	Traditional Disaster Aid				Companion Disaster Assistance			
	No Ins.	MPCI	CRC/ RA-HPO	RA	No Ins.	MPCI	CRC/ RA-HPO	RA
1 **Production & Sales**								
2 APH/Historical Yield	133.3	133.3	133.3	133.3	133.3	133.3	133.3	133.3
3 Current Year's Crop (bu)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Harvest Average Price	1.93	1.93	1.93	1.93	1.93	1.93	1.93	1.93
5 Gross Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6 **Crop Insurance**								
7 Coverage Level		70%	70%	70%		70%	70%	70%
8 Bushels Guaranteed		93.3	93.3	93.3		93.3	93.3	93.3
9 Price Election\Base Price		2.20	2.32	2.32		2.20	2.32	2.32
10 $ of Coverage \ Acre		205.26				205.26		
11 Min Revenue Guarantee			216.53	216.53			216.53	216.53
12 Final Guarantee			216.53	216.53			216.53	216.53
13 Lost Bushels		93.3				93.3		
14 Revenue to Count			0.00	0.00			0.00	0.00
15 Indemnity Payment		205.26	216.53	216.53		205.26	216.53	216.53
16 Less Farmer Paid Premium[1]		6.16	10.83	8.66		6.16	10.83	8.66
17 Net Indemnity Payment		199.10	205.70	207.87		199.10	205.70	207.87
18 Sales and Indemnity Payments	0.00	199.10	205.70	207.87	0.00	199.10	205.70	207.87
19 Non-harvest Expenses[2]	297.18	297.18	297.18	297.18	297.18	297.18	297.18	297.18
20 Harvest Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
21 Net to Labor and Management	(297.18)	(98.08)	(91.48)	(89.31)	(297.18)	(98.08)	(91.48)	(89.31)
22 **Ad Hoc Disaster Assistance**								
23 Traditional Disaster Aid (TDA)[3]	65%	65%	65%	65%				
24 TDA Bu. Pymt Trigger Yield	86.7	86.7	86.7	86.7				
25 TDA Payment Bushels	86.7	86.7	86.7	86.7				
26 Enter MPCI Price Election	2.20	2.20	2.20	2.20				
27 % MPCI Price Election	50%	50%	50%	50%				
28 TDA Payment Rate per lost bu.	1.10	1.10	1.10	1.10				
29 TDA Payment	95.33	95.33	95.33	95.33				
30 Companion Coverage (CDAP)[4]					80%	80%	80%	80%
31 CDAP Bu. Pymt Trigger Yield					106.7	106.7	106.7	106.7
32 Stop Payment Yield (55% loss)[5]					60.0	60.0	60.0	60.0
33 CDAP Payment Bushels					60.0	60.0	60.0	60.0
34 $ CDAP Paid					66.00	66.00	66.00	66.00
35 Net with Disaster Aid	(201.85)	(2.75)	3.85	6.02	(231.18)	(32.08)	(25.48)	(23.31)

[1]The farmer paid premium was calculated based on the Kansas average farmer paid premium rate for MCPI-APH, CRC and RA times the example farm's insurance liability. The average Kansas farmer paid 2005 premium rate for corn was approximately 3% for MPCI-APH, 5% for CRC, and 4% for RA.

[2]Source: Fogleman, S. L. and S. R. Duncan, Corn Cost-Return Budget in Northeast Kansas, MF-571, Department of Agricultural Economics, Agricultural Experiment Station and Cooperative Extension Service, Kansas State University, October, 2005.

[3]The Traditional Disaster Aid maximum payment as defined in past programs will equal 133 bushels times 65% times 50% of the $2.20 MPCI-APH price election set in 2005.

[4]The Companion Disaster Assistance Program coverage level was set at an arbitrary coverage level of 80%. One could increase the deductible from 20% or lower the percent of price payment rate to a lower USDA budget costs.

[5]The Companion Disaster Assistance Program stop loss was set at a 55% yield loss assuming losses greater than 55% would be covered under crop insurance because most contracts including CAT trigger with a 50% or less yield loss.

Table 6. 1989-2005 USA Crop Insurance History for Corn, All Insurance Plans[1]

St	Aggregate NASS Planted Acre[2] 000	Rank Plant Ac	Aggregate Total Liabilities 000	Liab Rank	Aggregate Net Acres 000	Aggregate Total Premium 000	Aggregate Total Subsidy 000	Aggregate Farmer Paid Premium 000	Aggregate Total Indemnity 000	Aggregate Total Loss Ratio[3]	Rank Total Loss Ratio	Aggregate Total Farmer Loss Ratio[4]	Rank Farm Loss Ratio	Aggregate Total Farmer gain[5] 000	Rank Aggre Total Farm gain	Aggregate Total Farmer gain/ Acre[6]	Rank Aggre Total Farm gain/ Acre	Aggregate unintended Subsidy[7] 000	Rank Extra Subsidy
AL	4,320	27	162,056		1,796	19,686	10,983	8,703	17,510	0.89	21	2.01	29	8,807	27	4.90	24	0	24
AZ	678	41	34,698		290	1,677	1,491	186	672	0.40	39	3.62	5	486	39	1.68	35	0	35
AR	2,962	29	160,356		1,646	21,878	15,139	6,739	22,240	1.02	14	3.30	6	15,501	25	9.41	8	363	12
CA	8,100	23	196,302		1,866	6,338	5,627	711	3,099	0.49	38	4.36	2	2,388	34	1.28	37	0	37
CO	18,540	16	2,157,985		11,406	180,430	92,047	88,383	254,441	1.41	1	2.88	11	166,058	8	14.56	1	74,011	2
DE	2,808	30	157,083		1,023	13,764	8,388	5,376	13,186	0.96	17	2.45	18	7,810	28	7.63	13	0	16
FL	1,785	34	32,470		459	4,430	2,695	1,735	4,199	0.95	19	2.42	19	2,465	33	5.36	22	0	22
GA	8,110	22	287,979		3,480	37,703	22,307	15,396	40,330	1.07	9	2.62	15	24,934	20	7.17	15	2,627	9
ID	2,530	31	43,757		319	1,995	1,393	602	1,726	0.87	22	2.87	12	1,124	36	3.52	28	0	28
IL	188,150	2	22,073,789		104,387	1,280,685	588,753	691,931	735,173	0.57	36	1.06	39	43,242	15	0.41	39	0	39
IN	97,000	5	9,720,935		43,759	633,856	291,508	342,348	445,953	0.70	30	1.30	37	103,605	11	2.37	33	0	33
IA	**211,400**	**1**	**32,005,512**		**153,199**	**1,835,780**	**796,973**	**1,038,807**	**1,080,952**	**0.59**	**35**	**1.04**	**40**	**42,145**	**16**	**0.28**	**40**	**0**	**40**
KS	44,270	9	5,216,864		29,769	403,238	212,897	190,341	447,594	1.11	8	2.35	20	257,252	3	8.64	12	44,355	4
KY	22,010	14	1,298,506		8,409	109,019	60,662	48,357	68,433	0.63	33	1.42	35	20,076	23	2.39	32	0	32
LA	6,300	25	526,177		4,729	53,727	33,508	20,220	64,215	1.20	7	3.18	8	43,995	14	9.30	10	10,487	7
MD	8,440	20	496,195		3,381	52,837	31,691	21,146	44,618	0.84	25	2.11	25	23,471	21	6.94	19	0	19
MI	40,300	11	2,361,588		17,515	189,081	113,127	75,954	121,484	0.64	32	1.60	33	45,529	13	2.60	31	0	31
MN	118,800	4	15,241,987		84,097	1,120,304	561,315	558,989	693,791	0.62	34	1.24	38	134,802	10	1.60	36	0	36
MS	6,430	24	331,179		3,859	37,606	26,368	11,238	24,940	0.66	31	2.22	22	13,702	26	3.55	27	0	27
MO	43,500	10	3,506,521		25,061	396,306	224,282	172,023	308,470	0.78	27	1.79	32	136,447	9	5.44	21	0	21
MT	1,103	37	45,737		363	4,000	2,295	1,705	3,395	0.85	24	1.99	30	1,690	35	4.66	25	0	25

[1]Source: Risk Management Agency, USDA, Washington, D.C., WEB Page: http://www.rma.usda.gov/data/, for years 1989 to 2005. The 2005 losses are not complete.

[2]Source: National Agricultural Statistics Service, USDA, Washington, D.C., WEB page http://www.nass.usda.gov/, for years 1989 to 2005. Only states with NASS reported planted acres were included in the analysis.

[3]Aggregate total loss ratio is the sum of the 7 years of indemnity payments divided by the sum of the 7 years of premiums paid (includes premium subsidy and premium discounts).

[4]Aggregate total Farmer paid loss ratio is the sum of the 7 years of indemnity payments divided by the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[5]Aggregate total farmer gain is the sum of the 7 years of indemnity payments less the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[6]Aggregate total farmer gain per acre is the aggregate total farmer gain divided by the sum of the 7 years of insured acres.

[7]Aggregate unintended subsidy is the amount that the 7 year total indemnity payments exceed the 7 year total premium payments paid (includes premium subsidy and premium discounts).

Table 6. Continued. 1989-2005 USA Crop Insurance History for Corn, All Insurance Plans[1]

St	Aggregate NASS Planted Acre[2]	Rank Plant Ac	Aggregate Total Liabilities 000	Liab Rank	Aggregate Net Acres 000	Aggregate Total Premium 000	Aggregate Total Subsidy 000	Aggregate Farmer Paid Premium 000	Aggregate Total Indemnity 000	Aggregate Total Loss Ratio[3]	Rank Total Loss Ratio	Aggregate Total Farmer Loss Ratio[4]	Rank Farm Loss Ratio	Aggregate Total Farmer gain[5] 000	Rank Aggre Total Farm gain	Aggregate Total Farmer gain/ Acre[6]	Rank Aggre Total Farm gain/ Acre	Aggregate unintended Subsidy[7] 000	Rank Extra Subsidy
NE	140,850	3	18,620,751		95,744	1,229,806	592,561	637,245	939,026	0.76	28	1.47	34	301,780	2	3.15	29	0	29
NJ	1,657	35	57,731		572	5,511	3,961	1,550	5,633	1.02	13	3.63	4	4,082	31	7.13	17	122	14
NM	2,111	33	128,364		869	10,866	7,664	3,201	2,770	0.25	41	0.87	41	-431	41	(0.50)	41	0	41
NY	18,680	15	381,974		4,488	29,408	23,062	6,346	23,703	0.81	26	3.74	3	17,357	24	3.87	26	0	26
NC	15,340	18	824,772		7,292	93,266	52,142	41,124	79,853	0.86	23	1.94	31	38,729	17	5.31	23	0	23
ND	17,060	17	1,458,809		13,859	228,682	128,046	100,636	284,242	1.24	6	2.82	14	183,606	6	13.25	3	55,560	3
OH	59,050	8	4,652,449		24,307	307,332	152,210	155,122	323,883	1.05	10	2.09	28	168,760	7	6.94	18	16,550	6
OK	3,620	28	307,508		1,961	28,405	16,266	12,139	35,516	1.25	4	2.93	10	23,377	22	11.92	5	7,111	8
OR	841	40	23,727		187	1,069	789	281	795	0.74	29	2.83	13	514	38	2.74	30	0	30
PA	24,340	13	937,454		7,192	114,041	70,018	44,022	141,921	1.24	5	3.22	7	97,898	12	13.61	2	27,880	5
SC	5,570	26	246,116		2,810	41,460	24,701	16,758	43,136	1.04	11	2.57	17	26,378	19	9.39	9	1,677	11
SD	65,650	6	6,541,632		50,658	719,216	378,902	340,314	717,587	1.00	15	2.11	26	377,273	1	7.45	14	0	17
TN	11,430	19	495,484		3,985	48,487	29,986	18,501	25,289	0.52	37	1.37	36	6,788	29	1.70	34	0	34
TX	32,910	12	2,857,724		21,456	285,797	161,797	124,000	380,090	1.33	2	3.07	9	256,089	4	11.94	4	94,292	1
UT	1,060	39	10,842		86	834	596	238	1,084	1.30	3	4.56	1	847	37	9.86	6	250	13
VA	8,320	21	562,644		3,843	67,679	34,697	32,982	70,263	1.04	12	2.13	24	37,281	18	9.70	7	2,584	10
WA	2,415	32	61,699		480	1,905	1,668	237	612	0.32	40	2.58	16	375	40	0.78	38	0	38
WV	1,101	38	52,572		421	6,181	3,594	2,587	5,589	0.90	20	2.16	23	3,002	32	7.14	16	0	18
WI	62,550	7	4,180,756		27,066	371,047	201,763	169,284	354,239	0.95	18	2.09	27	184,955	5	6.83	20	0	20
WY	1,470	36	85,831		604	9,420	5,517	3,902	9,161	0.97	16	2.35	21	5,258	30	8.71	11	0	15
US	1,313,561		138,546,517		768,693	10,004,751	4,993,391	5,011,360	7,840,809	0.78		1.56		2,829,449		3.68		337,869	

[1]Source: Risk Management Agency, USDA, Washington, D.C., WEB Page: http://www.rma.usda.gov/data/, for years 1989 to 2005. The 2005 losses are not complete.

[2]Source: National Agricultural Statistics Service, USDA, Washington, D.C., WEB page http://www.nass.usda.gov/, for years 1989 to 2005. Only states with NASS reported planted acres were included in the analysis.

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[5]Aggregate total farmer gain is the sum of the 7 years of indemnity payments less the sum of the 7 years of farmer paid premiums (Does NOT included premium subsidy or discounts).

[6]Aggregate total farmer gain per acre is the aggregate total farmer gain divided by the sum of the 7 years of insured acres.

[7]Aggregate unintended subsidy is the amount that the 7 year total indemnity payments exceed the 7 year total premium payments paid (includes premium subsidy and premium discounts).

Table 7. 1989-2005 USA Crop Insurance History for Wheat, All Insurance Plans[1]

St	Aggregate NASS Planted Acre[2] 000	Rank Plant Ac	Aggregate Total Liabilities 000	Liab Rank	Aggregate Net Acres 000	Aggregate Total Premium 000	Aggregate Total Subsidy 000	Aggregate Farmer Paid Premium 000	Aggregate Total Indemnity 000	Aggregate Total Loss Ratio[3]	Rank Total Loss Ratio	Aggregate Total Farmer Loss Ratio[4]	Rank Farm Loss Ratio	Aggregate Total Farmer gain[5] 000	Rank Aggre Total Farm gain	Aggregate Total Farmer gain/ Acre[6]	Rank Aggre Total Farm gain/ Acre	Aggregate unintended Subsidy[7] 000	Rank Extra Subsidy
AL	2,625	34	32,558	34	571	3,027	1,634	1,393	4,678	1.55	7	3.36	13	3,286	32	5.75	15	1,651	21
AZ	1,838	36	104,415	27	749	5,211	3,188	2,023	6,687	1.28	15	3.31	15	4,664	30	6.23	10	1,476	22
AR	17,030	15	404,113	16	7,709	50,815	34,226	16,589	62,236	1.22	19	3.75	6	45,647	11	5.92	12	11,421	11
CA	11,127	17	378,974	17	4,500	47,926	31,242	16,684	59,737	1.25	16	3.58	10	43,053	12	9.57	5	11,811	10
CO	45,798	7	1,822,842	10	28,419	283,067	150,907	132,160	350,407	1.24	17	2.65	21	218,247	7	7.68	7	67,340	6
DE	1,137	37	14,386	37	202	344	220	124	454	1.32	12	3.66	8	330	40	1.63	40	110	29
FL	492	40	7,763	39	119	856	405	450	1,583	1.85	2	3.51	12	1,133	38	9.51	6	727	27
GA	6,830	24	139,127	23	2,306	12,692	6,846	5,847	11,519	0.91	30	1.97	36	5,673	27	2.46	33	0	34
ID	23,440	11	1,088,591	12	9,396	73,338	35,577	37,760	60,082	0.82	34	1.59	41	22,322	17	2.38	34	0	35
IL	21,140	13	427,747	13	5,649	38,758	21,462	17,296	43,191	1.11	26	2.50	24	25,895	13	4.58	19	4,432	15
IN	11,100	18	191,808	20	2,234	12,185	6,228	5,958	14,821	1.22	20	2.49	26	8,863	22	3.97	23	2,636	18
IA	767	38	7,660	40	111	1,198	486	711	1,866	1.56	6	2.62	23	1,154	37	10.40	4	668	28
KS	**188,000**	**1**	**8,727,674**	**2**	**123,059**	**870,329**	**443,312**	**427,017**	**958,125**	**1.10**	**27**	**2.24**	**32**	**531,108**	**2**	**4.32**	**21**	**87,796**	**4**
KY	10,240	21	170,747	21	2,265	12,665	8,223	4,442	8,984	0.71	41	2.02	35	4,542	31	2.01	36	0	37
LA	3,190	30	93,144	29	1,594	14,715	8,086	6,629	23,907	1.62	5	3.61	9	17,278	18	10.84	3	9,192	12
MD	3,500	29	54,811	33	767	1,654	1,118	537	2,454	1.48	8	4.57	1	1,917	34	2.50	32	800	25
MI	10,270	20	307,675	18	3,307	20,729	11,825	8,904	16,515	0.80	38	1.85	39	7,611	25	2.30	35	0	36
MN	39,010	9	2,556,605	7	30,898	283,816	141,999	141,816	330,077	1.16	21	2.33	30	188,261	8	6.09	11	46,261	7
MS	4,280	27	98,435	28	1,792	11,825	6,995	4,830	17,285	1.46	9	3.58	11	12,455	20	6.95	9	5,460	13
MO	22,050	12	414,629	14	7,282	43,655	28,047	15,608	38,954	0.89	31	2.50	25	23,346	16	3.21	29	0	31
MT	96,310	5	5,017,198	3	82,093	552,004	253,808	298,197	623,696	1.13	23	2.09	34	325,500	4	3.97	24	71,692	5
NE	35,250	10	1,843,159	9	24,446	191,245	91,284	99,961	192,141	1.00	29	1.92	37	92,180	10	3.77	27	896	24

[1]Source: Risk Management Agency, USDA, Washington, D.C., WEB Page: http://www.rma.usda.gov/data/, for years 1989 to 2005. The 2005 losses are not complete.

[2]Source: National Agricultural Statistics Service, USDA, Washington, D.C., WEB page http://www.nass.usda.gov/, for years 1989 to 2005. Only states with NASS reported planted acres were included in the analysis.

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Table 7. Continued. 1989-2005 USA Crop Insurance History for Wheat, All Insurance Plans[1]

St	Aggregate NASS Planted Acre[2]	Rank Plant Ac	Aggregate Total Liabilities 000	Liab Rank	Aggregate Net Acres 000	Aggregate Total Premium 000	Aggregate Total Subsidy 000	Aggregate Farmer Paid Premium 000	Aggregate Total Indemnity 000	Aggregate Total Loss Ratio[3]	Rank Total Loss Ratio	Aggregate Total Farmer Loss Ratio[4]	Rank Farm Loss Ratio	Aggregate Total Farmer gain[5] 000	Rank Aggre Total Farm gain	Aggregate Total Farmer gain/ Acre[6]	Rank Aggre Total Farm gain/ Acre	Aggregate unintended Subsidy[7] 000	Rank Extra Subsidy
NV	253	41	10,579	38	90	1,331	686	645	2,380	1.79	3	3.69	7	1,735	35	19.35	1	1,048	23
NJ	646	39	5,635	41	111	177	152	25	115	0.65	42	4.52	2	89	41	0.81	42	0	42
NM	8,260	23	152,337	22	4,093	31,191	19,018	12,173	35,796	1.15	22	2.94	19	23,623	15	5.77	14	4,605	14
NY	2,160	35	27,321	36	485	1,398	1,137	262	1,112	0.80	39	4.25	3	850	39	1.75	39	0	40
NC	10,790	19	247,220	19	3,853	19,860	12,488	7,371	22,420	1.13	24	3.04	16	15,049	19	3.91	26	2,561	20
ND	176,530	2	10,717,807	1	160,299	1,143,873	548,301	595,572	1,410,385	1.23	18	2.37	29	814,813	1	5.08	17	266,512	1
OH	19,020	14	411,748	15	4,357	20,290	11,176	9,114	17,326	0.85	33	1.90	38	8,212	24	1.88	37	0	38
OK	113,300	3	3,084,343	4	56,299	374,003	203,864	170,139	420,123	1.12	25	2.47	27	249,984	5	4.44	20	46,120	8
OR	16,255	16	1,183,514	11	10,009	84,536	33,476	51,060	196,087	2.32	1	3.84	5	145,027	9	14.49	2	111,551	3
PA	3,125	31	29,222	35	363	1,155	692	463	1,892	1.64	4	4.09	4	1,430	36	3.93	25	737	26
SC	4,655	25	105,822	26	1,883	9,037	6,053	2,984	7,949	0.88	32	2.66	20	4,965	28	2.64	31	0	33
SD	59,816	6	2,537,779	8	45,039	367,640	191,248	176,392	400,330	1.09	28	2.27	31	223,938	6	4.97	18	32,690	9
TN	8,370	22	76,512	30	1,527	8,921	6,529	2,392	7,128	0.80	37	2.98	18	4,736	29	3.10	30	0	32
TX	104,400	4	2,801,817	5	56,394	469,117	257,080	212,036	644,404	1.37	11	3.04	17	432,367	3	7.67	8	175,287	2
UT	2,991	33	67,200	32	1,303	8,816	4,510	4,307	11,398	1.29	13	2.65	22	7,092	26	5.44	16	2,582	19
VA	4,430	26	127,152	25	1,445	8,422	4,828	3,594	11,985	1.42	10	3.33	14	8,391	23	5.81	13	3,564	17
WA	45,380	8	2,684,044	6	25,249	136,387	55,108	81,279	105,056	0.77	40	1.29	42	23,777	14	0.94	41	0	41
WV	216	42	3,016	42	41	172	108	64	140	0.81	35	2.18	33	76	42	1.85	38	0	39
WI	3,000	32	71,169	31	818	7,219	4,081	3,138	5,812	0.81	36	1.85	40	2,674	33	3.27	28	0	30
WY	3,628	28	132,992	24	2,423	12,883	6,018	6,864	16,553	1.28	14	2.41	28	9,689	21	4.00	22	3,671	16
US	1,142,649		48,381,290		715,550	5,238,482	2,653,675	2,584,808	6,147,793	1.17		2.38		3,562,985		4.98		975,299	

[1]Source: Risk Management Agency, USDA, Washington, D.C., WEB Page: http://www.rma.usda.gov/data/, for years 1989 to 2005. The 2005 losses are not complete.

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STATEMENT OF EVAN HAYES

Mr. Chairman and members of the committee, I am Evan Hayes, president of the National Barley Growers Association (NBGA), a national organization which represents barley producers throughout the United States. We appreciate the Committee's oversight of this important aspect of U.S. farm policy.

One of NBGA's highest priorities is to ensure that cost effective risk management tools are available to all of our producers. Unfortunately, we believe that the crop insurance policies currently available to barley producers offer only limited risk protection. I will elaborate on areas that we feel are weak and need improved.

First some background on why we feel risk management is so important to our producers and end users. U.S. barley acreage has fallen 73 percent in the past 20 years—from 11.9 million acres in 1986 to less than 3.3 million in 2005. USDA is now projecting barley planted acreage to be down another 5 percent in 2006. This is a huge concern to the NBGA and to our U.S. and overseas customers who need a reliable supply of barley that meets their quality specifications.

Our growers have identified the failure of current risk management tools to protect their investment as one of the biggest reasons for this sharp decline in barley acreage. Yet, despite this current bearish attitude toward barley in many of our traditional growing areas, NBGA and industry partners are working together to tackle a wide range of challenges facing our crop and we are implementing innovative programs to help restore barley competitiveness. We are particularly optimistic about future export opportunities for malting and food barleys, if we can improve risk protection.

More than 60 percent of the U.S. barley crop is malting barley, which is a high value specialty crop that must meet stringent end-use quality specifications. Producers who face weather and other natural disasters that affect the quality of their malting crop should have a reasonable expectation that insurance will help indemnify these losses. However, that is often not the case with malting barley crop insurance. Because quality standards are different between the insurance policies and end user standards, many of our growers face a huge gap in risk protection every year. This gap has become so significant in some of our key production areas that growers have turned away from planting barley entirely.

This problem is particularly significant in North Dakota and Minnesota where our producers have been plagued by a fungal disease in barley that can result in severe quality reduction and price discounts. This disease, caused by Fusarium sp., results in the accumulation of deoxynivalenol (DON) in the grain, which lowers the value of the crop and may result in feed quality. Currently, insurance policies have different DON specifications than end users, so a significant number of our producers lack viable risk protection. We have recommended that USDA RMA address this gap by developing a DON rider to allow producers to insure for this specific peril.

Two years ago, the NBGA assembled a Risk Management Task Force with broad representation of both growers and malting industry to provide assistance to the USDA Risk Management Agency in improving crop insurance for barley producers. We have identified many gaps or weaknesses in current insurance policies and have proposed that RMA consider new barley insurance products that are more economically viable to our producers. NBGA priorities include the following:

I. Remove contradictions in quality standards between crop insurance coverage and the marketplace:

DON quality standard—We strongly urge the use of contract specifications as the DON quality factor for settling insurance claims, similar to current MPCI coverage. We also urge the development of a DON rider to specifically ensure for this peril.

Measurement of sprout damage—We strongly urge that the new Injured by Sprout measurement established by Federal Grain Inspection Service replace the existing Sprout Damage quality factor for settling insurance claims. We request that this change be made under expedited procedures available to RMA.

Protein specification for malting barley—We strongly urge a change in the protein quality factor for both 2-row and 6-row malting barley from 14 percent (current) to 13.5 percent, to reflect actual contract specifications.

II. Ensure a viable Malt Barley Endorsement:

We understand that RMA may be proposing changes to specific aspects of the existing Malt Barley Quality Endorsement. We strongly believe the proposed use of APH requirements in the Option B Malt Barley Endorsement would amount to an elimination of effective insurance coverage for the majority of malting barley production under contract with the U.S. malting and brewing industry. Because of declining barley acreage in the U.S. in the past five years, U.S. malting and brewing companies have increased contracting of malting barley, thus bringing a larger number of barley producers into the Option B Malt Barley insurance pool. Many of these new contract acres are located in what might be considered nontraditional (but certainly not fringe) areas of the Northern Tier barley production region because of persistent weather-related problems in more traditional areas in eastern North Dakota, northwest Minnesota and South Dakota.

Further, we wish to strongly emphasize that the recent loss ratio experiences of the Malting Barley Endorsement are the result of multiple years of adverse weather and environmental conditions that have resulted in a loss of yield, malting quality or a combination of both, and have outside the control of our barley producers. These loss ratios are not the result of fraud, poor crop management or inappropriate contracting practices in so-called fringe areas.

As an alternative, we have proposed a new multi-tiered Option B rating structure that we hope will be given close consideration by RMA. We also have recommended that conditioning incentives be offered to encourage greater efforts by both producers and their buyers to make high valued malting grade. We recommend using actual settlement prices to determine the value of rejected barley in order to encourage more conditioning and potentially higher fill rates of malting barley contracts.

In many of our large malting barley production regions, such as Idaho where loss ratios have been fairly low, producers are moving away from Option B coverage entirely because they want to insurance the crop for its true value on an individual unit basis which is not permitted under the malt endorsement. For these producers, we have identified a need to develop innovative insurance products that will allow producers to insure any type of barley—feed, malting, food, seed, et cetera—at levels that more accurately reflect the value of that crop to the producer and marketplace.

III. Investigate a simplified Enhanced Price Protection policy for U.S. barley producers:

Under this concept barley would be ensured as feed only under the different policy options: MPCI, RA or IP and then producers could buy a rider at enhanced price levels ($.50/bu, $1/bu, $1.50/bu, $2/bu, et cetera.). This approach could address many concerns we have about current coverage gaps, particularly for higher value food barley, seed and hay barley not currently eligible for coverage.

In closing, let me emphasize that the National Barley Growers Association welcomes the opportunity to work with Congress and the Risk Management Agency to improve crop insurance products available to U.S. barley producers. We believe these improvements are vital to the future survival of our industry.

Thank you for your consideration.

Statement of the USA Dry Pea & Lentil Council

The USA Dry Pea & Lentil Council (USADPLC) represents over 5,000 growers, processors, exporters and associates of premium commodities. The USADPLC was founded in 1965 to support research, develop new markets, and increase awareness of U.S. dry peas, lentils and chickpeas, and respectfully submits the following policy positions on crop insurance for the record.

Policy Summary—The USADPLC supports establishing Federal Crop Insurance programs for all dry peas, lentils, and chickpeas that manage risk for U.S. pulse producers, at an affordable price. This includes Federal subsidies of premiums, inclusion of peas, lentils, and chickpeas in Multi-peril, Crop Revenue Coverage insurance plans, and Cost of Production insurance options for pulse crops.

Current policies rely on cropping history. This is a problem with both new farmers and new producers of pulse crops. For this reason, USADPLC is working with RMA to develop revenue based programs and to establish widespread acceptance of master yields. The USADPLC is working on the following crop insurance reforms:

1. Optional Unit Structure Written Agreements. Background- In the spring of 2005 the USADPLC learned that RMA had eliminated the Optional Unit Structure Written Agreements throughout the country. There are many farms across the northern tier of the U.S., especially in the PNW, that do not fit the existing U.S. Rectangular Survey System that splits unit divisions based on sections or section equivalents. The rectangular survey system may work in flat regions of the country, but it fails miserably in the hills and valleys across the northern tier where producers farm outside section lines due to the varied topography. RMA has worked with the USADPLC in the past to established written unit agreement procedures for producers with physical/geographical features on their farm which make standard unit division according to the policy impossible.

Current Status—The RMA plans to publish its new optional unit structure written agreement in early 2006. We have been told that the minimum requirement to qualify for an optional unit structure written agreement has been raised to 320 acres. The old guideline was 160 acres. When the USADPLC first argued to implement the optional unit structure we discovered that the average optional unit size was around 100 acres. Our organization continues to argue that the optional unit structure size should be a minimum of 100 acres. Growers with highly variable topography, especially in the Pacific Northwest (PNW), will virtually be excluded from the new optional unit structure provisions because 320 acres is not a fair average unit size when elevation can vary between 800 to 2000 feet in the same field

Policy position- The USADPLC requests that Optional Unit Structure Written Agreement size be lowered from the proposed minimum of 320 acres to no more than a 100 acre minimum.

2. Pea and Lentil Long Term Revenue (LTR) Coverage- Background- RMA has developed or approved numerous crop programs, which provide "revenue"-type coverage in recent years. Many Northern Tier producers purchase coverage for small grain crops. Revenue coverage is not presently an option for producers of dry peas, lentils or chickpeas.

Current Status—The USADPLC has been working with RMA to create a revenue program for dry peas and lentils since 2001. FCIC's Board of Directors on January 13, 2005 approved a resolution to review the PNW Dry Pea and Lentil Long Term Revenue Pilot Program submitted by Watts and Associates. Since that time the FCIC Board and RMA have withdrawn the product from further consideration. The 2002 farm bill charged RMA with developing new revenue insurance programs for non-program crops. We believe the Dry Pea and Lentil Long Term Revenue Program developed by Watts and Associates should be implemented in a limited pilot area to discover whether or not it will work.

Policy Position- The USADPLC supports the creation of revenue coverage for dry peas, lentils and chickpeas. The USADPLC further supports the approval of a pilot program to test the Dry Pea and Lentil Long Term Revenue program that has been in development since 2003.

3. Austrian Winter Pea (AWP) Full Winter Coverage- Background- The RMA insures Austrian Winter Peas (AWP). Unfortunately, the coverage only attaches if the AWP's survive the winter and achieve an adequate stand in the spring. In small grains (wheat and barley) coverage is attached at the time of planting and growers can receive replant payments if their crops suffer from winter kill.

Policy Position- The USADPLC requests RMA to provide full winter coverage for AWP's similar to small grains.

4. Winter Coverage Green/Yellow Winter Pea and Winter Lentil Varieties. Background—The industry has an immediate need for crop insurance coverage of the new winter lentil variety (Morton) and recently released green and yellow winter pea varieties. Austrian Winter Peas (AWP) are the only winter pulse variety insured by RMA at this time.

Policy Position—The USADPLC requests RMA to provide full winter coverage (similar to small grains) on all commercial varieties of winter peas and winter lentils.

5. Separate Dry Pea and Lentil Coverage Requirement. Background—A grower has a choice to sign up for either dry pea or lentil MCPI coverage. Unfortunately, if a producer chooses to sign up for both dry pea and lentil coverage they are forced to take the same coverage level. The dry pea and lentil coverage level should be separated. Growers should be allowed to choose the coverage level for each individual crop. RMA allows wheat and barley farmers to choose their coverage level independent of one another. Policy Position- The USADPLC supports the right of a producer to select his/her own coverage level when applying for crop insurance on dry peas and lentils.

6. Dockage Provisions—Pea and Lentil ClaimsBackground- Rules were changed in 2002 to include all dockage from insured causes when calculating claims. The rule was implemented by putting a parenthetical phrase on the 3rd page of the claims example in the NCIS claims manual. The manner in which the rule is described is very ambiguous and highly likely to result in a claims adjuster not using the correct procedure unless someone were to call their attention to the highlighted print.

Policy Position—The USADPLC recommends revision of the claims manual to fully implement the spirit and intent of the rule change.

7. Using GPS to map acreages. Background—In September of 2005, RCIS took GPS's away from adjusters to measure acres. Agents can use: FSA pelimiter; wheel; or guess.

Policy Position. The USADPLC recommends agents be allowed to use GPS as most accurate approach to establishing correct acres.

8. Small Grains following Pulses Rate Option. Background—The Risk Management Agency initiated a rate reduction of 10 percent for spring wheat and durum wheat planted on pea, lentil or chickpea stubble compared to the continuous crop rate. The rate option was intended to benefit producers who were practicing a good rotation and were seeing less disease and better agriculture production. After one

year of the rate option the Risk Management Agency proceeded with implementing a policy that would establish a new practice (007) for small grains following pulses. The establishment of a new practice would have had a negative effect on some producers in North Dakota, Montana and South Dakota. The new practice has been eliminated for North Dakota but was not eliminated for Montana and South Dakota producers.

Policy Position—The USDPLC recommends that RMA eliminate the crop insurance practice 007 and reinstate the rate option for small grains on pulse acres for North Dakota, South Dakota and Montana.

9. Establishment of Personal T-Yield. Background—The establishment of a personal t-yield would allow producers to generate an actual production history quicker. The current system of replacing a year of T Yield with actual production only on the unit the crop is grown results in lengthy time periods until a producer establishes their own APH on the entire farm when following a diverse crop rotation. Under the proposed personal T yield system a producer would be able to generate production history each year for all units across a producer's farm resulting in a complete production history across the farm following four years of actual production.

Policy Position—The USDPLC supports the establishment of a personal T yield pilot project for dry peas, lentils and chickpeas in North Dakota and all pulse producing regions of the United States. In addition we support the continuation of the Master Yield option until the Personal T-yield pilot program is fully evaluated.

10. Pulse Crop Pack Factor. Background: The dry pea, lentil and chickpea pack factors in farm stored legumes is not accurate. Producers are concerned with the production to count on farm stored production based on the pack factors in the loss procedures. The addition of the pack factors in the loss procedures has some believing that production to count, for purposes of determining claims involving farm stored production, is over estimated by as much as 6 to 8 percent. This places producers in a bind. Policy provisions require them to submit a claim for indemnity declaring the amount of your loss not later than 60 days after the end of the insurance period. When the price of pulses is down, producers may sit on their pulses until prices rebound which means they must take the adjusters measurements with the pack factors for loss purposes.

Policy Position.The USADPLC recommends that RMA update the pack factor calculation for dry peas, lentils and chickpeas as soon as possible.

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