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HEARING TO REVIEW PRODUCERS' VIEWS ON THE EFFECTIVENESS OF THE FEDERAL CROP INSURANCE PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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HEARING TO REVIEW PRODUCERS' VIEWS ON THE EFFECTIVENESS OF THE FEDERAL CROP INSURANCE PROGRAM

WEDNESDAY, APRIL 22, 2009

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

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 1300 of the Longworth House Office Building, Hon. Jim Marshall presiding.

Members present: Representatives Marshall presiding, Ellsworth, Walz, Schrader, Herseth Sandlin, Markey, Pomeroy, Peterson (*ex officio*), Moran, Conaway, Latta and Luetkemeyer.

Staff present: Adam Durand, Craig Jagger, Tyler Jameson, John Konya, Scott Kuschmider, Clark Ogilvie, John Riley, April Slayton, Rebekah Solem, Kevin Kramp, Pelham Straughn, and Jamie Mitchell.

STATEMENT OF HON. JIM MARSHALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. MARSHALL. I want to thank my colleagues for being here today for what I expect will be an informative hearing. To our witnesses, I want to offer my welcome and pass along Chairman Boswell's regrets for not being able to be here. President Obama is in his district today and he is traveling with the President. He asked me to chair the hearing in his absence, and I am pleased to lend a hand.

Chairman Peterson has directed this Subcommittee to take a thorough and comprehensive review of the Federal crop insurance program. The program has both critics and defenders in and outside of Congress. It is our responsibility to separate fact from fiction from both sides in order to ensure that the program serves those for whom it was intended, the American farmers.

Crop insurance is a critical risk management tool used by farmers to protect the investment they make in their farms, which provide food and fiber to our country and to the world. Therefore, it is only appropriate that our first hearing on crop insurance is focused on producers and their views regarding the program's effectiveness. I am pleased that we have here today the presidents of two leading farmer organizations in the country as well as representatives from other commodity groups. We will hear from them

broad principles of how the crop insurance program should run as well as more specific suggestions for improvements. Their combined testimony should help us in our preparation for when we bring officials with USDA's risk management agency to the Committee after an administrator is named.

Our first witness will be a professor and expert on crop insurance, who will help educate the Subcommittee on the actuarial method that goes into setting rates for crop insurance policies.

Mr. MARSHALL. Before we turn to him though, I want to first turn to the Ranking Member, Jerry Moran, the gentleman from Kansas, for any opening statement he would like to make.

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

Mr. MORAN. Mr. Chairman, thank you. I think it is appropriate that as we approach the end of the first year of the 2008 Farm Bill we begin the process of reviewing how farm programs are working. Today we take a look at crop insurance.

This program is of significant importance to the farmers that I represent in Kansas and farmers across the nation. When I am visiting with producers back home, I constantly hear Congressman, we think a safety net is important and that one should be in place; however, if all commodity programs were gone tomorrow we could probably make it as long as we had crop insurance. I think that speaks volumes for the value of this program. The reason why this program is so necessary is because it is a way to guarantee minimum revenue stream while the crop is growing. Not only do farmers rely upon this program but so do agricultural lenders. This allows the lenders to make operating loans with some assurance that the money they loan out will be repaid despite what may happen during the growing season.

However, this program is not a substitute for other safety net programs. This program does not guarantee cost production. It is a market-based program that ensures a revenue stream based upon historical growing conditions on the farm and prevailing market prices. It provides an income stream and gives the producer the opportunity to be profitable but does not guarantee profitability.

Despite its effectiveness, this program is not perfect. That is why we are here to ask various agricultural organizations and commodity groups to hear their opinions. We need to find ways to make this program more useful to the farmer as a risk management tool. There exist problems like shallow losses and declining yields due to multiple-year droughts. These problems represent ongoing challenges but the problems are not insurmountable. Some may require changes by Congress while others are for the Risk Management Agency. Although we do not have a representative from RMA here, I hope they are listening and will take note of the concerns raised by today's witnesses.

While I am open to finding solutions to improve crop insurance and the manner in which it is delivered, I am adamantly opposed to cutting funding to this program simply because it represents a bank to fund other programs. If problems with crop insurance exist, we need to make changes in a very meticulous fashion that sets sound policy. In order to make sound policy decisions for crop

insurance led me to be very critical of that part of the farm bill that cut funding to crop insurance by nearly $6 billion. These were significant cuts that pose a threat to the future effectiveness of the program. Even after the substantial cuts of the farm bill, the President, President Obama, in his 2010 budget proposed another $5.2 billion in reductions to crop insurance. Although it is uncertain exactly how the President's budget would find these savings, his budget referenced not only cutting funding to crop insurance companies but also cutting farmer premium subsidies. Such proposals are simply irresponsible and an attempt to use crop insurance as the piggy bank. It is an approach that I continue to strongly opposed.

I am very pleased Chairman Peterson and this Committee and our budget views and estimate letter to the House Budget Committee recommended no cuts to crop insurance programs. The House Budget adopted this approach. The Senate, however, included approximately $350 million in cuts to the crop insurance program and I hope that the budget that is ultimately reported into conference Committee adopts the House approach.

I also want to welcome all the witnesses today but especially Jarrod Spillman. Jarrod is a young farmer from Hoxie, Kansas, which is just down the road from my hometown of Hays. I believe he will give us a good perspective on how crop insurance is working not only for farmers on the high plains but the youngest generation of our country's farmers.

Mr. Chairman, I thank you for conducting this hearing, Mr. Boswell for calling the hearing, and I look forward to hearing from the witnesses today about how we might make improvements to crop insurance to benefit farmers across the country. Thank you, Mr. Chairman.

[The prepared statement of Mr. Moran follows:]

SUBMITTED STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Thank you Mr. Chairman. It is appropriate, as we approach the end of the first year of the 2008 Farm Bill, to begin the process of reviewing how farm programs are working. Today we take a look at the crop insurance program.

This program is of significant importance to the farmers I represent in Kansas and farmers across the nation. When I am visiting with producers back in my home State ofKansas, I constantly hear, "Congressman, we think that a safety net is important and one should be in place. However, if all the commodity programs were gone tomorrow, we could probably make it as long as we have crop insurance." I think that speaks volumes for the value of this program.

The reason why this program is so necessary is because it is a way to guarantee a minimum revenue stream while the crop is growIng. Not only do farmers rely on this program, but so do agricultural lenders. This is allows lenders to make operating loans with some assurance that the money they loan out will be repaid despite what may happen during growing season.

However, this program is not a substitute for other safety net programs. This program does not insure cost of production. It is a market-based program that ensures a revenue stream based on historical growing conditions on a farm and prevailing market prices. It provides an income stream and gives a producer the opportunity to be profitable, but it does guarantee profitability.

Despite its effectiveness, this program is not perfect. That is why we have asked various agricultural organizations and commodity groups to testify. We need to find ways to make this program more useful to the farmer as a risk management tool. There exist problems like shallow losses and declining yields due to multiple-year drought. These problems represent ongoing challenges, the problems are insurmountable. Some may require changes by Congress, while other issues are for Risk

Management Agency (RMA). Although we do not have a representative from RMA here, I know they are listening and will take note of the concerns raised by today's witnesses.

While I am open to finding solutions to improve crop insurance and the manner in which it is delivered, I am adamantly opposed to cutting funding to this program simply because it represents a bank to fund other programs. If problems with the program exist, we need to make those changes in a very meticulous fashion that sets sound policy. Failure to make sound policy decisions for crop insurance led me to be very critical of the part of the 2008 Farm Bill that cut funding to crop insurance by nearly $6 billion. These were significant cuts that pose a threat to the future effectiveness of the program.

Even after the substantial cuts of the farm bill, President Obama, in his 2010 budget proposed another $5.2 billion in reductions to crop insurance. Although it is uncertain exactly how the President would find these savings, his budget referenced not only cutting funding to crop insurance companies, but also cutting farmer premium subsidies. Such proposals are simply irresponsible and an attempt to use crop insurance as a piggy bank. It is an approach I strongly oppose.

I was encouraged that this Committee, in our Budget Views and Estimates Letter to the House Budge Committee, recommended no cuts to the crop insurance program. The House Budget adopted this approach. The Senate, however, included approximately $350 million in cuts to the crop insurance program. I hope the budget that is reported from the conference Committee adopts the House approach.

I also want to welcome all the witnesses, but especially Jarrod Spillman. Jarrod is a young farmer from Hoxie, Kansas, which is just down the road from my hometown ofHays. I believe he will give us a good perspective about how crop insurance is working not only for farmers on the High Plains, but the youngest generation of our country's farmers. Mr. Chairman, thank you for conducting this hearing and I look forward to hearing from our witnesses about how we might improve the crop insurance program.

Mr. MARSHALL. I thank the gentleman.

We have with us Chairman Peterson, the Chairman of the Agriculture Committee, and I would like to go to Chairman Peterson for any opening statement he might care to make.

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

Mr. PETERSON. Thank you, Mr. Chairman, and thank you for agreeing to chair the hearing today, and Mr. Moran, thank you for your leadership.

I have a statement that I would like to make part of the record. We have been asked to look, even though we went through the process during the farm bill to look into all of these programs, we have been asked to review everything that we are doing in the Agriculture Committee and this is part of that process. We made some changes in the farm bill, I think some good changes that still have not been implemented and we are a ways away from seeing what effect any of that has, but there are issues out there, as you all know. There are people that continue to criticize the program. There are reports that are coming out and I just think it is important that we keep a focus on this area and I would encourage people not to get so hung up on the amount of cuts or whatever. I don't think that is the right focus. I think we need to drill down into the details of this program to make sure that it is operating correctly.

I have real concerns about whether the cap coverage that was a good idea at the time and I think helped us get significant involvement in the program by people, whether it makes sense anymore in this day and age. Also, whether the way we are reimbursing the companies and the agents makes sense, and some of that has been

incorporated in the SRA and so forth but I think we all need to learn a lot more about this. We need to find out the changes that we made to the farm bill, what impact they had on what kind of coverage people are taking and just how effective the program is for people.

So that is why it is important that we have the producers here today to tell us what they think in terms of whether this is working for producers and if it is, great, if not, what they think we need to improve. So I welcome all of the witnesses and appreciate their time and look forward to the testimony. Thank you.

[The prepared statement of Mr. Peterson follows:]

SUBMITTED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Thank you Mr. Marshall, for chairing today's hearing. I appreciate all the witnesses being here today.

Today's hearing is to examine the effectiveness of the federal crop insurance program from the perspective of those who utilize the program as part of their overall risk management strategy: the producer groups that provide food and fiber to our citizens. Federal crop insurance is one of the central elements of the farm safety net.

It is a risk management tool that allows farmers and ranchers to make sound economic decisions to protect their livelihood.

The effectiveness of the crop insurance program is vital because of the price volatility and weather unpredictability farmers and ranchers have to deal with when making their yearly business decisions. The weather and market prices are two things they cannot control.

Over the last twenty five years, there has been widespread growth in insured acreage, more crops have been added to coverage plans, and new products like revenue protection guarantees have been brought to market.

As stated in witness testimony, just within the last three years, Federal crop insurance protection has grown 80%, from $50 billion worth of coverage in 2006 to nearly $90 billion worth of coverage in 2008.

As the industry has grown, so have criticisms of the crop insurance program. When commodity prices were taking off less than two years ago, I heard from many farmers that crop insurance seemed to be driving planting decisions, rather than the market. The premiums, which are tied to commodity prices, had shot through the roof. However, the input costs for those producers also increased rapidly, and in many cases, were outpacing the increase in commodity value. Instead of being a backstop, crop insurance premiums have been stretching the producer's balance sheet even more.

Issues have also been raised about the sizable payments in administrative and operating expenses that accompanied premium increases. In addition, annual underwriting gains have risen from the neighborhood of $200 to $300 million ten years ago to over $1 billion just two years ago. Such gains and the increased government costs to support crop insurance have led many outside the farm community to put a bullseye on the industry when it comes to identifying programs in the federal budget that they can slash.

This is not to say that we are not interested in improving the program for the taxpayer. In fact, the opposite is true. This Committee held multiple hearings on crop insurance in the last Congress in order to improve the program's efficiency and justify its use of taxpayer dollars.

The program changes that were made as a result of the farm bill will reduce waste, fraud and abuse by expanding a data mining program that searches crop insurance records for patterns that may indicate fraudulent practices. In addition, we adjusted A&O reimbursement and authorized a renegotiation of the SRA to better reflect market conditions.

Despite the criticisms, most producers know that an effective crop insurance program is indispensable to a farmer's risk management strategy. As I have said in the past, most Americans do not live on or near a farm and really have no clue about what a risky business the producer is in and how much money it takes to farm nowadays.

So we want to make sure that the crop insurance program works for all involved so people can continue to farm. That is why your input today will be helpful to this Committee.

I thank today' s witnesses for being here and I look forward to their testimony. I yield back my time.

Mr. MARSHALL. Thank you, Mr. Chairman. I appreciate your leadership of the Committee. Your statement, of course, will be submitted for the record as well as the opening statements of all other Members.

Mr. POMEROY. Mr. Chairman, have you been alerted that I want to introduce———

Mr. MARSHALL. I understand, yes.

We would like to welcome our first panel of witnesses to the table. Dr. Chad E. Hart, Assistant Professor, Department of Economics, Iowa State University, Ames, Iowa; Mr. Bob Stallman, President of American Frame Bureau Federation, Washington, D.C., and Mr. Pomeroy would like to introduce Mr. Roger Johnson, who is the President of National Farmers Union.

Mr. POMEROY. Well, Mr. Chairman, I am very proud of the role North Dakota is going to play in this hearing. North Dakota, as we all remember, played a critical role in the election of Mr. Stallman as head of the Farm Bureau, something he has always held close to his heart, and the new President of the National Farmers Union, Roger Johnson, is a close personal friend of mine, someone that I have known since college, and served with such great distinction prior to coming on with the Farmers Union as North Dakota's Agriculture Commissioner. That is an elected position in North Dakota and he served first within the department and then was elected commissioner, a position he held for 12 years, and in the course of that he served as the Chairman or President of the National Association of State Departments of Agriculture, holding this position during the creation of the last farm bill, so many of us that didn't know Roger got to know him well as he led the positions of the association of state agriculture commissioners in the consideration as we went through with the farm bill.

So is this your first hearing as President of the National Farmers Union? So we are today seeing a star is born, Roger Johnson of the National Farmers Union. We are going to enjoy working with him. You can take this to the bank: He will tell you the straight story, you may agree or disagree, but he is going to give you the straight, unvarnished view of the National Farmers Union and it is a pleasure having him in town. Welcome aboard, Roger.

Thank you, Mr. Chairman.

Mr. MARSHALL. I thank the gentleman for his introduction, and with that I will call on Dr. Hart.

We are asking that the witnesses try and keep their opening remarks to 5 minutes and your written remarks will all be submitted in the record.

Dr. Hart.

STATEMENT OF CHAD E. HART, ASSISTANT PROFESSOR OF ECONOMICS, AND GRAIN MARKETS SPECIALIST, IOWA STATE UNIVERSITY, AMES, IOWA

Mr. HART. Thank you, Mr. Chairman. Good morning. My name is Chad Hart. I am an agricultural economist with Iowa State Uni-

versity. I also work with the Food and Agricultural Policy Research Institute, which is known as FAPRI, on crop insurance issues. I also have conducted private consulting in the crop insurance area specifically looking at revenue assurance in the livestock gross margin products.

I was asked today to talk about the actuarial methodology underneath the crop insurance program. Now, as crop insurance has grown in importance as part of the Federal agricultural safety net, RMA, the Risk Management Agency, has maintained efforts to provide crop insurance products at actuarially fair practices. In essence, actuarial fairness for crop intersection is the alignment of the risk each farmer faces with the price that they pay to cover that risk. If premiums are set too high in comparison to the risk, farmers will not buy crop insurance. If premiums are set too low, then payments will exceed the premiums that crop insurance brings in.

In giving an array of products that RMA manages today, it relies upon or utilizes several actuarial methodologies to determine premiums. For the standard yield insurance products such as APH, or actual production history, the premium rates are determined from examination of historical crop insurance performance for each individual crop. The rate-making process for APH can be broken down into five steps. In the first step, all historical crop insurance information is brought down to a common coverage level so that we can compare across individuals. The second step computes a county-level base premium rate based on that historical data after adjustments to reduce the impacts of severe loss years to reflect the average loss experience of the county and of surrounding counties. In the third step, the county premium rates are adjusted to reflect loads for disaster years, prevented planting and the producer's ability to choose their insurance units. In the fourth step, the calculated rates are compared against what is currently being charged and then premium rate adjustments are restricted to be within certain guidelines. And finally in the fifth step, the premium rates are individualized to the producer adjusted to reflect crop types, farming practices, average yield differences and the coverage level choices they are allowed to make.

For the revenue insurance products, the original rate-making process was determined outside of RMA by private contractors who presented those products to RMA, RMA reviewed that methodology and also had a panel of outside reviewers do that as well. The prices utilized in the revenue insurance products are derived from commodity futures markets and rely upon the efficient market hypothesis. The hypothesis suggests that the prices represent all the known information about the commodity at the time. Futures information is often combined with data on the associated futures with those options to determine an expected variability of prices over the insurance period. For a product such as crop revenue coverage, the original premium rate structures combined with the yield rate structure created for APH, combined with factors that reflect price movements throughout the growing season. For revenue assurance or income protection, new rating strategies were developed that utilize statistical distributions of revenue that reflect historical relationships between prices and yields.

Assessing the actuarial performance of the crop insurance program is difficult. The highly correlated nature of agricultural production across producers within a given year complicates the analysis. Accurate reflection of the underlying weather events requires many annual observations. During a gathering of such a long series of weather and insurance data, it is likely that production patterns, rating methodologies and crop insurance participation patterns will shift. RMA continues to monitor the actuarial performance of the various insurance products that it manages and has conducted detailed rate reviews for several crops and insurance products over the last few years.

As RMA continues to towards its combo product, which is a revenue insurance product, or an insurance product that will combine its yield and revenue insurance products that it currently has, it is reexamining its ratings methodologies behind these various products. Continuing research by RMA, academics and the insurance industry will likely provide improved rating methodologies in the years to come.

And with that, I will conclude my testimony and thank the Committee for allowing me this opportunity today.

[The prepared statement of Dr. Hart follows:]

SUBMITTED STATEMENT OF DR. CHAD E. HART, ASSISTANT PROFESSOR OF ECONOMICS, AND GRAIN MARKETS SPECIALIST, IOWA STATE UNIVERSITY, AMES, IOWA

(*The views expressed in this testimony are those of the author and do not necessarily represent the views of Iowa State University*).

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 serve as the grain markets specialist for the Department of Economics at Iowa State University. I also work with the Food and Agricultural Policy Research Institute (FAPRI) to model and explore crop insurance issues. FAPRI receives funding from annual USDA special research grants to conduct their research efforts. I have also conducted or been employed in several private consulting projects within the crop insurance industry, specifically with the Revenue Assurance and Livestock Gross Margin products.

The federal crop insurance program has grown tremendously over the past three decades. In 1981, roughly 45 million acres of crop production was protected under the program with a total premium of $380 million. In 2008, just over 272 million acres of crop and pasture production was protected under the program with a total premium of $9.85 billion. Many crops have been added to the program and several crop insurance products have been introduced, especially within the last 15 years. The crop insurance program covers over 100 commodities with over 20 crop insurance plans. These plans protect against yield and revenue disasters beyond the farmer's control. Just within the last three years, the insurance protection provided under the federal crop insurance program has grown from $50 billion worth of coverage in 2006 to nearly $90 billion worth of coverage in 2008.

As crop insurance has continued to grow in importance as part of the federal agricultural safety net, the Risk Management Agency (RMA), the USDA agency that operates and manages the Federal Crop Insurance Corporation and the federal crop insurance program, has maintained efforts to provide crop insurance products at actuarially fair prices. Actuarial fairness for crop insurance implies that the premiums charged for the crop insurance products are set at the expected level of payouts under the products. Unlike other types of insurance, the costs associated with the sale and service of the insurance product are not included in crop insurance premium rates as they are paid by the federal government. In essence, actuarial fairness for crop insurance is the alignment of the risk each farmer faces with the premium they are charged to cover that risk. Misalignment of the risk and the premium leads to issues in crop insurance participation and performance. If premiums are set too high for the risks covered, then farmers will not purchase the crop insurance. If premiums are set too low for the risk covered, then the payments from the insurance will exceed the premiums. Given the array of products that RMA man-

ages, RMA utilizes or relies on several methodologies to determine premiums for the various products.

For the standard yield insurance products, such as Actual Production History (APH), the premium rates are determined from an examination of historical crop insurance performance for each individual crop, aggregating the insurance experience of agricultural producers within a given geographic area. For most of the rate making process, the geographic area is defined at the county, but in certain steps of the process, data from surrounding counties and the state are utilized. The rate making process for APH can be broken into five steps:

1. Adjusting the historical insurance performance to reflect a common coverage level,
2. Computing county-level base premium rates,
3. Adjusting the base premium rates for specific issue loads,
4. Restricting premium rate changes to fit within prescribed limits, and
5. Updating premium factors used to tailor the premium rates to the individual situation.

As APH is offered at a number of coverage levels, the first step in the premium rate making process is to adjust all insurance performance data to a common coverage level, 65 percent, so that the data can be aggregated. The second step computes a county-level base premium rate based on the historical data after adjustments to reduce the impacts of severe loss years (which can skew the rate computation) and to reflect the average loss experience of the county and surrounding counties. In the third step, the county premium rates are adjusted (loaded) to reflect the severe loss years (based on statewide data), a disaster reserve factor, and loads for prevented planting and insurance unit divisions. In the fourth step, the rates from the third step are compared to the currently charged rates and the premium rate changes are restricted. Premium rates are allowed to increase by 10 percent or less or are allowed to decrease by 5 percent or less, depending on the situation. In the fifth step, the premium rates are adjusted to reflect crop types (example: winter versus spring wheat), farming practices (example: irrigated versus non-irrigated production), average yield differences, and coverage level choices.

For the revenue insurance products, such as Revenue Assurance, Crop Revenue Coverage, and Income Protection, the original rate making processes were determined mostly by private developers outside of RMA. The processes were submitted to RMA and reviewed by RMA and panels of outside reviewers (often academics who have worked on crop insurance related issues) to evaluate their actuarial soundness. The prices utilized for these products are derived from commodity futures markets and rely on the efficient market hypothesis. The efficient market hypothesis indicates that market prices, such as commodity futures prices, reflect all of the known information about a commodity. Thus, the futures prices are the best available unbiased estimate of a commodity's future value. The futures price information is often combined with data from associated options on the futures to determine the expected variability of the futures price over the course of the insurance period. For Crop Revenue Coverage, the original premium rate structure combined the APH base rate with factors to reflect price movements over the growing season. For Revenue Assurance and Income Protection, the computation of premium rates depends on new rating models that utilized statistical distributions of revenues that reflect historical relationships between crop prices and yields. In the case of Revenue Assurance, the base premium rate is determined by an equation relating the APH premium rate at 65% coverage, the insurance coverage level chosen by the producer, the insured yield, and the expected price variability.

RMA continues to monitor the actuarial performance of the various insurance products it manages and has conducted detailed rate reviews for several crops and insurance products over the last few years. Also, as RMA continues to progress towards its "Combo" product, an insurance product that will combine the APH and revenue insurance products, it is re-examining the rating methodologies behind the various products.

Assessing the actuarial performance of the crop insurance program is difficult. The highly correlated nature of agricultural production across producers within a given year complicates the analysis. Accurate reflection of underlying weather events requires many annual observations. But during the gathering of such a long series of weather and insurance data, it is likely that production patterns, rating methodologies, and crop insurance participation patterns will shift. So that historical crop insurance performance may not be an accurate guide to future performance. RMA has incorporated and/or accepted several approaches to compute actuarially fair premiums. Depending on the insurance product, RMA utilizes historical,

current, and simulated data to set and/or validate premium rates. The incorporation of various rating techniques and larger insurance performance data sets should allow continued improvement in premium rate setting. Continuing research by RMA, academics, and the insurance industry will likely provide improved rating methodologies in the years to come.

Thank you for providing me this opportunity to discuss these issues with you today.

Mr. MARSHALL. Thank you, Dr. Hart.

Mr. Stallman.

STATEMENT OF BOB STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, D.C.

Mr. STALLMAN. Thank you, Mr. Chairman. We appreciate your efforts to review the crop insurance program.

Crop insurance is a difficult issue for a farm organization representing producers of program crops, fruits, vegetables, aquaculture and livestock from all 50 states and Puerto Rico. Producers from different regions of the country and those producing different commodities have vastly different views on the viability and benefits of the program. That is borne out by our policy which is one of the longest and most varied policies contained in our policy book. Policies as an example include support for insurance for dark tobacco and barns, support for distinguishing between dry land and irrigated land, opposition to reducing a producer's actual production history in areas under disaster declaration, opposition to the restriction on crop insurance related to livestock grazing and transitioning the sweet potato pilot program to a nationwide program.

One of the few things all producers can agree on is the desire to have a viable risk management tool that would allow them to make sound economic decisions to protect their operation. In your invitation to participate in this hearing, you posed a question about the effectiveness of the program. In general, it is working well. Participation in the program, however, is about 80 percent of eligible acres. In addition, about 85 percent of the insured acreage is not covered by a buyout policy rather than simply a catastrophic policy. Our farmers and ranchers are annually provided more than $90 billion in risk management protection, and that is up from $31 billion in protection just 10 years ago.

Another important change worth mentioning is revenue products. They are quite popular with our members. In 2008, revenue products were responsible for 80 percent of the total premium, 78 percent of total subsidies and 85 percent of indemnity payments.

The crop insurance program has changed rather significantly since it was reformed in 2000. Prior to that time, much of our efforts centered on increasing the number of commodities eligible for the program, increasing farmer premium subsidies so more producers can afford the coverage, moving towards additional revenue insurance programs, providing for good, experienced premium discounts, increasing subsidy levels at the higher coverage levels to ensure those suffering from shallow losses on a fairly regular basis can still afford the premiums, and making alterations to the program so that it could better respond to multi-year disasters.

In the past 8 years, significant progress has been made on the first of those priorities. That is not to say we still don't desire cov-

erage for more commodities and more localities, especially for fruit and vegetable producers, or that we wouldn't like a higher premium subsidy, but significant progress has been made on several fronts.

The issue of shallow losses continues to be troublesome. The safety net works fairly well if you have almost a total crop loss. In that event, a producer doesn't have harvest expenses and crop insurance covers the majority of the loss. In some instances, ad hoc disaster assistance also kicks in to make up much of the rest of the loss. However, it doesn't work as well for those producers who lose 25 to 30 percent of their yields for 3 or 4 years in a row. Most growers purchase coverage at the 65 to 75 percent coverage levels. This means they must lose about a third of their yield before they receive crop insurance indemnities. If you recover a 5 percent loss, you probably only paid off the crop insurance premium. To add insult to injury, the grower's APH will be reduced during this time and the premium often increases, even though the farmer receives less coverage.

In late 2005, USDA published the Combo Rule, which would combine the existing APH, crop revenue coverage, income protection, indexed income protection and revenue assurance plans of insurance into one consolidated plan of insurance. The final rule was to be effective for the 2008 crop year but is now scheduled for 2011. It is still not in place and should be kept on the front burner at the Department for implementation as soon as possible. The crop insurance program is indeed complex. The products named have very similar features. If combined, the nearly duplicate policies reduce producer confusion.

In 2006, USDA developed programs for pasture, rangeland, forage and hay to provide a safety net for farmers who face drought conditions. There are two programs, the Rainfall Index and the Vegetation Index Program. While the programs were expanded in January so the rainfall index is available in 10 states and the vegetation index in 13 states, we are encouraging the Department to prioritize the programs' expansion into more areas around the country.

And last, we urge Congress to continue to press the Department to complete the Comprehensive Information Management System, or the CIMS project. It is a system of computer programs and databases to be used in administering the Federal Crop Insurance Corporation and the Farm Service Agency programs. CIMS contains producer program and land information collected by FSA, RMA and approved insurance providers from participating customers. CIMS acts as a repository of data and also combines and reconciles data in such a manner so it can be used by FCIC and FSA. There are several reasons why producers are interested in seeing these agencies reconcile commonly used data. First, it would reduce duplicate efforts required both by producers and governmental office personnel. In addition, reconciling data between FSA and FCIC would help guard against fraud and abuse. Farmers feel very strongly about maintaining their well-deserved image of being considered good stewards with high integrity.

Mr. Chairman, thank you for this opportunity.

[The prepared statement of Dr. Stallman follows:]

SUBMITTED STATEMENT OF MR. MR. BOB STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, D.C.

Mr. Chairman, we appreciate your efforts to review the crop insurance program. Crop insurance is a difficult issue for a farm organization representing producers of program crops, fruits, vegetables, aquaculture and livestock from all 50 states and Puerto Rico. Producers from different regions of the country and those producing different commodities have vastly differing views on the viability and benefits of the program. That is borne out by our policy which is one of the longest and most varied policies contained in our policy book. Policies include (a) support for insurance for dark tobacco in barns; (b) support for distinguishing between dry land and irrigated land; (c) opposition to reducing a producer's Actual Production History (APH) in areas under disaster declaration; (d) opposition to the restriction on crop insurance related to livestock grazing; and (e) transitioning the sweet potato pilot program to a nationwide program.

One of the few things all producers can agree on is the desire to have a viable risk management tool that would allow them to make sound economic decisions to protect their operation.

In your invitation to participate in this hearing, you posed the question about the effectiveness of the program. In general, it is working well. Participation in the program hovers at about 80 percent of eligible acres. In addition, about 85 percent of the insured acreage is now covered by a buy-up policy rather than simply a catastrophic policy. Our farmers and ranchers are annually provided more than $90 billion in risk management protection -- up from $31 billion in protection just ten years ago. Another important change worth mentioning is revenue products. They are quite popular with our members. In 2008, revenue products were responsible for 80 percent of the total premium, 78 percent of total subsidies and 85 percent of indemnity payments.

The crop insurance program has changed fairly significantly since it was reformed in 2000. Prior to that time, much of our efforts centered on (1) increasing the number of commodities eligible for the program; (2) increasing farmer premium subsidies so more producers could afford the coverage; (3) moving towards additional revenue insurance programs; (4) providing for ″good experience″ premium discounts; (5) increasing subsidy levels at the higher coverage levels to ensure those suffering from shallow losses on a fairly regular basis can still afford the premiums; and (6) making alterations to the program so that it could better respond to multi-year disasters.

In the past eight years, significant progress has been made on the first of those priorities. That is not to say we don't still desire coverage for more commodities in more localities - especially for fruit and vegetable producers or that we wouldn't like a higher premium subsidy, but significant progress has been made on several fronts.

The issue of shallow losses continues to be troublesome. The safety net works fairly well if you have almost a total crop loss. In that event, a producer doesn't have harvest expenses and crop insurance covers the majority of the loss. In some instances, ad hoc disaster assistance kicks in to make up much of the rest of the loss. However, it doesn't work as well for those producers who lose 25 to 30 percent of their yields for three or four years in a row. Most growers purchase coverage at the 65 percent to 75 percent coverage levels. This means they must lose about a third of their yield before they receive crop insurance indemnities. If you recoup a five percent loss, you have probably only paid off the crop insurance premium. To add insult to injury, the grower's APH will be reduced during this time and the premium often increases even though the farmer receives less coverage.

In late 2005, USDA published the ″Combo Rule″ which would combine 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 was to be effective for the 2008 crop year, but is now scheduled for 2011. It still is not in place and should be kept on the front burner at the department for implementation as soon as possible. The crop insurance program is indeed complex. The products named have very similar features. If combined, the nearly duplicate policies would reduce producer confusion.

In 2006, USDA developed programs for pasture, rangeland, forage and hay to provide a safety net for farmers who face drought conditions. There are two programs -- the Rainfall Index program and the Vegetation Index program. Both use indexes and grids that are smaller than counties to determine expected losses. The Rainfall Index program is based on accumulated rainfall and the Vegetation Index program relies on satellite images to measure departures from expected losses in a given grid area.

While the programs were expanded in January so the rainfall index is available in 10 states and the vegetation index in 13 states, we are encouraging the Department to prioritize the program's expansion to more areas around the country. The development of a livestock program will help expand the viability of the crop insurance program since more than half of all farms are livestock farms.

Lastly, we urge Congress to continue to push the department to complete the Comprehensive Information Management System (CIMS) project. CIMS is a system of computer programs and databases to be used in administering the Federal Crop Insurance Corporation, (FCIC) and the Farm Service Agency (FSA) programs. CIMS contains producer, program, and land information collected by FSA, RMA and approved insurance providers from participating customers. CIMS acts as a repository of data and also combines and reconciles data in such a manner so it can be used by FCIC and FSA. There are several reasons why producers are interested in seeing various governmental agencies reconcile commonly used data. First, it would reduce duplicate efforts required both by producers and governmental office personnel. Reducing the workload of federal employees by eliminating duplicate efforts would demonstrate efficient use of taxpayer money. In addition, reconciling data between FSA and FCIC would help guard against fraud and abuse. Farmers feel very strongly about maintaining their well-deserved image of being considered good stewards with high integrity.

Mr. Chairman, we thank you for the opportunity to testify today.

Mr. MARSHALL. Thank you, Mr. Stallman.

Mr. Johnson.

STATEMENT OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, D.C.

Mr. JOHNSON. Thank you, Mr. Chairman. I thank you for the opportunity for holding this hearing. Farmers Union certainly appreciates the opportunity to present testimony with respect to crop insurance. Our members strongly support the Federal crop insurance program and our members believe that crop insurance and revenue coverage should never really be considered a replacement for fair market prices in an adequate price support program.

In 2008, the Federal crop insurance program covered nearly $90 billion in value and led to record amounts in claims paid to producers for the year. While there is always room for improvement, the increasing levels of participation and upward shift in coverage levels demonstrates that the crop insurance program largely is working. The goal of Federal crop insurance should be to provide affordable risk management coverage to farmers and ranchers to allow them to continue to operate after having a tough year. Since 1989, Congress has approved 34 ad hoc disaster programs totaling more than $59 billion. These have been important but often came too late and were not tailored to meet all disaster-related losses.

We were encouraged that in 2008 Farm Bill Congress saw fit to include a permanent disaster program, the SURE program, to try to deal with some of the shallow losses that you have heard about earlier. We really want this program to work and we would encourage you as you look at crop insurance reform to be mindful of the fact that the rules are not written on that and to make sure that they are written in concert with what is intended with that program. This program requires linkage. You have to carry crop insurance to be eligible, CAT or NAP coverage in order to be eligible for disaster program payments. We think that is the right way to do it but it is not yet implemented. So we need to be cognizant of the fact that there is still a lot of unanswered questions about it.

In terms of issues that we have been concerned about over the years, multi-year losses and the nature of those declining yields

that result from those are something that need to be addressed. The skyrocketing production costs that resulted in higher levels of coverage last year now are going to continue in many ways but the levels of coverage are actually going to go down because the market has gone down significantly as well. So our members support some form of cost-of-production-based crop insurance coverage as well.

Prevented planting coverage is another issue that continues to vex us as do quality loss indemnity programs which continue to be inadequately addressed. These quality loss discounts are often inaccurate and inadequate to reflect the marketplace. They often show no correlation to the same discounts that are levied by the local grain elevators.

Declining yields from consecutive years of disasters have, as I indicated, been a long-term problem. It has been 3 years since RMA issued separate contracts to develop solutions to this problem yet nothing has been brought forward.

Currently, not all crop insurance companies are required or incentivized to offer insurance products in all states. As a result, a lot of producers feel that some crop insurance companies tend to cherry-pick areas based on whether they think the conditions are best. As a result, you end up with areas of the country that are not well served and so that is an issue that we would hope that the Committee would address.

The lack of coordination between RMA and FSA is another issue that I know Congress has moved to try to begin to address. It continues to be an issue. Hopefully progress will continue to be made there. We would suggest that perhaps the creation of a regional advisory Committee might be helpful in this area. We also suggested it might be helpful to have more producer representation on the FCIC board.

Not yet implemented are these changes to the SURE program. I have already addressed that.

The final point that I think I want to make is the GAO offered a number of suggestions about 2 years ago dealing with waste, fraud and abuse. We stand ready to support the Committee in working with GAO to try to implement those. We hope that commonsense solutions are used in that process. One of those in particular is a requirement that says that any losses exceeding $100,000 have to be audited and no exceptions. That is an issue where I think there are more commonsense solutions that might make sense.

Thank you, Mr. Chairman, for allowing us this opportunity to testify today.

[The prepared statement of Mr. Johnson follows:]

SUBMITTED STATEMENT OF MR. ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, D.C.

Good morning, Mr. Chairman and Members of the Committee. I appreciate the opportunity to testify on behalf of the farm, ranch and rural Members of National Farmers Union (NFU). NFU was founded in 1902 in Point, Texas, to help the family farmer address profitability issues and monopolistic practices while America was courting the Industrial Revolution. Today, NFU continues its original mission to protect and enhance the economic well-being and quality of life for family farmers, ranchers and their rural communities.

The mission of the U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) is to promote, support and regulate sound risk management solutions

to preserve and strengthen the economic stability of America's agricultural producers. As with many federal programs, the federal crop insurance program has room for improvements to better serve its mission. NFU members believe crop insurance and revenue coverage should never be considered a replacement for fair market prices and an adequate price support program; yet the continuation and improvement of risk management tools is necessary for producers to be successful in today's farming environment.

In 2008, the federal crop insurance program covered nearly $90 billion in value for more than 100 crops over 272 million farm and ranch land acres nationwide. The year's rollercoaster weather conditions and commodity price bubble led to record amounts in claims paid to producers for the year. While there is always room for improvement, the increasing levels of participation and upward shift in coverage levels demonstrates the efficacy of the Agricultural Risk Protection Act of 2000 (ARPA).

The goal of federal crop insurance should be to provide affordable risk management coverage to farmers and ranchers to allow the continuation of reliable food production. While America's farmers and ranchers are the best in the world, they cannot control two significant factors that impact their ability to stay in business, the weather and market prices.

Since 1989, Congress has approved 34 *ad hoc* disaster programs totaling more than $59 billion. Without this assistance tens of thousands of family farmers and ranchers would have gone out of business. The *ad hoc* disaster programs of the past provided a lifeline to many producers, but often came too late and were not tailored to meet all disaster-related losses. The 2008 Farm Bill presented an opportunity to establish a predictable and timely program for future disasters.For many years, NFU had been calling for the inclusion of a permanent disaster program to cover the shallow losses caused by weather-related disasters, but left uncovered by existing crop insurance. The Supplemental Agricultural Disaster Assistance (SURE) program established in the 2008 Farm Bill will allow USDA to write implementation rules to prevent abuses that are too often associated with the rush to gain necessary political support for an *ad hoc* disaster program. As changes are contemplated to existing crop insurance programs, it will be very important for Congress to be mindful of how those changes might interact with the SURE program.

Critics of a permanent disaster program mistakenly argue that the weather-related disaster assistance will only help a small percentage of producers in a handful of disaster prone states. Nothing could be further from reality. Within the past few years it was common for more than 50-60 percent of the nation's counties to have been declared emergency disaster areas. From cranberry producers in Massachusetts, to specialty crop growers and dairy producers in California and everywhere in between, adverse weather does not discriminate.

To address criticism that producers sometimes rely solely on disaster assistance instead of protecting themselves from losses, the SURE program requires crop producers to carry crop insurance, purchase or enroll in catastrophic crop insurance or the Noninsured Assistance Program in order to be eligible for disaster payments. The USDA Secretary is provided the discretion to waive the crop insurance purchase requirement for limited resource, minority and/or beginning farmers. NFU is very appreciative to this Committee for its support in establishing the SURE program and we look forward to working with USDA as the rules and regulations are released to ensure the program works as Congress intended.

While some have already called for changes to the SURE program before it is even implemented, we believe that it is more prudent to first pay close attention to the rulemaking process. If any changes are contemplated, I would encourage Congress to first look at funding the program at a level closer to that contemplated when the proposal was initially introduced. As you know, during the farm bill deliberations, substantial cuts were needed in order to meet budget realities.

Crop insurance, even for those crops with the broadest coverage options, remains inadequate to address major production disasters of a multi-year nature. This is due to a combination of problems associated with the premium cost, amount of coverage, level of deductible and insurable yield. A common crop insurance complaint among farmers is the failure of coverage to account for skyrocketing production costs. As with unpredictable weather and market prices, farmers have no control over their input costs. While much attention was placed on higher commodity prices during the first half of 2008, virtually no awareness was made of similarly high input costs. Producers have suggested improvements to revenue risk management products that would account for some degree of costs of production. An option could include having policies account for regional average cost of production for the insured commodity by utilizing data collected by the National Agricultural Statistics Service, which publishes the average costs of inputs purchased by producers on a monthly basis.

The availability and affordability of insurance coverage for all commodities, including specialty crops and livestock, remains a work in progress from a geographic, quality loss and commodity perspective. Specific issues such as prevented planting, market-based quality loss indemnities, dry-land production on irrigated fields, setting of established prices and multi-year yield declines as a result of long-term weather disasters continue to be inadequately addressed. Our members have long advocated for the development of new products that allow for protection of income during periods of low prices and/or quality losses. Producers face significant consequences to their income as a result of quality related yield and price losses. Current quality loss discounts are often inaccurate and inadequate in reflecting the marketplace. They often show no correlation to the same discounts levied by local grain elevators. RMA should be directed to rectify the quality loss adjustments, mitigate the costly delays producers face when commodities are sampled for quality and better incorporate the impact of quality losses into crop insurance products.

Declining yields as a result of consecutive years of inadequate growing conditions continues to be a major concern of producers. With no ability to prevent yields from declining year after year, producers believe coverage is inadequate and cost prohibitive, which leads to reduced participation. It has been three years since RMA issued separate contracts to develop solutions to this seemingly solvable problem yet no solution has been brought forward. I urge the Subcommittee to ask RMA the reason for their lack of action, and to develop a strategy to solve the problem.

The financial capacity, stability and competitiveness of the private crop insurance sector should be reviewed and considered as future budget, policy development, program delivery and oversight and audit responsibilities are negotiated in the forthcoming Standard Reinsurance Agreement. Any review should consider the impact of changes on underwriters, agents, private re-insurers and the Federal Crop Insurance Corporation and Risk Management Agency, particularly as they relate to the issues of administration and operations expense reimbursements and underwriting gains.

Currently, not all crop insurance companies are required or incentivized to offer insurance products in all states. As a result, many producers have limited access to risk management tools that could benefit their operations. This practice is viewed by many as cherry-picking low loss ratio areas and needs to be rectified. For the few companies that do choose to operate in all states, their profitability is jeopardized or impacted negatively. To remedy this inequitable distribution of product delivery, a financial incentive could be offered to companies which provide crop insurance in all states, rather than only in states with low loss ratios. To counter the disincentive to operate in high loss ratio states, underwriting gains could be rebalanced or a mechanism established to stabilize underwriting results in underserved/high loss states.

The administration of a federal program such as crop insurance is difficult, complex and often mired in bureaucratic red tape. Producers have long had concerns with the lack of coordination between RMA and the Farm Service Agency (FSA). Improvements in reporting requirements, information technologies and harmonization of definitions would help alleviate red tape. Our members have further suggested the creation of a regional advisory Committee, composed of producers, insurance agents and private insurance company officials, to work with RMA regional staff to establish appropriate policies, procedures and educational activities.

In addition, more producer representation should be provided on the Federal Crop Insurance Corporation (FCIC) board of directors. Clarifying the RMA-FCIC relationship and establishing a local appeals process including conflict resolution could aid in strengthening cooperation among producers and the agency. Enhanced outreach and communication with all entities in the region and system would help improve working relationships.

In June 2007 the Government Accountability Office (GAO) offered suggestions on ways to reduce waste, fraud and abuse within federal crop insurance programs to this Subcommittee. Suggestions included: 1) reducing premium subsidies to producers that repeatedly file questionable claims; 2) improving FSA field inspections; 3) recovering payments from operations that do not disclose farmers' ownership structures; 4) strengthening oversight of insurers' use of quality controls; and 5) issuing regulations for expanded sanction authority. With many critics of the federal crop insurance program, and farm programs in general, due diligence must be done to protect the integrity of this program and others. In achieving this goal, it is important to use common-sense solutions.

Under RMA's Standard Reinsurance Agreement Quality Control provisions, there is a requirement that producers who receive a claim indemnity exceeding $100,000 must provide the three most recent years of APH records for automatic review. This process is extraordinarily time consuming, burdensome and duplicative for pro-

ducers in high loss ratio areas who experience multiyear losses; indemnity payments are often delayed due to a resulting backlog of audits. To streamline and expedite this oversight exercise, RMA should implement a records certification process for each year of audited crop records. As such, the Approved Insurance Providers (AIP) could avoid duplicative reviews of records if a producer files a claim the following production year.

As I mentioned at the beginning of this testimony, our members do not see crop insurance as a replacement for fair market prices. As production practices change, weather patterns remain unpredictable and market prices fluctuate, adequate risk management tools will be vital to the sustainability of family farmers and ranchers across the country. I applaud the Subcommittee for its efforts to improve upon the program.

NFU looks forward to working with this Subcommittee and Congress to develop viable mechanisms to enhance producer's ability to manage the broadest possible spectrum of production risks in an affordable and prudent manner. I appreciate the opportunity to testify today and look forward to responding to any questions Committee Members may have.

Mr. MARSHALL. Thank you, Mr. Johnson. I thank the witnesses for their testimony.

Dr. Hart, in your written testimony and in your oral remarks, you made reference to prices for these products, these insurance products being derived from commodity futures markets and they rely on efficient market hypothesis. Beginning last summer, this Subcommittee and the full Committee heard testimony from any number of individuals and organizations—a number of the organizations will be testifying today—that the futures markets were not behaving efficiently in determining prices and that the futures markets were being manipulated by investment dollars coming into the futures markets and at one point, for example, the basis difference for wheat grew at times to $2. In light of that, all this testimony that we have heard, I found myself wondering just how efficient the market is being, at least with regard to futures markets, and whether or not we can actually rely very much on the futures markets in trying to determine our prices.

Mr. HART. With regards to the futures market price maintenance that we have seen over the last couple of years, what we have seen is a dramatic change in the number of players within the futures market and that has caused some what I hope are temporary disruptions to the futures market as we learn to incorporate the new players that we have seen come into the agricultural markets. When we look back especially over the events of 2008, we did see the large price swings not only for agricultural commodities but basically any commodity that had a futures market available to it including on the energy and metals sectors and so it wasn't just an agriculture issue here when we looked at those large swings. And looking at it, though, in terms of the efficient market hypothesis, the argument is, is that market represents all the information we have available to us at the time to determine what the value of the commodity is. Even with these new investors in, that hypothesis still holds in terms of setting that price out there for us as the best signal to what the value is to each commodity traded within those markets.

Mr. MARSHALL. Do you think that there are others that would different with that view that you just expressed? Are there others who worry that the presence of passive investment dollars is what is typically referred to in the market, particularly given the size of the passive investment dollar investments that are out there that

these passive investment dollars are skewing the market and don't really have—there is no real reference to sort of the real factors that underlie typical prediction of prices in that market?

Mr. HART. I think there would be some that would disagree with that point of view as far as the efficiency of the market as we go forward, especially given the large volumes that we are talking about being traded here. For example, in corn when we look at the futures market trade on the total production of corn, the futures market trade covers eight times the actual production we see here in the United States, so we do see a lot more trade than we have tied down to production. That being said, I think there are arguments both for and against the effective utilization of these markets and it is something that bears watching as we go forward, especially given, like I say, the new players that have entered in over the past couple of years.

Mr. MARSHALL. Mr. Stallman and Mr. Johnson, several of the witnesses have mentioned the standard reinsurance agreement negotiations where RMA and crop insurance companies get together to negotiate terms of compensation for delivery of the crop insurance program, and these witnesses have expressed their concern about the potential changes that could be agreed upon between RMA and crop insurance companies impacting producer participation in the program. Given this concern, how do your organizations, what role should your organization play in the negotiations, if any?

Mr. STALLMAN. We have always viewed that we really don't have a role in those negotiations, given the structure of the law and the process by which the SRAs are renegotiated. That is really about payment for a delivery system, if you will. What our producers are interested in is that that delivery system be efficient and obviously as low a cost as possible but at the end of the day they want it to consist of programs, and when you talk about the agents, particularly well-qualified agents who are able to explain the very comprehensive and complex details of these policies. So our producers are in the mode of wanting that efficient and easily used delivery system but we have not taken a role in negotiating the SRA.

Mr. JOHNSON. Mr. Chairman, I would agree with that conceptually. In my testimony, I reference the $100,000 issue. That is actually an issue that was laid out in the SRA, and what results there is that we have had circumstances where producers may have had disaster or insurance losses exceeding $100,000 for 2 or more years in a row and because of the procedures that are laid out in the SRA, they actually come in and audit going back those 3 years, even if they were just already audited the year before. And so I guess my view is again the degree that we can make these things less cumbersome, less bureaucratic, while still assuring that there aren't sort of cracks in the system where waste, fraud or abuse might enter in, we ought to do that. If folks have a number of losses consecutive and there is a whole bunch in the same area that are having them, maybe it is because there was a weather pattern that resulted in and maybe it wasn't the fact that farmers are trying to cheat the system. And so having some ability to recognize that would be helpful.

Mr. MARSHALL. I thank the gentleman.

The gentleman from Kansas, Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you.

First, Mr. Johnson, let me express my concern to you as a North Dakotan, to your Members, the farmers and just the citizens of your state for the tremendous challenges that you are undergoing because of weather.

Mr. JOHNSON. Thank you.

Mr. MORAN. Just to anyone on the panel, our witnesses that follow you, several of them mention problems related to shallow losses where producers have losses that are not sufficient to trigger an indemnity, and I am embarrassed to again raise this topic because it should have been solved years ago. It has been a challenge of mine, particularly as a Kansan, for a long time. Those witnesses also mention declining yields where repeated disasters reduce producers' yields to make crop insurance less effective. Again, particularly on the declining yields, this has been a topic of mine for nearly a decade and with virtually no success. RMA convened a meeting in Kansas City during my tenure as Chairman of this Subcommittee in which they brought in all the experts from across the country, sought proposals, again without much results. Is there anything concrete that you can tell the Committee today that we ought to do in regard to either the shallow losses or the declining yields? As I recall, the answer on the declining yields was that we have got to be—this is not—that the crop insurance model has to be actuarially sound.

Mr. JOHNSON. Well, in my testimony, I talked about a couple of these issues. The shallow-loss issue has been one that has vexed, I think, everyone for a long, long time. It seems like the way programs have historically been set up, if you end up in a disaster area and you are wiped out and you then can forego harvest expenses and perhaps some of the final production-related expenses, you end up financially much better off than if you ended up with a half a crop or two-thirds of a crop. That is a very, very real financial problem. It was that issue specifically that I think led to the creation of the SURE program. Now, if I had any advice for the Committee, it would be that during deliberation of the farm bill when the SURE program was contemplated and was added in, obviously budget concerns were enormous and as a result of those budget concerns when it passed out of the House, there wasn't money attached. When it got to the Senate, they put some money in but actually had to cut back from what had originally been contemplated and so perhaps a mechanism is there to really deal with these shallow losses if you can figure out a way to add some money into that program. That is designed specifically to pick up some of these shallow losses, and I hope that you all spend a great deal of time in oversight with respect to USDA making sure that the rules get implemented in a fashion that were contemplated by Congress.

Mr. STALLMAN. Well, there certainly could be solutions relative to adjusting the yield when you lose yield over a period of low-yield years or change the indemnity payment structure. Unfortunately, all of those will come with an additional cost so it is a matter of shifting funds from one place to other in terms of the actuarial soundness of the program and therein lies the problem. And then the other issue could be that depending on how that was structured, it would encourage decision making based on those specific

provisions as opposed to more. I don't want to say game the system but they would be inclined to participate at maybe lower levels than what producers would now, depending on the structure of that. But once again, it is going to add cost if you adjust those particular provisions.

Mr. HART. Let me follow up on Mr. Stallman's comments. When we talk about shallow losses or declining yield as we look out there, this brings up issues about the actuarial soundness of the program and especially when we look to cover those shallow losses, those are the hardest to capture in an actuarially fairness sense because it is a more likely event and where farmers probably have a better sense of how often that is going to happen than the crop insurance industry does itself, and if those risks are misaligned, it is easy to miss price for shallow losses and that is something that RMA has been investigating but it is a hard push. For example, looking back on my consulting work, I worked on the original revenue assurance package back in 1996, and we looked at pushing coverage levels up to greater levels than what RMA had currently offered, and what we ran into was the significant cost that went along with increasing to that level and concerns about what are called adverse selection and moral hazard within insurance, adverse selection meaning that the farmers have more information than the insured does, knowing that there are going to get a payment. Moral hazard is the case where a farmer would buy insurance and then based upon having that insurance changes the way that they farm and increasing the opportunity to receive payments under the insurance program.

Mr. MORAN. I thank the witnesses. I will follow up perhaps one on one, particularly in relationship to the multiple-year disasters. I think that is still an issue that while maybe there is some evidence that what ultimately may occur in the farm bill may be helpful in shallow losses, I am still at a loss to understand why we can't in an actuarially sound way address the issue of multiple-year disasters. Thank you, Mr. Chairman.

Mr. MARSHALL. I thank the gentleman.

The gentleman from Indiana, Sheriff Ellsworth.

Mr. ELLSWORTH. Thank you, Mr. Chairman. My questions were about shallow losses and about the SURE program so I think they answered those, but I would like to follow up on something Mr. Moran said in his opening statement. I don't want to misquote you but talking to the farmers that had an adequate crop insurance program, then the subsides could go away, and I would like to—if that a correct summation of what you said in the opening statement, then I would like to explore that with the group and what you thought about that and just explore that a little bit.

Mr. MORAN. If the gentleman will yield?

Mr. ELLSWORTH. Absolutely.

Mr. MORAN. What the conversation I had with Kansas farmers is often and mostly during the farm bill the importance of direct payments and the importance of crop insurance. But there is often a follow-up sentence that says, "but if we had to give up something, make sure we still have crop insurance because our risks are so great." So no farmer is going to voluntarily say one or the other but

there is a real priority with crop insurance and that was the point I was trying to make.

Mr. ELLSWORTH. I thank the gentleman. Again, my original questions were answered. Is there any comment on that at all from any of the panelists?

Mr. STALLMAN. Well, given the structure of our current farm support policies with the countercyclical payment pricing structure and the loan deficiency payment pricing structure and commodity prices where they are, those two legs are becoming less beneficial, if you will, just because the triggers are less likely to be hit. We may be at new higher price plateaus. I don't want to project that but we may be. So then it does get back to the direct payments and a way to manage risk. The direct payments provide a constant known source of income. That is very important for producers in making plans. And then the risk management products allow them to figure out how to manage the risks of their operation. We, as Congressman Moran says, are not advocating giving up those but the risk management program that a producer puts in place is becoming ever more important as these markets and prices change.

Mr. ELLSWORTH. Mr. Johnson?

Mr. JOHNSON. Well, obviously all of these issues require choices on your part and Farmers Union has long believed that the direct payments, for example, while they are very helpful in tough times, they also pile on in very good times and they make us subject to lots of questions about appropriateness for those dollars. We have argued that you could bring up the support prices that really serve as the safety net when times are tough, and so whether that is putting those into enhanced crop insurance, whether it is putting those into enhanced SURE program payments, whether it is moving loan rates or countercyclical payments to a higher level, those would all be appropriate because that is when we need help. We need help when the wheels fall off the wagon, not when everything is really going very well.

Mr. ELLSWORTH. Thank you, all. Dr. Hart, any input?

Mr. HART. Well, when I look at the crop insurance program, it is covering risk for the farmer when you look at it as stylized to the individual farmer and so it provides a very detail-oriented way to protect that risk on the farm, which is essential in today's volatile environment. Also, it is set up where the farmer has a choice as to how much protection they are willing to gather and they are sharing in that partnership with the Federal Government in determining that risk arrangement.

Mr. ELLSWORTH. I thank the panel.

Mr. Chairman, I yield back.

Mr. MARSHALL. I thank the gentleman.

The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman.

Dr. Hart, on actuarial techniques used by RMA and others, given that there is heavy Federal subsidies in this arena, I am not aware of like Federal subsidies in other risk management areas, are there actuarial techniques that are being used by RMA that wouldn't be used in another circumstance or are there techniques that should be used by RMA that they are not using right now as a result of the Federal subsidies in the program?

Mr. HART. As far as the subsidy structure impacting the actuarial projections that RMA utilizes, those do not enter in. For example, with APH, they are looking strictly at the overall, if you will, the total premium dollar being brought in by crop insurance versus the average total payouts under the crop insurance program. So the total premium gets incorporated whether it is subsidized or not. As far as the techniques being utilized, like I say, RMA utilizes a variety of techniques. Just looking at crop insurance, they look at it in terms of like a regular property casual line would look at it. They also look at innovative techniques. For example, with the revenue insurance products, they have been more forward looking in what they think those payouts might be under the crop insurance programs and setting premiums based upon that forward-looking analysis. So I think they are trying to incorporate as many techniques as they possibly can in order to create actuarially fair rates.

Mr. CONAWAY. Thank you. The university right next to my district, Tarleton State University, has an extensive data-mining process that goes through and tries to ferret out the unintentional errors within the risk management arena as well as the intentional fraud that is being conducted. Mr. Stallman, I believe you or Mr. Johnson mentioned the CIMS project or program. Do you guys favor or are you opposed to these kind of data-mining opportunities that can be used to reduce payments that shouldn't get made whether they are on purpose or not?

Mr. STALLMAN. Sir, we are certainly supportive of the programs that could be implemented to limit waste, fraud and abuse or reduce it. I mean, that is just a given. We think that is necessary for the integrity of the program. The CIMS program is really just a compilation of the insurance projects into one. I mean, it is just really a compilation of data and it would play into being able to do the analysis which we think is important and that is why we are supportive of getting that put in place.

Mr. CONAWAY. Is that addressed between RMA and FSA in terms of being able to adequately get the right data to mine?

Mr. STALLMAN. It is supposed to.

Mr. CONAWAY. Okay. One of you mentioned the combining of a variety of specialized products into one that was supposed to be done last year. It is now 2011, I think. What are the barriers there? Why is RMA and/or USDA not able to do this?

Mr. STALLMAN. I am not sure I can answer what the barriers are. That would be a question for representatives from RMA.

Mr. CONAWAY. Well, are they barriers that make sense to you so that when the RMA does come in here we can say, look the industry thinks you guys should have already gotten this done, and they are going to come with excuses. They will have reasons why. I just want to know, you won't be here and I won't have a chance to say well, Mr. Stallman doesn't believe you or Mr. Johnson.

Mr. STALLMAN. Well, we were promised in 2008 and now we are talking about 2011. It just seems like an inordinate amount of time to get that.

Mr. CONAWAY. Okay, but you are not aware of any specific reasons———

Mr. STALLMAN. Not specifically, no, sir.

Mr. CONAWAY. Dr. Hart?

Mr. HART. One of the reasons may be when you look at the products that they are combining within what they call combo or combination product, they are bringing different rating structures. For example, we are looking at APH, which is the yield insurance product. It is rated under one methodology. Crop revenue coverage is a revenue insurance product. That is being brought into this. It has another rating methodology. Income protection, revenue assurance, these are other———

Mr. CONAWAY. But Dr. Hart, that was all contemplated in 2005.

Mr. HART. It was all contemplated but it is also taking the time to figure out what is the best way to put these together and maintain the structure that they had where a farmer can come into this combo product, pick the yield insurance, provide a proper rate there, pick the revenue product, pick the proper rate.

Mr. CONAWAY. Thank you, Dr. Hart.

In the last couple of seconds, any comments on a new acres program and what you see its role, any of the three?

Mr. HART. Well, I would say that the CIMS project would play well into the acre product because what we are looking at, at least in my discussions with Iowa farmers, they are confused about how their data that goes from FSA or into RMA cannot be combined in a certain way and so they are looking at that as a possible way to remedy that issue as they are looking forward to the acre program.

Mr. CONAWAY. Thank you, Mr. Chairman.

Mr. MARSHALL. I thank the gentleman.

The gentleman from Oregon, Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman.

Mr. Johnson, you referenced the GAO study in 2007 and I guess I would like your thoughts as well as the rest of the panel's on some of their top five recommendations and which are easier or more difficult to get done and where should our policies be directed, frankly.

Mr. JOHNSON. I am not sure which would be easier to get done. We feel very strongly, and I think we probably all agree on this point up here, that crop insurance programs need to maintain significant credibility. None of us like to see headlines about folks who have been taking advantage of procedural things, and I think that is what the GAO study really looked to do was to try and figure out what kinds of things should be done to reduce waste, fraud and abuse. None of us here would want to support continuation of waste, fraud and abuse, and so my only suggestion here is that we be careful in terms of the things that are being suggested to make these reductions in waste, fraud and abuse to be certain that they are not overly cumbersome and that they in fact add to the costs and the bureaucracy of the process. Certainly to the degree that you can get RMA and FSA working more closely together and working off the same sets of numbers, that seems to make a whole lot of sense to us.

Mr. SCHRADER. Mr. Stallman, Dr. Hart?

Mr. STALLMAN. I basically concur with Roger. None of us want to see waste, fraud and abuse. We want to do anything we can to reduce that. We want to be sure that the actions we take are actually geared toward that as opposed to maybe let us just say some

actions that are more window dressing that do create more problems in terms of their implementation and management of the program and from the producer's standpoint more difficult. There is always that balance there. But we come down on the side of trying to be sure that this program retains a high level of integrity because that is the only way it is going to be accepted by the public.

Mr. SCHRADER. Very good. Mr. Johnson, you talked about the $100,000 audit, just do it routinely and automatically, yet in some of your testimony you also talked about the difficulty because it is cumbersome and difficult to do over a period of time. Is there a better way to go about that?

Mr. JOHNSON. Well, certainly there a couple of things that could be done. In the case of repeated losses, which is where we saw a number of claims that just got tied up and tied up and tied up because of this audit requirement, the second year the folks who came in and audited had to go back and reaudit the same records that were audited the year before. There certainly could be a procedure put in place that says once audited and confirmed and these numbers are all validated, let the next guy use the same numbers instead of having to go back and start all over again. Secondly, I would say if you have a whole bunch of these claims in a certain area, chances are that that was because of some legitimate event that occurred and all these losses in fact were real and so maybe some sort of a random sampling in those circumstances would make sense. Certainly I would argue that it probably makes sense to index that number going forward too. If you end up in a situation like we were in last year where you had price levels that were essentially double normal and now they are half of what they were last year so maybe getting back closer to normal, when you have those wild swings, this number probably ought to have some relationship to the pricing level as well or you are going to capture a whole bunch of needless efforts that have to be undertaken.

Mr. SCHRADER. Very good. Thank you. I yield back my time, Mr. Chairman.

Mr. MARSHALL. The gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. I will be very brief here. I just have one question. I think the other Members of the Committee this morning asked a lot of great questions already.

Dr. Hart, the risk management groups come up with their risk assessments on the various areas that they are insuring, I got some folks who have farmland in two different risk areas, down the line, got a farm on one side and got a farm on the other side, and we have two different ratings on it. Is that normal or is there a way we can reconcile that or should I be asking the insurance folks?

DR. HART. Well, in this case, that can happen, especially at the county line. For example, when I mentioned the APH rating structure, it is based at the county level. They do smooth across those counties by averaging that county's, if you will, unadjusted rate, with the surrounding counties but you can still have definite breaks in between the county lines determining those rate structures and oftentimes it is related to historical losses between the two counties. If one county had a significant loss in that record, the other county did not, you would see that reflected in the differences

in rates. But it is something RMA does try to adjust out but not completely as they look forward in the rates.

Mr. LUETKEMEYER. Even though the farms are contiguous?

DR. HART. Even though the farms are contiguous. They have to draw a line somewhere and they use the county line as a designation.

Mr. LUETKEMEYER. Thank you very much.

That is all I have, Mr. Chairman. Thank you very much. I yield back my time.

Mr. MARSHALL. I thank the gentleman.

The gentlelady from South Dakota, Ms. Herseth Sandlin.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. I thank our witnesses today. I appreciate the responses that you all gave to Mr. Conaway in his questions related to the CIMS project. I too am hopeful that USDA will get it online quickly to help maximize efficiencies and ease for both the producers and USDA staff. But I would like to ask a little bit different question as it relates to finding those efficiencies and potential for Department reorganization and the discussion that I have been having with producers and agency officials back in South Dakota. The issue of the redundancies and increased costs within USDA. Mr. Johnson, you addressed some of this in your opening testimony and suggested maybe a regional advisory committee of some kind to help ensure coordination. Hopefully then we will get the data sharing with the CIMS project. But I would like to hear each of your views on consolidating crop insurance and other programs into one centralized office, maybe FSA. The proposal has been out there. I know in some respects it is controversial but if you could address from the producer perspective and the members of your respective organizations the redundancies and efficiencies that they encounter when enrolling in farm programs and crop insurance, how effective you think RMA has been in administering the crop insurance program and whether or not you would agree with the proposal to central functions in one office.

Mr. STALLMAN. Well, organizationally we don't have a position on that consolidation. Our producers, probably like most other U.S. citizens, want Government to work as efficiently as possible. There are definitely ways and the CIMS project is an example where without changing structure you can still have coordination and consolidation to make the process work more efficiently. So at this point we don't have a position on any type of structural changes in that regard. We do certainly encourage all efforts to work together in the context of delivering the program more efficiently.

Mr. STALLMAN. We too don't have a policy on that. I think it is important to understand that these agencies behave quite differently administratively, and that is part of the reason, I think, for this kind of confusion and that was, I think, behind the recommendation that there be a regional advisory Committee of some sort. I am not sure that that in itself will do much more than perhaps give you some more of the information about how to coordinate their activities. RMA in North Dakota has an office in Billings, okay. FSA has an office in nearly every county and so that the place where producers are used to going is to those FSA offices where most of those records are kept. There is a very big structural

issue between those two agencies that needs to be reconciled and I am not sure of the best way to do that. Maybe our expert here can give you that answer.

DR. HART. Thank you, Mr. Stallman.

As far as the consolidation of the agencies itself, I cannot speak for Iowa State University or FAPRI. In my case, this is my personal opinion. Looking back at crop insurance history, it used to be that RMA was, if you will, wrapped into FSA and was broken out sometime I believe in the early 1980s and so in some ways we would be looking to go back to that. But when I look at FSA versus RMA, you are seeing two agencies that are in some ways doing two vastly different things. RMA is strictly, if you will, targeted towards the crop insurance program, working with the agents and the insurance companies to provide and service that product. FSA is more on the ground in each county, as was mentioned before, providing those sheets to sign up for the various farm bill programs that we have and so they have two different missions that don't necessarily gel into one cohesive unit when you would put them together. But there is a definite need to have their data be meshed together as we go forward here, maybe not necessarily meshing the agencies together but at least the data.

Ms. HERSETH SANDLIN. I appreciate the responses and perhaps it is a little bit of a wait and see, let us see how CIMS works to see if we can find the efficiencies and then we will go from there as it relates to RMA, FSA, NRCS, a whole host of other issues that we will be delving into with our oversight responsibilities.

Thank you, Mr. Chairman. I yield back.

Mr. MARSHALL. I thank the gentlelady.

Dr. Hart, since you are an academician, you are used to people posing hypotheticals, and if you might answer this one for the record, we would appreciate it if you could just get this back to Committee after you thought about it a little bit. I would like you to assume that the futures markets are not operating efficiently, that in fact have been skewed artificially, that they could be skewed high, they could be skewed low at the time that you go through the pricing process to determine what should be charged for insurance, and then describe the impact of that on the pricing decision, the producer, the Government, the private insurance company, you know, all the players that are involved in the process. That would be helpful to the Committee and it asks you to assume something that you don't believe to be the case, but if it is the case, it should have some impact in the real world. With that request, Dr. Hart, I assume you are willing to do that?

DR. HART. Yes.

Mr. MARSHALL. Thank you, sir. I thank the panel. Very good testimony. Thank you for your responses to questions.

Why don't we take a couple-minute break while we get the table organized for the next panel and we get somebody in here to see if can't fix the microphone. We really did not want to shut out the academician.

[Recess.]

Mr. MARSHALL. We welcome our second panel of witnesses to the table. Mr. Rickey Bearden, cotton, grain and peanut producer and Chairman, Crop Insurance Task Force, National Cotton Council,

Plains, Texas; Mr. Steve Bennett, General Manager and Partner, Riverbend Nurseries, on behalf of the American Nursery and Landscape Association, Thompson's Station, Tennessee; Mr. Jarrod Spillman, sorghum, wheat, corn, soybean, sunflower and cow-calf producer on behalf of the National Sorghum Producers, Hoxie, Kansas; Mr. John Owen, rice producer and President, Northeast Louisiana Rice Growers Association on behalf of USA Rice Federation, Rayville, Louisiana; Mr. Michael Robichaux, sugarcane farmer, on behalf of the American Sugarcane League and Louisiana Farm Bureau Federation, Franklin, Louisiana; Mr. Bing Von Bergen, wheat producer, President, Montana Grain Growers Association, Board Member, National Association of Wheat Growers, Moccasin, Montana; and Mr. Clemens, unfortunately Mr. Pomeroy is not here to give you a grand introduction. That is exactly what he intended but he is stuck in a hearing right now. Otherwise he would be here. So your introduction is going to be just as brief, wheat, corn, soybean, sunflower and dry bean producer and Vice President of Public Policy Action Team, National Corn Growers Association, Wimbledon, North Dakota.

Mr. Bearden, if you could begin when you are ready. All witnesses' statements will be included in the record, and if you could keep your remarks to 5 minutes, we would appreciate it. Thank you, sir.

STATEMENT OF RICKEY BEARDEN, COTTON, GRAIN AND PEANUT PRODUCER, AND CHAIRMAN, CROP INSURANCE TASK FORCE, NATIONAL COTTON COUNCIL, PLAINS, TEXAS

Mr. BEARDEN. Thank you, sir. We are all glad to be here this morning and hopefully you all will all understand our dialects. It is a little different.

Mr. MARSHALL. I certainly won't have any problem with that, Rickey.

Mr. BEARDEN. I am a West Texas cotton, grain and peanut producer from Plains, which is located in Yoakum County close to the New Mexico border of Texas. I am here today representing the National Cotton Council. I have been farming for 34 years and consider insurance coverage an important part of my input cost. Cotton producers are always dependent on Mother Nature, just as any other crops. Since 2000, I have personally experienced 4 years of zeroes on my dry land production and three crops of over 700, just to tell you a little bit about the volatility. Also, other producers in cotton areas have had devastation from hurricanes and many other things. Crop insurance is something that we must have.

Unfortunately, the majority of cotton policies are affordable only at the lower end of the spectrum, 60 percent to lower levels of coverage. The reason why is because to add on to that for every dollar of premium, for every dollar of guarantee it costs about $1 of premium so it becomes financially irresponsible to do this. We are still insuring about 35 to 40 percent of our crop and paying that cost out of our own pocket. In this situation, there is no worst place and to be just barely making enough to make your guarantee out of the total expenses of your crop and the cost of your insurance. I don't know how we fix that but it is a real problem and it has been ad-

dressed here today. I think that falls into the shallow-loss program, and we need to figure out some way to fix that.

One of the main issues for cotton producers, as referenced earlier, is a lack of affordable high insurance levels. We hope that one solution might be is to have GRIP and other group insurance policies in addition to the buyout policies. This has been suggested before and has not come to fruition. GRIP has worked well in many areas of the Cotton Belt. We would encourage the agency to put additional focus on refinement of this policy option that allows regional differences in insurance to be recognized. Actuary rating coverage is also critical in providing insurance product. The council has always consistently supported a move toward individualized experience-based rating that would not penalize good producers in bad county situations, much as has been talked about today, when there is a large area that experiences a loss. A lack of experience rating has reduced participation at higher levels of coverage for many cotton producers. Maximizing quality is a primary consideration of producers throughout the production process. Cotton is unique in the fact that our cotton is sold on an identity-preserved basis that cotton end users also purchase based on those quality characteristics. We believe cotton quality loss provisions should be structured in recognition of this unique bale identity.

We are pleased to report that the Committee has a new quality adjustment provision for cotton based on the CC long, premium and discount schedules, and we hope this will be more successful than in the previous program. It has been developed with RMA with input from the councils. We hope this will be implemented in the 2010 growing season.

Another improvement that the cotton industry has asked RMA to consider is allowing a producer to purchase different levels of coverage for irrigated and non-irrigated production. Under the current system, which leads the grower to a single coverage level for both practices, a diverse cotton operation is stuck with balancing the coverage level between two entirely different management situations. The end result is a bad compromise that forces growers to either underinsure high-yielding input or overinsure low-yielding inputs. The council is also supportive of a new cottonseed pilot program. This concept was submitted to crop insurance recently. It hasn't been gone through an expert review. It would offer yield coverage for cottonseed as an optional endorsement applicable to buy cotton insurance. The CPE is designed to integrate seamlessly with Federal existing crop policies. We hope this will be done soon and in the 2010 growing season will be offered for producers.

RMA should review all of their policies to determine how best to assist producers in large-scale disasters. Many farmers in Louisiana, Mississippi and Texas waited weeks for the agency to announce expedited appraisal processes to be used in determining losses following hurricanes last year. While we compliment the agency for instituting the expedited appraisals, we believe this should be standard and automatically triggered after a large-scale disaster, not to try to be done at the last moment. In many cases these producers not only face losses with their crops and livestock but also with their homes and their farmland. It is imperative that this be given.

On behalf of the National Cotton Council, we appreciate the opportunity to present these comments. We also pledge to work with this Committee and the Risk Management Agency to accomplish our common goal of providing cotton producers with affordable risk management options at affordable rates. Thank you, sir.

[The prepared statement of Mr. Bearden follows:]

SUBMITTED STATEMENT OF MR. RICKEY BEARDEN, COTTON, GRAIN AND PEANUT PRODUCER, AND CHAIRMAN, CROP INSURANCE TASK FORCE, NATIONAL COTTON COUNCIL, PLAINS, TEXAS

Good morning Mr. Chairman, I am Rickey Bearden, a West Texas cotton, grain and peanut producer from Plains, which is located in Yoakum County. I am here today representing the National Cotton Council as Chairman of the Council's Crop Insurance Task Force.

NCC is the central organization of the U.S. cotton industry representing producers, ginners, warehousemen, merchants, cooperatives, textile manufacturers, and cottonseed handlers and merchandisers in 17 states stretching from California to the Carolinas. NCC represents producers who cultivate between 9 and 14 million acres of cotton. In recent years, annual cotton production averaged approximately 20 million 480-lb bales and is valued at approximately $5 billion at the farm gate. While a majority of the industry is concentrated in the 17 cotton-producing states, the down-stream manufacturers of cotton apparel and home-furnishings are located in virtually every state. The industry and its suppliers, together with the cotton product manufacturers, account for approximately 200,000 jobs in the U.S. In addition to the cotton fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. Taken collectively, the annual economic activity generated by cotton and its products in the U.S. economy is estimated to be in excess of $120 billion.

Crop insurance is an important risk management tool for cotton producers. I have been farming for 34 years and consider insurance coverage as important as any other production input. West Texas producers are particularly vulnerable to Mother Nature. In any year, either a severe hailstorm or an extended drought can spell disaster for the farmer. Based on USDA data for Yoakum County since 2000, our average county yield per planted acre across both irrigated and dryland acres has been as low as 205 pounds and as high as 730 pounds. For the majority of Yoakum County dryland the volatility we are trying to insure against is even greater. Since 2000 I have personally experienced four years of zero production on my dryland acres, produced three crops that averaged over 700 pounds and had the others fall somewhere in between. This type of volatility serves to remind us why producers need access crop insurance products that provide effective coverage at affordable prices.

Improving the risk management options for producers has been a top priority for the cotton industry for many years. The Council supported passage of the Agricultural Risk Protection Act (ARPA) in 2000 based largely on its goal to make higher levels of coverage more affordable to farmers. As a result of the reforms made by ARPA well over 90% of US cotton acres are protected by some form of crop insurance coverage. While commendable, this high percentage of participation is somewhat misleading when you consider that 18 percent of those cotton acres are enrolled at catastrophic (CAT)-level coverage and buy-up coverage is heavily skewed towards lower levels. These numbers indicate that cotton insurance coverage at higher levels is still not as affordable as higher coverage levels for other commodities.

It is critical that the Risk Management Agency establish a comprehensive strategy to identify why inconsistencies continue to exist across crops and establish a strategic plan for addressing these issues.

Crop insurance is a necessity for cotton producers. Unfortunately, as I noted before, the majority of cotton polices are affordable only at the lower end of the coverage spectrum at around the 60-65 percent levels. That means that cotton producers are still self-insuring on average a 35 to 40 percent deductible (as a percentage of their APH yields) and paying the cost of the underlying insurance policy. In this situation, there is no worse place for a producer to find themselves than having invested in a crop all year only to realize a yield that falls to a point at or near their insurance guarantee. In the current economic climate, a year like the one I just described can be the farm's undoing.

Let me reiterate that crop insurance should be a central part of every grower's financial risk management plan. In many parts of the cotton belt, including my re-

gion, crop insurance is a non-negotiable prerequisite for securing production financing, even though a shallow loss can still do irreparable damage to these operations. RMA must find a way to make higher levels of coverage affordable to more producers.

With those points in mind it is important to acknowledge that progress in being made and the RMA cotton program is improving. USDA's Risk Management Agency (RMA) recently conducted a significant review of the cotton program by outside sources to ensure program integrity. While cotton loss ratios have fluctuated in recent years, the program review resulted in no major changes to the cotton policy by RMA. NCC supports the efforts to further reduce instances of fraud and abuse. We also want to be part of the process to accomplish this goal and to ensure that future efforts do not impose unnecessary additional burdens on either producers or insurance providers. Further, in an effort to increase the usefulness of the cotton policy in all areas of the Cotton Belt, we are pleased to offer the following general observations and recommendations for administration of the crop insurance program.

Improving Access To Higher Coverage At Affordable Rates

One of the main issues for cotton insurers, as referenced earlier, is the lack of affordability of higher levels of insurance coverage and the exposure to significant "shallow losses" that prevents effective risk management. The Council supported proposals introduced during the 2008 farm bill debate regarding the use GRIP and other group coverage along side buy-up coverage to help shield growers from shallow losses. GRIP has worked well in many areas of the Cotton Belt, and this would be one more way to utilize that coverage. We would encourage the agency to put additional focus on the refinement of policy options that allow regional differences in insurance to be recognized

Accurately rating coverage is also critical to providing an affordable insurance product. RMA should continually look for ways to move towards rate setting procedures that recognize those investments a grower makes that reduce their individual risk. Producers who practice risk-reducing cultural practices, such as planting improved varieties and employing good soil and water conservation practices, are actively working to reduce their risk and increase the productivity. These activities benefit the cotton insurance program immediately by reducing production risks. The Council has consistently supported a move toward individualized experience based rating that would not disadvantage good producers in bad county experience situations. The lack of experience rating has reduced participation at higher levels of coverage for many cotton producers. Unfortunately the current rating structure looks backward and lags well behind the risk reduction curve created by new technology. Practices that reduce risk and improve productivity should be rewarded with lower rates that can be translated into improved insurance coverage.

Another improvement that the cotton industry has asked RMA to consider is allowing a producer to purchase different levels of coverage for irrigated and non-irrigated production. Under the current system, which limits a grower to a single coverage level for both practices, a diverse cotton operation is stuck with balancing the coverage level between two entirely different risk management situations. The end result is a bad compromise that forces growers to under-insure their high input, high yielding irrigated production and over-insure their lower input, lower yielding non-irrigated acres. RMA has the tools and procedures necessary to monitor this situation to prevent the possibility of fraud and abuse. We would also suggest that when allowing different levels of coverage to be selected an effective way to prevent potential abuse would be to prohibit a grower from purchasing a higher level of coverage on non-irrigated acreage than they select for irrigated land.

Maximizing quality is a primary consideration of producers throughout the production process. Cotton is unique in the fact that our product is sold on an identity-preserve basis and that cotton end-users purchase based on the quality characteristics of each individual bale. We believe cotton quality loss provisions should be structured in recognition of the unique bale identity. We are pleased to report to the Committee that a new quality adjustment provision for cotton, based on the CCC Loan Premium and Discount schedule, has been developed by RMA with recommendations from the Council. We have made some progress with RMA on implementing this provision and encourage the Agency to complete this process as quickly as possible to make the new procedure effective for the 2010 growing season. We also believe that this revised quality adjustment procedure should continue to be considered part of the basic premium and be implemented at no additional cost.

The Council is supportive of a new Cottonseed Pilot Endorsement (CPE) as a pilot program. This concept was submitted to the Federal Crop Insurance Corporation and subsequently sent out for expert review by the FCIC Board. It would offer yield

coverage for cottonseed as an optional endorsement applicable to buy-up cotton insurance policies. The CPE is designed to integrate seamlessly with the existing federal crop insurance cotton program rules and procedures, while allowing producers to insure their cottonseed without any additional administrative record-keeping burdens. The Endorsement is designed to apply to currently available individual buy-up coverage plans (APH, CRC, RA, etc) and is not offered for CAT, GRIP or GRP cotton policies. A broad test of the concept is proposed, including all areas where APH coverage is currently offered for cotton. It is our hope that after the expert review the FCIC Board will approve this pilot program for the 2010-growing season.

Legislatively the 2008 Farm Bill included a reduction of premiums for enterprise units. This has proven to be very popular in the countryside even though growers are asked to shoulder some additional risk through the enterprise unit structure. We believe the provision will encourage growers to review their current insurance program and may result in participation gains, lower rates and overall higher levels of coverage. Actions like this are needed to ensure levels of participation that enhances the safety net for growers. As a program that protects producer privacy, and allows a grower to tailor coverage to the unique needs of their own operation, crop insurance is a critical component of the agriculture safety net. The program also has the advantage of being fully compliant with current WTO commitments, while allowing a grower 100 percent protection up to the level of their insurance purchase. Improving the affordability of higher coverage levels to growers is therefore an important, non-trade distorting road to protecting the interests of U.S. commodity producers.

Crop Insurance and SURE

The 2008 Farm Bill created a new permanent disaster assistance program for crop producers called the Supplemental Revenue Assistance Program (SURE). While many of the final details regarding implementation of the SURE program have not been announced, we believe that the program is at some level designed to encourage producers to invest in higher levels of insurance protection through the crop insurance program. We believe that one of the best ways for the program to achieve this goal is to make sure that a grower is not penalized for the increased investment they make when purchasing a higher, more expensive level of crop insurance protection. This can be done in the same manner that it was accomplished in past ad hoc disaster programs by subtracting out the amount of the insurance premiums paid by the producer and only counting the net insurance indemnity received as a result of an insurable loss as a revenue offset. This would be one more incentive for a grower to consider purchasing a higher level of insurance coverage. If the SURE program is to fulfill its purpose of establishing a permanent mechanism to address wide spread natural disasters, then it is imperative that every effort be made to allow crop insurance and SURE to complement each other. The Council also encourages the USDA to act quickly to publish a Proposed Rule for the SURE program and to provide adequate time for review and comment by commodity groups and Members of the Committee.

RMA Policy

RMA should review their policies to determine how best to assist producers following large scale disasters. Many farmers in Louisiana, Mississippi and Texas waited weeks before the agency announced expedited appraisal processes could be used in determining loss following last years hurricanes. While we compliment the agency for instituting the expedited appraisals, we believe this should happen quickly after a large disaster. In many cases these producers are not only facing crop and livestock losses but widespread and lasting damage to their home and farm. It is imperative that they be given the assistance they need following these types of calamities.

Standard Reinsurance Agreement (SRA) Renegotiation

I would like to touch on the importance of the 2008 Farm Bill's authorization to renegotiate the Standard Reinsurance Agreement (SRA). We appreciate the effort made by the Congress to ensure that the crop insurance program is run efficiently. The SRA is one of the key tools through which this process is accomplished, but can also be the source of potentially harmful developments that could, in fact, retard future progress or even reverse the gains made since passage of the Agricultural Risk Protection Act of 2000 by eroding producer or private industry participation in the program. We believe that great care must be exercised during the upcoming negotiations to maintain a reasonable balance between public and private interests. We must, at all costs, guard against forcing changes on approved insurance providers that would ultimately result in an unintended undermining of service to producers. The public/private delivery mechanism that we have today has allowed the program

to make tremendous strides in both program accessibility and producer participation. We must work to maintain an environment that protects the public interest and also fosters an active and competitive private delivery network.

In summary, the National Cotton Council strongly supports the federal crop insurance program. Crop insurance must be developed, delivered and administered as an effective risk management tool and innovative policies must be developed to make crop insurance more useful in various and ever-changing production conditions. We urge this Committee to continue its oversight of the various areas of risk management to ensure a meaningful tool for producers.

On behalf of the National Cotton Council, we appreciate the opportunity to present these comments. We also pledge to work with this Committee and with the Risk Management Agency to accomplish our common goal of providing cotton producers with affordable risk management options at affordable rates.

Mr. MARSHALL. Thank you, Mr. Bearden.

Mr. Bennett.

STATEMENT OF STEVE BENNETT, GENERAL MANAGER AND PARTNER, RIVERBEND NURSERIES, ON BEHALF OF THE AMERICAN NURSERY AND LANDSCAPE ASSOCIATION, THOMPSON'S STATION, TENNESSEE

Mr. BENNETT. Thank you, Mr. Chairman and Members this Committee. I appreciate the opportunity to testify on the Federal Nursery Crop Insurance program.

The timing of this hearing could not be more appropriate as this month marks the 2 year anniversary of the perfect storm that hit our industry Easter of 2007. For several weeks prior the weather was unseasonably warm with highs reaching in the mid-80s for several days. This pattern had brought early spring with long-range forecasts indicating that average temperatures would fall near freezing for only a few nights. With plants growing aggressively in greenhouses and likewise in the field, many Tennessee nurseries spent those weeks preparing for an early spring. It was then that our worst fears were realized. The news began reporting the possibly of an arctic freeze coming through our region. Our preparation for an early spring came to an abrupt halt as our nurseries scrambled over the next 3 days to push containerized plants back together. We covered our trees and plants with frost blankets and straw to prepare for temperatures that were dipping into the teens. The effect of the cold weather on plants was the same as putting a can of soda in the freeze. The resulting explosion was evidenced by trunks on trees literally shattering. Many plants including crepe myrtles, boxwood and Japanese maples revealed the damage almost immediately. It was not until several weeks later we realized the full extent of the problem as hardier varieties such as yews and arborvitae began to show significant damage.

The buzz began to grow around how Federal insurance claims could be handled and which times would be covered by these policies. In early May the Tennessee Nursery and Landscape Association facilitated a meeting with RMA officials from across the country. Nearly 200 growers from the region came to the meetings to get answers to their questions. The answers provided by RMA at the time and in the months following were far from what we had expected. The lack of understanding that RMA had for nursery crops became clear. Some examples. First, for nurseries, a stock plant is one that we keep for many years to cut grafts and bud wood off of to keep our crops consistent year after year. However,

RMA improperly defined the seedlings that we were grafting onto as root stocks, making them uninsurable. Second, nurseries normally cut a seedling off right above where it is budded or grafted. This plant is usually 2 to 4 feet tall before it cut back to the graft. This is done while the plant is dormant, forcing all the energy and nutrition of the plant to the graft or bud. After the freeze, several adjusters came to different farms and designated right off the bat that it looked like they had a total loss but because the plants were not tall enough, they were ineligible to be covered, this with the cutoff portion lying on the ground beside the budded plant with the insurance policy explicitly purchased to cover those plants.

Please understand that producers lost 3 years worth of crops in this one freeze, seed that was germinating, a grafted bud from last year and the seed from the next year.

The final example, in Federal crop policies there is a reference made to marketability of nursery crops. During our meetings with RMA, a grower asked how a plant would be considered unmarketable. One RMA official likened plants to sweet potatoes. He claimed that damaged sweet potatoes could be marketed for something whether it was a cork or something. He recommended that damaged trees were still marketable even if they could be cut up and sold as doorstops. Over a dozen adjusters had visited one nursery during a 14 month period. The nursery had millions of dollars worth of plant material with an original claim of over $2 million. The final settlement was whittled down to only a few thousand dollars. Each adjuster offered a different opinion, frustrating the producer to a point he simply wanted to settle and move on.

Despite some progress on nursery crop insurance reform since 2003, more reform is desperately needed. The recommendations in my written testimony underscore the challenges of applying Federal crop insurance to the unique circumstances that are common to our industry. These reforms would enhance the benefit and marketability of crop insurance programs to nursery growers and participation in the program would definitely increase.

Mr. Chairman, I greatly appreciate your time and attention and I would be happy to answer any questions.

[The prepared statement of Mr. Bennett follows:]

SUBMITTED STATEMENT OF MR. STEVE BENNETT, GENERAL MANAGER AND PARTNER, RIVERBEND NURSERIES, ON BEHALF OF THE AMERICAN NURSERY AND LANDSCAPE ASSOCIATION, THOMPSON'S STATION, TENNESSEE

Chairman Boswell, Ranking Member Moran, and Members of this Subcommittee, I am grateful for the opportunity to present testimony today on the state of the crop insurance program in the U.S. as it relates to the nursery industry. My testimony represents my own experience with federal crop insurance programs as a nursery grower in the State of Tennessee, as well as the views of the American Nursery & Landscape Association.

Founded in 1876, ANLA is the national trade association of the vertically-integrated nursery and landscape, or ″green″ industry. ANLA Membership comprises nearly 2,000 firms that grow nursery and greenhouse plants, sell lawn and garden products, design/install/care for landscapes, and sell supplies to the industry. The Association's grower members are estimated to produce about 75% of the nursery crops moving in domestic commerce that are destined for landscape use. In terms of economic impact, according to a 2005 survey conducted by the University of Tennessee and the University of Florida, the vertically-integrated green industry had an estimated impact of $147.8 billion, employed 1.95 million individuals, generated $64.3 billion in labor income and provided $6.9 billion in indirect business taxes.

According to the USDA's National Agricultural Statistics Service (NASS), the nursery and greenhouse industry remains as a growing agricultural sector in cash receipts. The 2007 Census of Agriculture reports that nursery, greenhouse and floriculture crop sales totaled $16.6 billion in 2007, up from $14.6 billion in 2002. Nursery and greenhouse crop production now ranks among the top five agricultural commodities in 28 states, and among the top 10 in all 50 states. Growers produce thousands of varieties of cultivated nursery, bedding, foliage and potted flowering plants in a wide array of forms and sizes in the open ground and under the protective cover of permanent or temporary greenhouses. An estimated 50,784 farms produce nursery plants as their principal crop.

The nursery industry very much desires an efficient, affordable and sustainable crop insurance program. Nurseries who are engaged in the production of high-value crops, that have invested multiple years of inputs into getting plant material to market, would benefit substantially from enhancing risk management programs with viable federal crop insurance programs. At present, the federal crop insurance program falls short of adequately addressing the extreme diversity and unique situations presented by a free-market segment of agriculture that grows thousands of varieties - in every state - using an array of production systems and technologies. Despite these challenges, federal crop insurance programs remain a valuable component of the nursery industry's risk management practices.

The inclusion of nursery production into disaster programs in the 2007 Farm Bill, and requirements for minimum levels of federal coverage in order to be eligible for participation, represent a significant step forward for incentivizing industry participation in federal crop insurance programs. The industry believes that additional modifications of federal nursery crop insurance programs could increase participation rates beyond the current trend of regional appeal for buy up coverage primarily in areas that are at risk for significant natural disasters. I would first like to offer my personal experience with federal nursery crop insurance programs, and then speak more broadly to the industry's need for a more reliable federal risk management program. In doing so, I thank you for the opportunity to offer thoughts on the current program, and some recommendations for improvement.

The Federal Nursery Crop Insurance Experience in Tennessee

The timing of this hearing could not be more appropriate, as this month marks the two-year anniversary of the ″perfect storm″ that hit the Southeastern U.S. On Easter Sunday in 2007, I awoke and looked out of my window to see a crape myrtle that looked like it had snow on it. Upon further investigation, the white markings were in fact ice crystal ribbons oozing out of the stems up and down the plant.

For the 3 weeks prior to April 7, 2007, the weather had been unseasonably warm for that time of year, with highs reaching the mid 80's for several days throughout that stretch. This weather pattern had apparently brought spring early, with meteorologists making long range forecasts indicating that average temperatures throughout the spring would fall near freezing for only a few nights. So with plants growing aggressively in the greenhouses, and likewise in the field, many in the Tennessee nursery industry decided that the appropriate measures would need to be taken for an early spring. We began by cutting holes in greenhouse plastic to help vent the excessive heat, and started separating the containers where plant material had begun to grow together. It was then that our worst fears were realized.

Meteorologists began reporting the possibility of an arctic blast coming through the region. The preparations that we had started making for an early spring came to an abrupt halt, as our nursery scrambled over the next three days to push containerized plants back together. We covered our trees and plants with frost blankets and straw to prepare for forecasted temperatures dipping into the 20s and teens. Over two nights, and with sap flowing through our trees as the mercury plummeted into the teens, the effect that the cold weather had on our plants was the same as what happens when you put a can of cola in the freezer for too long. The resulting "explosion" was evidenced by the splitting of the bark, and in some cases, by bark blowing completely off of several varieties of plants that we had in production.

Many plants, including our crape myrtles, boxwoods and Japanese maples, revealed the damage that the frost had done almost immediately. It was not until several weeks later that our industry realized the full extent of the damage, as varieties that are known to be extremely hardy such as yews and arborvitae began to show signs of significant damage. Because of their tolerance to cold, these varieties had started to grow before the less hardy plants. This early development damaged them in such a way that the extent of the damage of these varieties was not fully understood for weeks.

Claims were promptly submitted to insurance agents. Almost immediately, the buzz began to grow regarding how these claims would be handled and which items

would be covered by federal policies. Members of our state association requested a meeting, which the Tennessee Nursery & Landscape Association facilitated with Risk Management Agency (RMA) officials from Washington, D.C., Valdosta, GA and Jackson, MS. Meetings were held on the evening of May 3rd and morning of May 4th at the Tennessee State University nursery research center in McMinnville, TN. Nearly 200 growers from the region came to the meetings to get answers to their questions about their federal crop insurance policies. The answers provided by RMA at that time, and in the subsequent months, were far from what any of us had expected. What transpired was a clear demonstration of the lack of understanding that RMA adjusters have of nursery stock.

One example was an interpretation of eligibility for coverage for stock plants under federal nursery crop insurance policies. In our industry, a stock plant refers to a plant that we keep for many years to cut grafts or bud wood from to produce consistent crops year after year. However, RMA interpreted the policy pertaining to stock plants, deemed to be uninsurable, to include the seedlings that we were growing by defining them as "root stocks." This had the practical effect of making these seedlings uninsurable.

Next was a misunderstanding related to common nursery practices. Nurseries will often cut a seedling right above where it was budded or grafted from a seedling that could have been two to four feet tall. The new variety is considered established when the bud or graft breaks dormancy and starts growing, forming the new tree. Because of the warm weather pattern in the previous three weeks, many in the industry had begun cutting the seedlings. After the freeze, one producer, Heritage Farms in Tennessee, had an adjuster out to investigate their claim. The adjuster noted that though the operation had clearly suffered a total loss, because the plants were not ″tall enough,″ they were ineligible for any payments. This despite the fact that Heritage had explicitly purchased a policy for coverage of these seedlings.

Perhaps the most egregious interpretation was with regards to marketability. In federal nursery crop policies, there is reference made to the marketability of plants grown for market. During our meeting with RMA in early May 2007, a grower asked when a plant was considered unmarketable by the agency. One RMA official cited an example using sweet potatoes, claiming that a damaged sweet potato could be converted for use as cork and marketed as something else. And while the industry had suffered significant losses for tree material grown for commercial and residential markets during a construction and landscaping boom, the official recommended that the damaged trees were still marketable if they could be cut up and sold as door stops or something of the like.

And so the stories continued, with nursery after nursery given the run around with dozens of adjusters over the next fourteen months. Those who covered millions of dollars worth of plant material, often buying up in the federal nursery crop insurance program, had their claims whittled down to only a few thousand dollars. These adjusters would offer a different opinion, sometimes multiple opinions on a daily basis, until the producer became frustrated enough to simply settle and attempt to move on.

Admittedly, I did not carry federal crop insurance on our farm for several years. That changed in 2003 when a violent hail storm damaged about 70 acres of nursery stock. When we were able to salvage less than 5 percent of the plants after that hail storm, we purchased a federal crop insurance policy as part of our nursery's risk management plan. However, after the Easter freeze of 2007 which constituted one of the largest natural disasters to hit our region, and after seeing firsthand how the insurance really worked for nursery farms, I decided not to renew our policy. We desperately need a nursery crop insurance policy that works for our industry. But it cannot be a one-size-fits-all policy as with other agricultural commodities because of the diversity in the products we produce and the uniqueness of our production systems.

A Continued Need for Nursery Crop Insurance Reform

Since July 2003, when ANLA Legislative Policy Committee Chairman and Virginia State Senator John Watkins testified to this Subcommittee on the need for nursery crop insurance reform, we have seen incremental and meaningful progress towards making the program more workable for the industry. The successes have included:

- Utilizing a grower's wholesale price list as the basis for coverage valuation based upon proof of market. Now, a grower who buys up may use their own price lists, while those who purchase only a CAT policy are limited to RMA's price list;
- Coverage for plants grown in smaller than three-inch containers;

- Having field grown and containerized plants treated as separate crops;
- Allow for year-round sales of the crop insurance policy subject to a 30-day waiting period for coverage commencement.

Though progress since 2003 has been made, a number of recommendations made by State Sen. Watkins remain very much needed by the industry. Many of these recommendations underscore the unique challenges of applying federal crop insurance policies designed primarily for applications in traditional row crop agriculture to the unique practices and circumstances that are common in nursery production. We believe the adoption of these policies would dramatically enhance the benefit and marketability of federal crop insurance programs to nursery growers. In addition, we believe participation in the program would greatly increase if these recommendations were enacted, especially given current economic conditions.

- Nursery participation in the federal crop insurance program is not as high as it should be. Broader participation will help to establish a program that can be more reliably sustained. There needs to be strong educational outreach. While the industry collaborates with RMA on grower outreach, a small amount of funding or the creation of a marketing pilot program would be helpful in supporting this effort.
- Under the catastrophic disaster coverage, the "50% loss" requirement should be calculated based on losses of individual crop types rather than across the array of crops in a nursery. Different crops have varied susceptibility to potential perils, unlike typical experiences in traditional row crops.
- Under the current program, growers must purchase separate policies to cover separate fields in adjacent counties. There should be some reasonable way to insure an entire nursery grower operation on one policy.
- Ensure the container size of any plant as such is noted in the grower's wholesale price list without regard to the actual soil volume the container is capable of holding.
- Pursue continuity on how insurance rates are calculated. For example, in 2003, Georgia's rates were .039 with a 0 loss ratio while North Carolina's rates were .033 with a loss ratio of 7.4.
- The issue of injury accumulated over just one year has become a factor in the green industry. Flood, drought, disease or winter injury may occur in one year and the loss can occur that same year and/or the following year or years. There is little if any continuity on how adjustors process and handle these types of situations. RMA adjusters need significant education with regards to nursery crops and production.
- Implement crop insurance coverage for Christmas trees. Historically, Christmas trees were not intensively managed; many were harvested from the wild. However, production practices in nurseries and Christmas tree farms are now often indistinguishable. Christmas trees as a commodity should be covered under RMA policies and be treated like similar nursery crops.
- For growers in tropical or subtropical regions, restrict the peril of excess rain to damage incurred in conjunction with a ″named″ tropical cyclone or a rain event that causes an area to be declared a disaster by the President of the United States or the Secretary of USDA.
- There is a great degree of variation as to how well the program is managed across the country. There should be an agent certification program coupled with a fraud elimination aspect.
- Seriously explore coverage for trees and plants that fall within a quarantine zone - especially if those green goods are rendered un-salable due to infestation by a quarantine pest, or ordered destroyed. Quarantines are sometimes imposed while study and assessment of extent of the infestation and risk of harm are being completed. Coupled with the short shelf life of our products and our condensed selling seasons, quarantine restrictions with or without mandated crop destruction pose unanticipated hardships and losses for growers. Currently, nursery growers under current or expected federal quarantine actions with federal crop insurance are yet without recourse in many parts of the country.

Emerging Issues for Current Program Participants

Recently, two emerging issues have developed that have been problematic for nursery growers that currently participate in the federal crop insurance program. The first is with regards to program eligibility and the second regards the omission of plants from the RMA price list.

Program Eligibility - Interpretation of "Wholesale Sales"

Nursery growers, including those with landscape divisions, are eligible for crop insurance provided: (1) at least 50% of their gross sales are from wholesale (not retail) sales; (2) their plants' wholesale prices can be documented; and, (3) plants are provided to commercial users, governmental or other end-users. Presently, there is ongoing debate/ambiguity within RMA as to what constitutes a nursery grower's "wholesale sales." We believe plant sales to home builders or developers are sales to end-users. Such needs to be recognized by RMA as wholesale sales, so as to fall squarely in the definition of "nursery grower." This continuing issue is causing some nursery growers to lose eligibility to purchase crop insurance.

The industry recommends a clarification that plant sales to homebuilders or developers are fully recognized as wholesale sales and, as such, fall within the RMA's definition of "nursery grower."

Omission of Plants from RMA Price List

Beginning with the 2008 crop year, nursery growers were penalized at time of claim if not all plants grown are shown on their price lists. Though RMA will not cover "omitted plants" for insurance purposes, RMA does include the value of these plants when calculating the penalty for under-reporting inventory. This is double-jeopardy. Frankly, we cannot cite an example of any other type of insurance in which such a practice is allowed.

The industry recognizes when one size of a plant is listed in a grower's wholesale price list, then other sizes of the same plants may be covered via the Special Provisions of the crop insurance policy. We further recognize the policy's Special Provisions allow for use of supplemental lists. These lists are supposed to be provided by the grower when adding new plants into production. However, there are a variety of instances when this does not happen. For example, there are times when there is no intention to sell newly added plants until a future date once they become marketable; or, a grower may be contracted to grow certain plants for another individual grower. In these instances, such plants would never show up on the grower's wholesale price list because they are not for sale to the general industry.

This issue of omitted plants is creating genuine problems for nursery growers who either are: (1) never advised or made aware by their agents of the need to submit supplemental lists; or, (2) inadvertently forgot or unintentionally neglect to provide supplemental lists. Since plants added by supplemental lists or price addenda have 30-day wait periods before coverage kicks in, no purchase receipts should be required unless fraud is suspected.

The industry recommends if a grower's plants are not found on any price or supplemental lists at time of claim, then RMA should allow for purchase receipts as proof of ownership to be presented so such plants are not considered ″omitted plants.″ In addition, we recommend RMA remove the ″omitted plants″ provision from the Special Provisions, and that the agency not insert it into the basic policy provisions.

Conclusion

Thank you, Mr. Chairman and Members of the Subcommittee, for your attention and interest in ensuring a viable crop insurance program for the American nursery industry. We are grateful for the interest and support of Congress in this matter. I would be happy to respond to any questions you may have.

Mr. MARSHALL. Thank you, Mr. Bennett.

Mr. Spillman.

STATEMENT OF JARROD SPILLMAN, SORGHUM, WHEAT, CORN, SOYBEAN, SUNFLOWER AND COW-CALF PRODUCER, ON BEHALF OF THE NATIONAL SORGHUM PRODUCERS, HOXIE, KANSAS

Mr. SPILLMAN. On behalf of the National Sorghum Producers, I would like to thank the Subcommittee for the opportunity to discuss Federal crop insurance and its impact on the grain sorghum industry and my farm.

My name is Jarrod Spillman and I farm near Hoxie in Sheridan County, Kansas. I raise wheat, sorghum, corn, sunflowers and soybeans in a diversified operation that also includes cow-calf pairs. I want to talk about some specific concerns that sorghum producers

have about the crop insurance programs for grain sorghum. Sorghum is the least insured of the five major row crops. For 2008, grain sorghum was only insured 59 percent of its planted acres compared to 74 percent for corn and 76 percent for cotton. Price elections are a major influence on whether or not producers plant it. Because of how the Risk Management Agency sets our sorghum CRC price for the upcoming planting season, sorghum tends to be an afterthought to producers when it comes time to choose a crop mix. For the 2009 crop season, the corn RA price was set at $4.04, soybeans at $8.80, wheat at $8.77 and sorghum set at $3.56 per bushel for CRC. This sends a signal to farmers to plant anything but sorghum. Don't we want farmers to have an equal choice of coverage so that they can fairly choose which crops to grow? It is especially important to the drought-tolerant crops that are to be grown in semi-arid regions to have a fair shot at making it into the field.

It seems to me that we would want sorghum to be competitive with other crops. Choosing sorghum in environments like mine would prove to be much more beneficial considering our lack of rainfall. Unfortunately, many farmers will instead choose whichever crop offers the most gross profit potential offered by the insurance companies and possibly end up planting a crop that will not have the best chance at making it to harvest.

Sorghum is a water-sipping crop that provides excellent mulch and protection against soil erosion. This particular crop grows quite well in my region and provides a good overall bushels to the acre return. But instead of planting sorghum, farmers will continue to plant higher insured crops to protect themselves from a possible drought.

A good example of the insurance farming that goes on is in wheat. Wheat insurance price for the 2009 year is $8.77 per bushel. This caused many in my area to drill this crop directly after dry land corn or even after the previous wheat crop. This is not a good environmental choice for farmers. Why do it? It is simple. They get a guaranteed profit but not a guarantee that their crop will be raised to harvest.

If we can get RMA to come up with a price election methodology that can make sorghum price competitive to producers such as myself, then we may see a shift in acreage back to sorghum. This shift needs to occur, especially in the semi-arid parts of the country. Doing so will ultimately conserve our water table, provide more grain because we are planting a viable crop and provide the mulch needed in the plains states to keep our precious soil where it belongs.

I also want to take just a minute to talk about transitional yields. T-yields are used in lieu of actual yield history when producers are new to a crop. RMA needs a more transparent system of assigning T-yields. A new system should not penalize one crop against another. T-yields are influencing the planting of higher water use crops when data doesn't support such a decision.

I would like to thank the Subcommittee for the chance to testify and I would be happy to answer any questions you have.

[The prepared statement of Mr. Spillman follows:]

SUBMITTED STATEMENT OF MR. JARROD SPILLMAN, SORGHUM, WHEAT, CORN, SOYBEAN, SUNFLOWER AND COW-CALF PRODUCER, ON BEHALF OF THE NATIONAL SORGHUM PRODUCERS, HOXIE, KANSAS

NATIONAL SORGHUM PRODUCERS CROP INSURANCE TESTIMONY

Presented to:

House Agriculture Subcommittee on General Farm Commodities and Risk Management

April 22, 2009

1300 Longworth House Office Building Washington, D.C.

Presented by:

Jarrod Spillman
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NATIONAL SORGHUM
PRODUCERS

Introduction

On behalf of the National Sorghum Producers, I would like to thank the House Committee on Agriculture and this subcommittee for the opportunity to discuss federal crop insurance and its impact on the grain sorghum industry and my farm.

My name is Jarrod Spillman, and I farm near Hoxie in Sheridan County in Kansas. I raise sorghum, wheat, corn, soybeans and sunflowers in a diversified operation that also includes cow-calf pairs, custom manure hauling and custom farming.

NSP represents U.S. sorghum producers nationwide and our mission is to increase the profitability of sorghum producers through legislative and regulatory representation.

NSP supports the work put forth by this subcommittee in passing the 2008 Farm Bill. We support the current farm bill, but I wish to convey specific concerns about the crop insurance programs for grain sorghum. Crop insurance is a major component of the farm safety net for grain sorghum. Sorghum is a crop grown predominately in the semi-arid Great Plains, where weather volatility (lack of rain) is the major determinant in year-to-year yield variation. This testimony will focus on four areas of crop insurance as they relate to grain sorghum: price elections, premium ratings, expected county yields, and transitional yields. But first, we need to examine the current situation that sorghum producers are encountering.

Industry Overview

The Great Plains states produce the largest volume of grain sorghum, but the crop is grown from Georgia to California and South Texas to South Dakota. According to the National Agricultural Statistics Service, last year sorghum was produced in many of the states that you represent. This includes Kansas, Georgia, Mississippi, Colorado, South Dakota, Missouri, Texas, Iowa, Indiana, Oregon, North Carolina, Illinois, North Dakota and Ohio.

Over the past fifteen years, grain sorghum acreage has ranged from a high of 13.1 million acres in 1996 to a low of 6.5 million acres planted in 2005. Annual production from the last fifteen years has ranged from 795 million bushels to 277 million bushels, with an approximate value of 1.2 billion dollars annually.

The creation of the Conservation Reserve Program in the 1985 farm bill had a significant impact on the sorghum industry. Poor risk management programs have played a role also.

Today's sorghum acreage is one-third of its levels prior to the 1985 farm bill. It is a goal of the industry to increase producers' profitability and to bring acres back toward the pre-1985 farm bill

level. NSP expects that returning acreage to that level will help ensure necessary infrastructure to supply the needs of the ethanol industry, livestock industry and export markets.

In addition, forage sorghum utilized as silage, hay and direct grazing represents approximately an additional 5 million acres of production. The USDA reported that in 2008, 408,000 acres of sorghum were harvested for silage, producing approximately 5.6 million tons of silage.

The U.S. is the world's chief exporter of grain sorghum, and the crop ranks fifth in size as a U.S. crop behind corn, soybeans, wheat, and cotton.

Grain sorghum is typically exported to three main markets: Mexico, Japan, and the European Union (EU). While Mexico is typically the largest annual importer, last year the EU imported the most sorghum due to a drought in the areas than normally produce feed wheat and the EU ban on transgenic products. Sorghum is a non-transgenic crop. According to the April 9, 2009 World Agricultural Supply and Demand Estimate (WASDE), U.S. exports will account for 28 percent of this year's sorghum use.

The most important new market for grain sorghum is the ethanol industry. According to the latest WASDE report, ethanol production will account for one third of domestic grain sorghum usage. This is triple the amount of the 2007-08 crop year. This market has even more potential with the classification of grain sorghum as an advanced biofuels feedstock in the 2007 Energy Bill and 2008 Farm Bill.

In addition, the U.S. dominates world sorghum seed production with a 200 million dollar seed industry focused on 200,000 acres primarily in the Texas Panhandle.

Sorghum is a unique, drought tolerant crop that is a vital component in cropping rotations for many U.S. farmers.

Background on sorghum farmers' crop insurance use

Grain sorghum is the least insured of the five main row crops. For 2007, excluding CAT coverage, grain sorghum was only insured on 73 percent of its planted acres compared to 80 percent for corn and 92 percent for cotton. For 2008, grain sorghum was only insured on 59 percent of its planted acres compared to 74 percent for corn and 76 percent for cotton. Closer to home, grain sorghum was insured on only 73 percent of its planted acres in Kansas for 2008 compared to 83 percent of corn acres and 84 percent of wheat acres. (Exhibit 1.)

Part of the reason for low sorghum participation is that yields have dropped significantly because of the recent drought. Certain parts of the Sorghum Belt received the third lowest rain fall since the beginning of modern record keeping. Yields are so low in fact, that there is almost no yield

left to insure. Producers are very hesitant to purchase a policy that has limited coverage when they are already growing such a drought tolerant crop.

More importantly, producers plant sorghum because it is a self-insurance crop, meaning it takes less water and fewer inputs to produce a crop so it has less risk exposure. The plant goes dormant during periods of no rain, rather than dying as other crops do. I find it ironic that our crop's risk management policies are essentially discounted, when compared to other crops that are more risky to grow in the semi-arid Sorghum Belt.

Price Elections

Grain sorghum is not traded on a futures market, so Risk Management Agency (RMA) determines price elections. Crop insurance price elections are determined by a ratio of grain sorghum prices to corn prices. RMA currently uses two different time frames to determine this ratio. The first is for Actual Production History (APH) policies. The second is for revenue policies such as Crop Revenue Coverage (CRC) and Group Risk Income Protection (GRIP). Although the ratios may vary between the APH and revenue policies, they are fairly close and are based on RMA's use of Economic Research Service (ERS) models.

In the 2008 Farm Bill, RMA was instructed to work with five independent reviewers to establish a new methodology for implementing price elections for the 2010 crop year. This methodology was required to be transparent and replicable. As part of the Farm Bill language, RMA was required to supply the data used to compute price elections. RMA did not, in fact, supply the required information. Instead, information supplied to the independent reviewers simply referenced the fact that RMA receives its pricing data from ERS. This lack of information continues a "black box" mentality by RMA, under which prices are neither transparent nor replicable. RMA did not provide any of the models used by ERS to arrive at the current price elections for grain sorghum.

This might be overlooked if ERS had a proven track record of predicting grain sorghum prices. However, an analysis of grain sorghum price elections, as a ratio to corn price elections, from 1990 to 2009 shows that RMA using ERS models almost never accurately predicts the price ratio between corn and grain sorghum. An R-squared (R^2) value is used to measure how effective a model is at predicting an outcome. A value of *one* means the model is 100 percent accurate. Using ERS models, RMA only has an R-squared of 3/10,000 (that's three ten-thousandths *or* .03% correct) compared to the final price ratio as published by WASDE. An R-squared that low is, in reality, a zero, meaning that ERS models do not function appropriately with grain sorghum and have no ability to predict the price ratio between corn and grain sorghum.

Grain sorghum and confectionary sunflowers are the only crops that have price elections for revenue insurance products determined by a basis number. For example, the price used to

determine the CRC, RA, and GRIP price elections for corn is strictly the futures price of the applicable month based on the location of the policyholder. It does not take into account any basis (with basis being defined as the difference between cash and futures prices). The ERS model used by RMA incorporates basis for sorghum while no basis impact is used in price elections for futures-traded crops. The elimination of the basis in the price election is necessary for two reasons.

First, low basis areas for grain sorghum in the Texas and Oklahoma Panhandles, the center of the Sorghum Belt, may have greater cash grain sorghum prices than low corn basis areas in central Iowa, the center of the Corn Belt. Second, when comparing the revenue insurance price elections of corn, soybeans, and wheat with cash prices paid to farmers, all three crops significantly benefited by not being subject to a basis effect in their respective price elections. In 2006, 90 percent of soybean production, 86 percent of corn production, and 70 percent of winter wheat production were grown in states with negative basis for the crops. By having a price election above the cash price, these crops received an artificially high revenue guarantee. Using local elevator bids as of the week ending October 19, 2007, the third-largest county in corn production for 2006 (Kossuth, IA) had corn bids at $0.54 per bushel **below** the CBOT current month. Of the top 10 producing counties in 2006, the average corn basis was $0.37 per bushel below the CBOT current month.

From 2000 to 2006, the average October NASS corn price was $0.21 per bushel **below** the CRC harvest price for corn, and the average October NASS soybean price was $0.24 per bushel **below** the CRC harvest price for soybeans. During this same time frame, however, the October NASS sorghum price was only $0.07 per bushel below the CRC harvest price for sorghum. Even more telling is the comparison of NASS final marketing year prices compared to the CRC harvest price for corn and sorghum. From 2000 to 2006, corn averaged $0.05 per bushel **below** the CRC harvest price while sorghum averaged $0.06 per bushel **above** the CRC harvest price.

Currently there is no transparency in methods, no accuracy in basis, and a general crop insurance bias against planting sorghum. While RMA has shown a propensity to widen the ratio between corn and grain sorghum, sometimes with sorghum as low as 72 percent of the value of corn, RMA has never published a price election with sorghum over 96 percent of the value of corn.

This is not a new problem. In 1990, RMA "missed" the price election by 21 percent (93 percent at the end of the year compared to a price election of 72 percent). In 2006, RMA's published price election for grain sorghum was 90 percent of the value of corn while the marketing year closed with sorghum at 108 percent of the value of corn. Our request is that this committee consider the great benefits of sorghum to the water table, to the environment and to producers and in turn, hold RMA – specifically ERS – accountable to their promise to increase transparency in setting sorghum price elections.

Premium Ratings

The second key reason producers do not purchase grain sorghum crop insurance policies is the bias in premium ratings. I want to use some very specific examples from my home county in Kansas, Sheridan County. I think this will best illustrate the bias that exists in the current RMA premium ratings system against grain sorghum. A new producer in Sheridan County would receive a transitional yield (T-yield) of 65 bushels per acre for corn and 62 bushels per acre for sorghum. This means that the producer would use these yields to determine his insurance coverage for the year. Thus, a 65 bushels per acre yield with a 65 percent CRC insurance policy would have 42.3 bushels per acre of coverage (65 bu/ac x 0.65). Now, when this producer purchases his crop insurance, his corn 65 percent CRC policy would cost him 6.9 percent. The same sorghum 65 percent CRC policy, however, would cost him 8.2 percent. If the losses of sorghum justified this higher premium rate, then the insurance should certainly cost more. However, they do not.

Using the last five crop years (2004 – 2008) from RMA published statistics, the loss ratio in Sheridan County for corn has averaged 1.35 (meaning for every $1 in premium received, $1.35 in losses was paid out). Grain sorghum, on the other hand, had only a loss ratio of 1.19. The standard deviation of the loss ratios is also smaller for grain sorghum (1.22) compared to corn (1.38). In fact, the largest loss ratio in the five years belongs to corn in 2006 with a loss ratio of 3.47. The average loss ratio for sorghum is only 12 percent lower than corn, even with sorghum's risk-averse nature. When conditions are particularly dry, farmers tend to plant sorghum instead of corn. Because sorghum needs fewer inputs, planting sorghum helps protect cash flow and corn yield history.

Remember, that the effective premium numbers are for new producers. If you are a producer with some loss history, your grain sorghum premiums will likely be even higher. This steers you even more toward insuring a higher water use crop when sorghum is more drought tolerant, and in effect, more risk averse.

Expected County Yields

Expected county yields are used in the area-wide insurance policies now offered by RMA – Group Risk Plan (GRP) and Group Risk Income Protection (GRIP). While, in 2006, only three percent of sorghum's insured acres were covered by these policies, the producers using the policies find them to be the only affordable insurance they can purchase due to decimated yield histories from prolonged drought. RMA, however, uses short-term weather fluctuations to vastly change expected county yields from year to year. The expected county yield is a 30-year weighted trend yield that is used to calculate losses for each county in determining indemnities for area-wide policies. While farming technology and seed genetics has improved vastly in the

last 30 years, RMA determines expected county yields based upon short-term weather patterns and not long-term trends.

As noted in Exhibit 1, Sheridan County, Kansas has increasing trend yields calculated using a variety of methods except for the short-term dominated method used by RMA. This type of "X-pattern" between RMA's expected county yields and other yield trend methods demonstrates that RMA is not using a true long-term trend for yields. This then runs counter to the whole philosophy of area-wide coverage – using long-term trends for insurance coverage.

In reference to Map 1, RMA cannot justify increasing an expected yield by 3 percent in one county and then decreasing the expected yield by over 30 percent in an adjoining county. Long-term weather patterns, farming technology, and genetics span across county and state lines. Producers who have had their yield histories destroyed by a short-term drought now have their long-term area-wide coverage decreased dramatically for the same reason. These large variations make the use of GRIP and GRP very variable over the Sorghum Belt and do not reflect the true nature of the insurance policy. GRIP and GRP are used to insure county-wide variability. That variability will include weather, but that weather should not be the reason for large changes in expected county yields. The expected county yields should be based upon a log function that accounts for increased yield due to technology and genetics. University researchers have developed such a function that may be further simplified as research is conducted on trend yields.

Transitional Yields

Because transitional yields, better known as T-yields, are used in lieu of actual yield history, they typically affect new producers of a crop and large producers who add land to their operation. RMA must utilize a more transparent system of assigning T-yields. A new system should not penalize one crop against another.

Kay County, Oklahoma, is a good example of RMA's lack of transparency in assigning T-yields. In Kay County in 2006, actual corn yield decreased from a high of 106.8 bushels per acre in 2003 to 34.5 bushels per acre in 2006. Based upon their history of reacting to short-term yield patterns, RMA should have decreased the T-yield for Kay County. However, RMA increased the T-yield by 48 percent from 52 bushels per acre in 2006 to 77 bushels per acre in 2007. Meanwhile, sorghum yields remained flat and RMA did not adjust T-yields for sorghum between 2006 and 2007, reflecting the flat-yield trend from 2003 to 2006.

Corn yield decreased, but RMA increased the T-yield, while holding the sorghum yield flat. T-yields are influencing the planting of higher water use crops when the data doesn't support such a decision. Again, RMA's methodology is biased against sorghum.

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Conclusion

Crop insurance is a critical part of the safety net for sorghum producers. However, with only 59 percent of sorghum acreage covered in 2008 by a USDA risk management product, I ask this Committee to seriously discuss why this situation exists and implement policy to improve RMA's management of sorghum products. NSP believes that increasing the acreage covered by a USDA risk management product is good, sound water and energy policy. USDA's risk management products can and should be improved for sorghum. As addressed in my comments, sorghum must be insured equitably by addressing the issues of price elections, premium ratings, expected county yields, and transitional yields.

I would like to thank the Subcommittee for the chance to testify, but also to thank them for the work in the 2008 Farm Bill on enterprise units. The increase in the subsidy of enterprise units, which meant a decrease in farmer premiums, has made that an attractive option for many producers who are willing to take on a little more risk. Again, thank you for the opportunity to testify today.

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Exhibit 1.

Percent of 2008 Planted Acres Covered by Crop Insurance Excluding CAT Coverage

State	Corn	Cotton	Sorghum	Soybeans	Wheat
Alabama	66%	91%	16%	68%	38%
Alaska	#N/A	#N/A	#N/A	#N/A	#N/A
Arizona	9%	64%	5%	#N/A	22%
Arkansas	25%	6%	25%	29%	25%
California	2%	23%	#N/A	#N/A	18%
Colorado	85%	#N/A	72%	#N/A	82%
Connecticut	41%	#N/A	#N/A	#N/A	#N/A
Delaware	63%	#N/A	#N/A	64%	30%
Florida	13%	81%	#N/A	54%	34%
Georgia	43%	78%	13%	48%	39%
Idaho	4%	#N/A	#N/A	#N/A	51%
Illinois	74%	#N/A	33%	66%	39%
Indiana	66%	#N/A	#N/A	63%	25%
Iowa	85%	#N/A	#N/A	86%	17%
Kansas	83%	82%	73%	71%	84%
Kentucky	60%	#N/A	31%	65%	40%
Louisiana	51%	42%	59%	57%	45%
Maine	10%	#N/A	#N/A	#N/A	#N/A
Maryland	60%	#N/A	#N/A	60%	26%
Massachusetts	30%	#N/A	#N/A	#N/A	#N/A
Michigan	50%	#N/A	#N/A	56%	42%
Minnesota	87%	#N/A	#N/A	91%	86%
Mississippi	40%	36%	72%	55%	36%
Missouri	67%	16%	28%	55%	29%
Montana	33%	#N/A	#N/A	#N/A	84%
Nebraska	87%	#N/A	55%	87%	86%
Nevada	#N/A	#N/A	#N/A	#N/A	9%
New Hampshire	25%	#N/A	#N/A	#N/A	#N/A
New Jersey	48%	#N/A	#N/A	44%	18%
New Mexico	28%	82%	45%	#N/A	53%
New York	20%	#N/A	#N/A	31%	30%
North Carolina	70%	86%	13%	65%	51%
North Dakota	94%	#N/A	#N/A	97%	94%
Ohio	67%	#N/A	#N/A	64%	33%
Oklahoma	64%	78%	55%	38%	64%
Oregon	8%	#N/A	#N/A	#N/A	68%
Pennsylvania	38%	#N/A	2%	47%	21%
Rhode Island	6%	#N/A	#N/A	#N/A	#N/A
South Carolina	65%	81%	13%	59%	57%
South Dakota	96%	#N/A	47%	96%	90%
Tennessee	58%	51%	27%	64%	25%
Texas	69%	93%	55%	58%	60%
Utah	5%	#N/A	#N/A	#N/A	45%
Vermont	50%	#N/A	#N/A	#N/A	#N/A
Virginia	60%	86%	#N/A	76%	46%
Washington	4%	#N/A	#N/A	#N/A	68%
West Virginia	53%	#N/A	#N/A	64%	14%
Wisconsin	59%	#N/A	#N/A	67%	41%
Wyoming	53%	#N/A	#N/A	#N/A	79%
United States	**74%**	**76%**	**59%**	**72%**	**70%**

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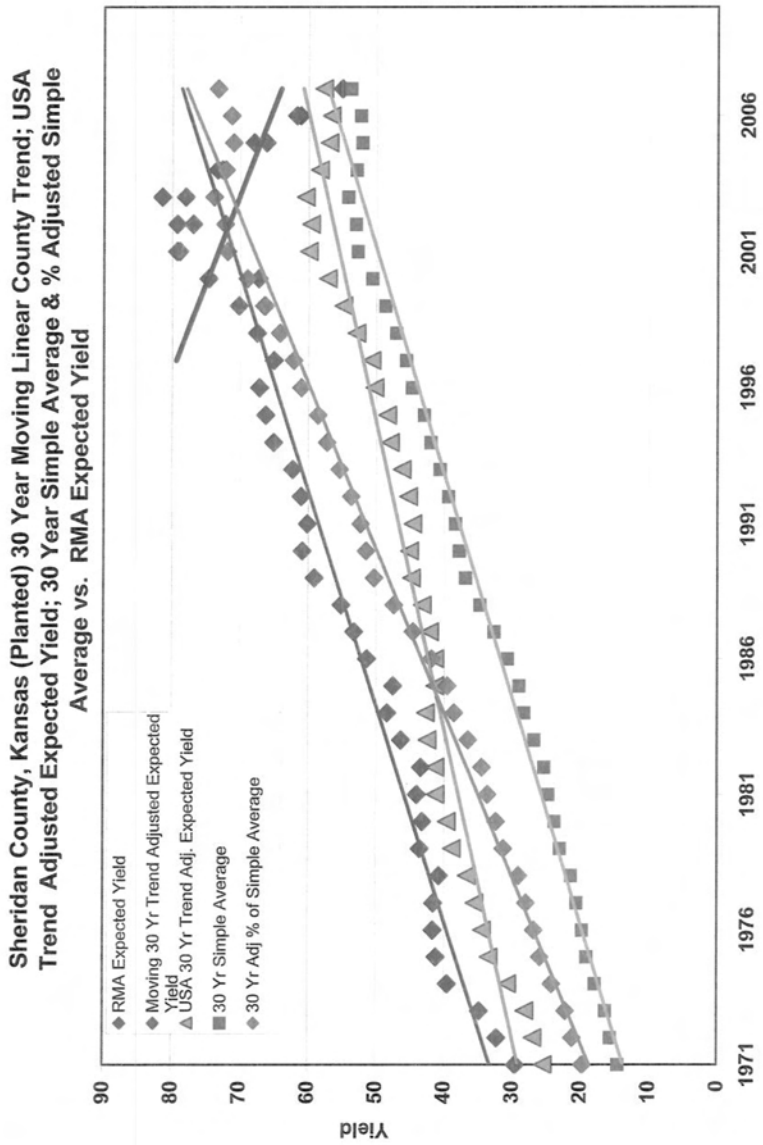
Exhibit 2.



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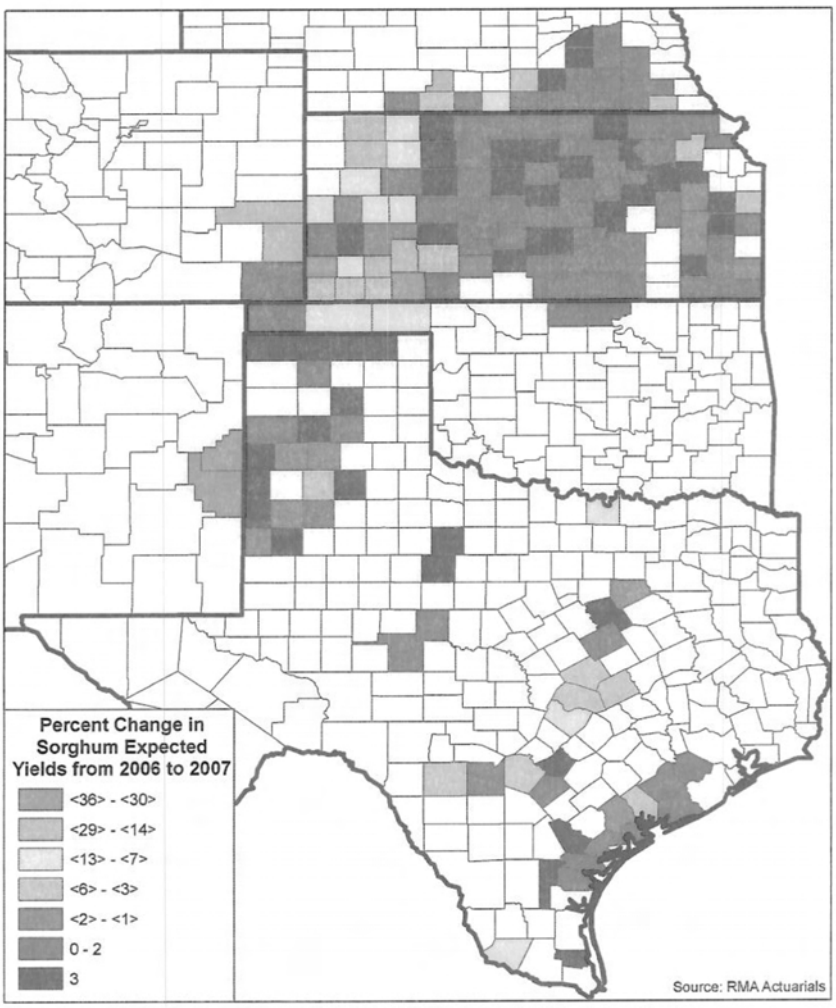
Map 1

Percent Change in Expected Yields



Mr. MARSHALL. Thank you, Mr. Spillman.
Mr. Owen.

STATEMENT OF JOHN OWEN, RICE PRODUCER, AND PRESIDENT, NORTHEAST LOUISIANA RICE GROWERS ASSOCIATION, ON BEHALF OF USA RICE FEDERATION, RAYVILLE, LOUISIANA

Mr. OWEN. Chairman Marshall, Congressman Moran, Members of the Subcommittee, thank you for holding this hearing. My name is John Owen and I am a rice farmer from Rayville, Louisiana. I am producer member of the USA Rice Federation and also serve as President of the Northeast Louisiana Rice Growers Association. I farm a 2,000-acre rice farm in partnership with my wife, Ann, and 2009 will mark my 27th crop.

On behalf of the USA Rice Federation, I appreciate the opportunity to testify before this panel concerning the Federal crop insurance program. The USA rice industry contributes substantially to the U.S. economy, jobs creation and the nutritional well-being of consumers both at home and abroad while also yielding significant environmental benefits including critical habitat for migratory waterfowl. Because American rice farmers confront many serious price and production risks, the USA Rice Federation strongly supports access to meaningful risk management tools for rice farmers under the Federal crop insurance program.

Unfortunately, to date, the vast majority of U.S. rice farmers are left either uninsured or underinsured under the Federal crop insurance program with insured producers largely locked into catastrophic risk protection coverage or the lowest level of buyout coverage. Moreover, since the level of benefit provided under the new standing disaster program directly corresponds to the level of benefit provided under crop insurance, rice farmers are penalized twice. The first four charts of my written testimony illustrate how rice has fared under the crop insurance program. The fifth chart demonstrates how this will impact rice producer benefits under the new standing disaster program. Yet low participation and low coverage levels of rice farmers are due not to imprudence on the part of rice farmers but to the price and production risks that are unique to rice production. Existing policies that are designed and work well for other crops simply have not worked well for rice.

The good news is, I am not here today to lay this problem at your doorstep for you to try and fix. Rather, I am pleased to report that the USA Rice Federation is in the process of working to develop a complement of risk management tools designed specifically for the rice farmer under the policy development procedures established by the Federal Crop Insurance Act. Because we are only in the early stages of this process and bound by confidentiality requirements, I cannot go into details concerning what the policies might look like if we are successful in our efforts but I can say we are working to provide at least some short-term options for the 2010 crop year and more long-term solutions beginning with the 2011 crop year.

The Federation is exploring this avenue for a number of important reasons. First, the traditional safety net program of marketing assistance loan and loan deficiency payments and countercyclical payments provide little protection in the wake of last year's run-

up in production costs. Second, the acre program has not offered a viable alternative for rice farmers, and third, direct payments were reduced in the 2008 Farm Bill and were under siege again this year in the budget process. Rice farmers need a reliable safety net, so adding another tool for rice farmers to manage risk makes sense. The USA Rice Federation also appreciates the Federal crop insurance program can afford producers the opportunity to tailor risk management tools to their actual risks on the individual farm and to fully address losses under the terms of the policy while doing so in a manner that protects producer privacy, is understandable to the taxpayer and is in full compliance with our commitments under WTO.

Two more points I would like to make. First, given the broad statutory authority and expertise the Risk Management Agency has, we believe that Congress and the Administration should encourage the agency to evaluate how the Federal crop insurance program is working crop by crop and region by region, establish goals how we want these crops and regions to be better served and then establish a strategic plan to aggressively meet the goals set within 5 years. Having a strong crop insurance program that works for producers of all crops and all regions is important.

Second, I want to thank this panel for standing firm against more budget cuts to the farm safety net including crop insurance. As pie charts in my written testimony illustrate, the farm safety net comprises just one-quarter of 1 percent of the Federal budget and only 16 percent of the farm bill itself. We sustained cuts in the 2008 Farm Bill and we cannot afford more.

On a related note, as we work to develop policies that work for rice farmers, we would urge the Administration to exercise caution in the renegotiatation of the standard reinsurance agreement so as not to undermine either producer or provider participation in the program. We need to move forward, not backwards.

In sum, Federal crop insurance is an important tool for many farmers. For a good many lenders, it is the collateral that allows them to make agricultural production loans. We are working to make crop insurance an invaluable tool for rice growers as well.

Thank you again for the opportunity to offer testimony here today. I would welcome any questions that the Committee might have.

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

SUBMITTED STATEMENT OF MR. JOHN OWEN, RICE PRODUCER, AND PRESIDENT, NORTHEAST LOUISIANA RICE GROWERS ASSOCIATION, ON BEHALF OF USA RICE FEDERATION, RAYVILLE, LOUISIANA

Chairman Boswell, Congressman Moran, members of the Subcommittee, thank you for holding this hearing.

We appreciate the opportunity to offer testimony before the Subcommittee on General Farm Commodities and Risk Management concerning producer views on the effectiveness and operations of the Federal Crop Insurance Program.

My name is John Owen and I offer this testimony on behalf of the USA Rice Federation. I am a producer board member of the Federation from Rayville, Louisiana and also serve as President of the Northeast Louisiana Rice Growers Association. I operate a 2,000 acre rice farm in partnership with my wife Anne. The farm has been in my family for three generations and our sons will make the fourth generation to operate our farm.

Summary

The U.S. rice industry contributes substantially to the U.S. economy, creates jobs, and provides both nutritional and environmental benefits. American rice farmers also confront many serious price and production risks.

As such, the USA Rice Federation strongly supports the provision of meaningful risk management tools to rice farmers under the Federal Crop Insurance Program.

While the vast majority of U.S. rice producers are severely underinsured under the current mix of policies offered by the Federal Crop Insurance Program, with many producers uninsured, locked in catastrophic risk protection coverage, or subscribing to very low-level buy-up coverage and, as a consequence, also penalized under the new standing disaster program, the USA Rice Federation is currently initiating efforts to develop effective risk management tools for rice producers under procedures established by the Federal Crop Insurance Act.

The USA Rice Federation appreciates that the Federal Crop Insurance Program can afford producers the opportunity to tailor risk management tools to actual risks on their individual farms and to fully address losses under the terms of the policy while doing so in a manner that protects producer privacy, is understandable to taxpayers, and is in full compliance with our commitments under the WTO.

Accordingly, the USA Rice Federation believes the Congress and the Administration should take stock of how crops and regions of the country are being served under the program, establish clear objectives to meet the unique risk management needs of all producers, and create a strategic plan to aggressively meet the objectives within a defined period of time, using the broad existing authorities conferred to the Risk Management Agency under the Federal Crop Insurance Act.

The USA Rice Federation strongly opposes any reconciliation instructions to or assumed savings from the Agriculture Committees as part of the fiscal year 2010 budget resolution, which would erode the current farm safety net, including crop insurance, and we commend the members of this panel and the full Committee for taking a strong stand in this regard.

We would also urge the Administration to exercise caution in the renegotiation of the Standard Reinsurance Agreement so as not to undermine either producer or provider participation in the program, which, regrettably, we believe the USDA budget proposal for fiscal year 2010 would do.

In sum, the USA Rice Federation recognizes the value of crop insurance to producers of many crops and we are working to make the program work as effectively for America's rice farmers. Toward this end, we would greatly appreciate the help of both this Committee and the Risk Management Agency.

USA Rice Federation and U.S. Rice Production Background

The USA Rice Federation represents the rice producers, millers, merchants, and other drying, marketing, and handling facilities that comprise much of the multibillion dollar U.S. rice industry, which generates billions of additional related economic activity and thousands of jobs throughout the industry and in related sectors.

Rice is planted on about 3 million acres in six of the United States, including Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain, to aromatic and specialty varieties. Last year, U.S. farmers produced a nearly $3.4 billion rice crop.

Today, nearly 85 percent of all the rice that is consumed in the United States is produced here at home. And, despite trade barriers to exports, erected by both the U.S. and foreign governments, the United States remains the largest non-Asian exporter of rice and the third largest exporter worldwide although we account for less than two percent of the world's total production, behind Thailand, Vietnam, and Pakistan and before India.

The United States' top export markets for rice include Mexico, Japan, Iraq, Haiti, Canada, and most of Central America.

In terms of domestic use, per person consumption of rice here in the United States is 25 pounds per year, with 53% of U.S. rice bound for direct human food use and 16% dedicated to processed foods, 15% for beer, 14% for pet food, and the remaining for industrial uses.

With the 2005 Dietary Guidelines for Americans and MyPyramid recommendation, published jointly by the Departments of Agriculture and Health and Human Services, calling for 5 to 10 servings of grains daily, with half the servings coming from whole grains, such as brown rice, and 45 to 65 percent of calories coming from complex carbohydrates, such as rice, rice is a wholesome source of nutrition, with no sodium, no cholesterol, no glutens, and no trans or saturated fats.

Beyond the substantial economic and nutrition benefits of rice is the environmental dividend from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependant species. All the major rice-production areas in the U.S. correspond with

important areas of waterfowl activity during winter months. Rice-growing areas provide surrogate habitats for hundreds of wildlife species that rely on wetland conditions for species survival, some of which are currently or could be threatened if not for the wetland environments provided by flooded rice fields. Without rice farming, wetland habitats in the U.S. would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl, shore birds, and a host of other wetland-dependant species.

Crop Insurance and SURE Experience

While the USA Rice Federation recognizes the vital importance of the Federal Crop Insurance Program to many crops, such as corn, wheat, soybeans, and cotton, the program has, to date, been of limited value to rice producers.

Rice is an irrigated crop. Rice farmers generally "insure" their production against drought, for example, not through insurance but through reliable access to adequate water supply. Conversely, rice also has a fairly strong natural defense mechanism against most flooding. As a consequence, there are fewer instances of production losses relating to drought and flooding and such losses tend to be shallower when they do occur, meaning lower yield variability and a smaller probability of an insurable event under policies generally made available under the Federal Crop Insurance Program.

Nevertheless, U.S. rice farmers do face serious production perils due to weather, including, at times, severe quantity and quality losses and increased production costs. For instance, hurricanes and associated high winds and rain that resulted in the shattering and lodging of rice, saltwater intrusion and excess moisture on rice fields, and crop disease all took their toll last year in much of rice country, including Louisiana, Arkansas, Mississippi, and Texas.

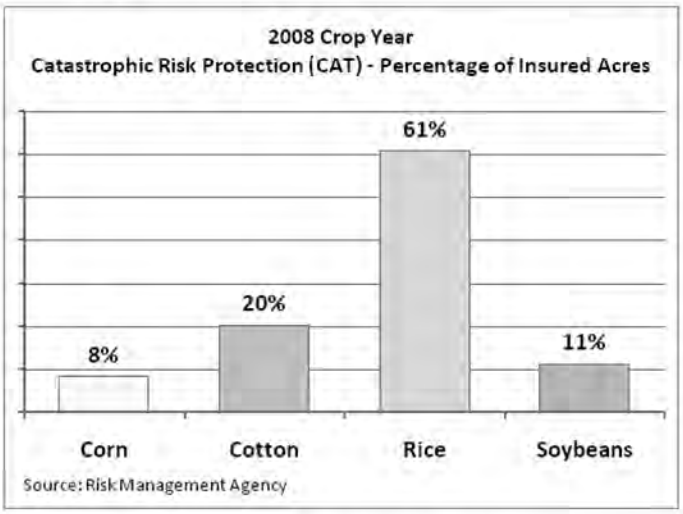
Unfortunately, when severe losses occur, as happened last year, most U.S. rice farmers find themselves either underinsured or uninsured. To the extent that a rice producer purchases crop insurance at all, the coverage level purchased is commonly the lowest level of coverage, known as catastrophic risk protection or CAT coverage. CAT coverage, which can be obtained for an administrative fee, requires that a 50 percent loss occur before an indemnity will be triggered with respect to any losses above and beyond the 50 percent, and then at only 55 percent of the value of the crop, or about 27 cents on the dollar. Buy-up or additional coverage, offering protection above the CAT coverage level, has not been viewed as cost effective for most rice farmers who operate on small margins.

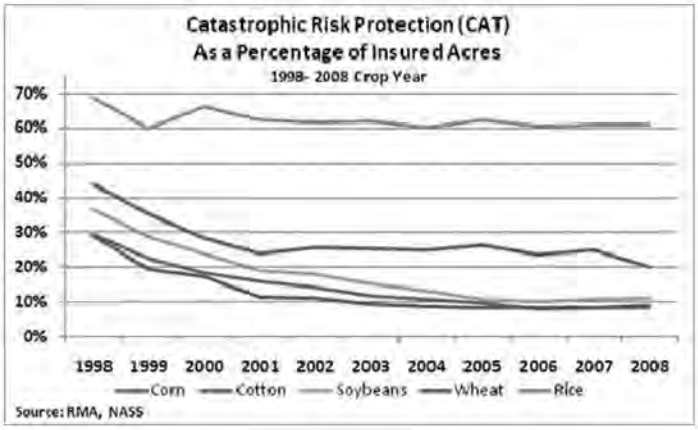
Importantly, this is not imprudence on the part of rice producers but rather a rational economic decision based on cost effectiveness, not unlike a homeowner who opts not to purchase flood insurance since his or her home is not in a flood plain. It does not mean that the homeowner will never suffer flood damage, nor does it mean that the homeowner does not face perils outside the coverage made available under the policy. It simply means that the homeowner, in working to make ends meet, had to make choices within his or her budget. The same is true for a rice producer.

In short, the coverage available under the current mix of Federal Crop Insurance Program policies is not as well suited to rice farmers as compared to producers of other crops. The amount of buy-up or additional coverage above CAT level coverage purchased by producers is strong evidence. For instance, buy-up coverage constitutes 92 percent of all insured corn acres, meaning only 8 percent is covered at the CAT coverage level. Moreover, fully 70 percent of

corn acreage is covered at levels of 70/100 or higher, meaning a 100% indemnity triggers on production losses above 30 percent. Conversely, for rice, 61 percent of insured acres are protected under minimum level CAT coverage, and 72 percent of insured acres are at the minimum level of buy-up, 50/100 coverage, or less, with 50/100 coverage meaning a 100% indemnity triggers on production losses above 50 percent. Thus, roughly three-quarters of U.S. rice farmers are underinsured.

The chart and graph, immediately below, offer a comparison between rice and other major crops in terms of their reliance upon the lowest level of crop insurance coverage, catastrophic risk protection, historically and in the 2008 crop year.





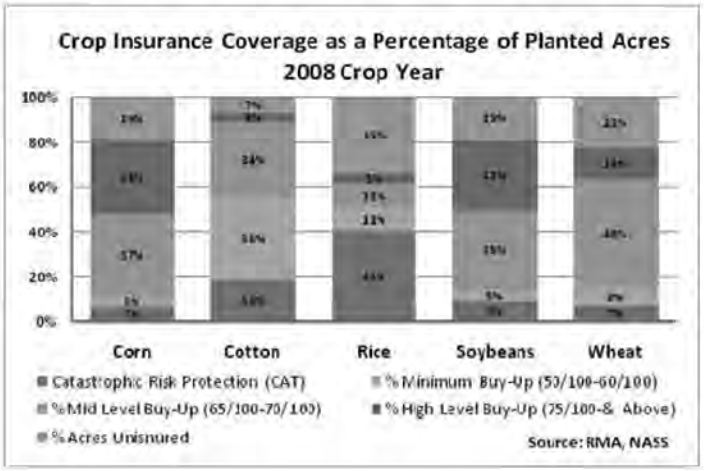
Beginning in 1998, Congress passed a series of ad hoc emergency economic relief bills, and the Clinton Administration initiated new levels of incentives for producers to purchase buy-up coverage beyond that which the 1994 crop insurance reform legislation had provided.

The effort culminated in the passage of the Agricultural Risk Protection Act, signed into law in January of 2000. The bill substantially increased the buy-up coverage incentives to encourage greater participation and higher coverage levels.

Since 2000, virtually all major field crops have seen a dramatic increase in the purchase of buy-up coverage at higher coverage levels. The percentage of acres covered by CAT coverage for corn and wheat, for examples, has correspondingly dropped from nearly 30% in 1998 to less than 10% in 2008. Cotton CAT coverage has dropped from 45% to under 20%.

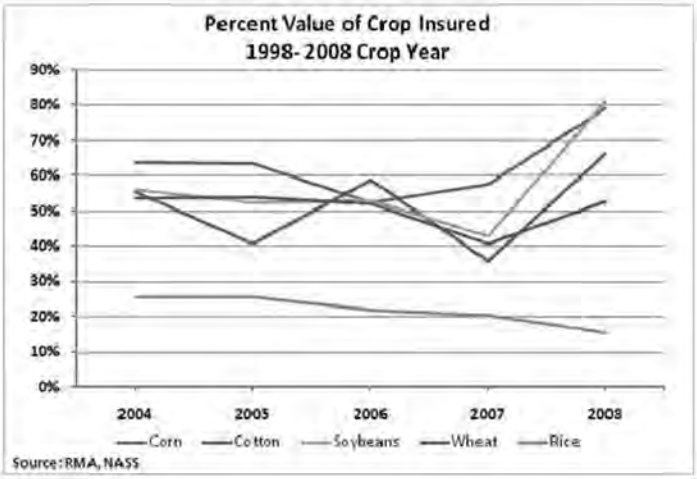
Rice, however, is the one very notable exception to this trend as CAT coverage in 2008 was still the predominate policy for rice farmers, covering 61% of all insured acres.

Plainly, current buy-up policies for rice are not working as Congress intended. The unfortunate result, as demonstrated in the chart, immediately below, is that rice farmers have not benefited from the Agricultural Risk Protection Act as have the producers of other crops.



Comparing the levels of buy-up coverage purchased by crop, it becomes obvious that rice is at a disadvantage. Only 27% of rice acres were covered by buy-up coverage in 2008, with only 5% at the higher levels of buy-up coverage at 75% or more. This is especially problematic for rice given that, as noted earlier, production losses in rice tend to be shallower losses.

Consequently, as the graph, below, clearly demonstrates, with so much of rice acreage insured under CAT coverage and with that acreage which is covered under buy-up policies generally covered at the lowest levels of coverage, only a very small portion of the total value of the U.S. rice crop is insured.



In 2008, the nation's corn crop had an estimated value (NASS estimate) of $47 Billion and the total liability for insurance covering corn was nearly $38 Billion, meaning more than 79% of the value of the crop was insured. The value of soybeans insured in 2008 was even higher, at more than 81%.

Contrast this to rice, where in 2008, we had a crop valued at $3.4 billion, but only $525 million – or less than 16% -- was insured.

Compounding the inequity in the system for rice farmers is the fact that the newly created standing disaster program, known as SURE, is tailored to compliment the Federal Crop Insurance Program by providing higher levels of assistance under the SURE program to producers electing higher crop insurance coverage levels. The higher the crop insurance coverage level, the higher the SURE benefit. Thus, rice farmers suffer twice under the system. First, they lack effective, affordable crop insurance, thus electing the lowest coverage available, if any at all. Second, they are then penalized under the SURE program by receiving the lowest protection that corresponds with lowest crop insurance coverage. In fact, Congress acknowledged this inequity in the recently passed economic stimulus by imputing higher levels of coverage to producers electing CAT coverage for purposes of calculating SURE benefits for the 2008 crop year.

Perhaps the best way to illustrate this compounding effect is by using the same "percent of value of the crop covered" statistic from above.

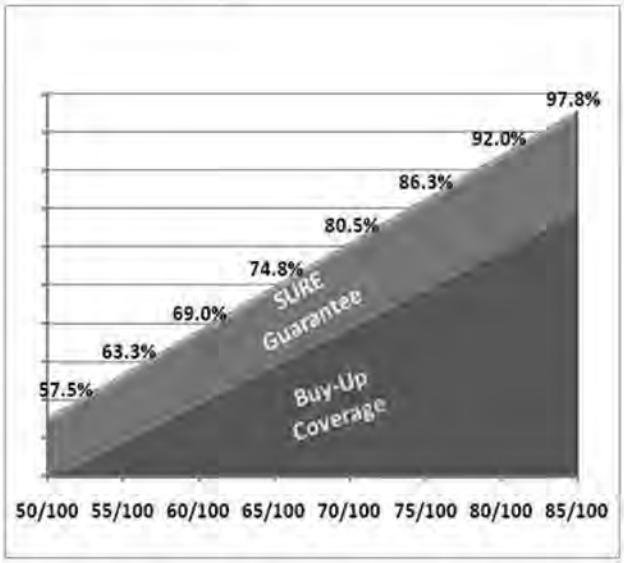
SURE is a fairly complex program in terms of how it works. But the essence of it is that the dollar of crop insurance coverage on a farm is multiplied by 115% to arrive at the SURE Guarantee. Because crop revenue and insurance benefits are counted against the producer's SURE guarantee, the value of the SURE program is essentially the SURE Guarantee less the crop insurance coverage.

Accordingly, if a producer has 50% of the value of his or her crop covered by insurance (i.e., a 50/100 buy-up policy, a giant leap up for many rice farmers), then the SURE Guarantee would be 57.5% and the potential value of the SURE program would be 7.5% of the value of the crop.

In contrast, if a producer has 75% of the value of the crop covered by insurance, then the SURE Guarantee increases to 86.25%, meaning the potential value of the SURE benefit is 11.25% of the value of the crop.

On this basis, it is obvious that the primary beneficiaries of the new SURE program will be the exact same producers for whom crop insurance has proved such an effective risk management tool.

SURE Benefit Increases with Coverage



While the USA Rice Federation appreciates the motive behind SURE to encourage producers to insure at higher levels and reward those producers who do, we are concerned that there is something very wrong about creating a disaster program to fill the void left by crop insurance in a manner that provides the least benefit to those for whom crop insurance also provides the least.

A final issue of concern is the rating of policies for rice and, perhaps, for the southern region of the country, generally, which determines the premiums a producer pays. Access to quality insurance coverage is predicated first and foremost on the actuarially sound rating of policies based upon the level of risk insured. Yet, unwarrantedly high rates for rice policies have been an impediment to producer participation and election of higher coverage levels.

Given the limited resources available to the Risk Management Agency, we believe that evaluating and adjusting rates for crop policies on a broad scale would be more cost effective to the agency and more beneficial to the producer than the piecemeal approval of discounts and re-ratings based on certain practices which, if they reduce risk, should already be factored into the rating of a policy.

Crop Insurance and SURE Going Forward

With loan rates under the Marketing Assistance Loan program and target prices under the Countercyclical Payment Program both at levels well below current costs of production, with the new ACRE program not a viable option for rice, and in view of reductions last year in the Direct Payment Program (currently the only component to the three piece safety net providing support to rice producers), the USA Rice Federation determined that efforts must be undertaken to ensure rice producers have affordable access to quality crop insurance coverage to help manage risks.

Toward this end, we are pleased to announce that we are currently in the preliminary stages of working to, first, develop at least short term insurance options for rice farmers for the 2010 crop year and to, second, develop some more comprehensive, long term options for rice farmers for the 2011 crop year and beyond.

Because we are only in the beginning stages of the process and we are bound by confidentiality requirements concerning the proprietary information of other parties, I am not at liberty to provide specifics concerning the policies under consideration. However, given that the Congress established and refined a process by which new insurance policies may be submitted to and approved by the Risk Management Agency, we believe it is appropriate to bring our efforts to your attention. We are very hopeful that this endeavor will result in a set of affordable risk management tools that will effectively work for America's rice farmers.

Yet, rice is just one crop of many where crop insurance policy options fall short relative to those options available to other crops. As such, the USA Rice Federation firmly believes that the Congress and the Administration should encourage the Risk Management Agency and the Federal Crop Insurance Corporation Board of Directors to use existing authorities to take stock of how producers are served under the program, crop by crop and region by region, taking into consideration commonly elected coverage levels, participation rates, and policy ratings, establish target levels for participation and coverage within a certain period of time, and establish a strategic plan to meet agency and board targets within this timeframe. We do not doubt that the agency and the board possess both the will and the talent to undertake and achieve this objective with the support and encouragement of Congress and the Administration.

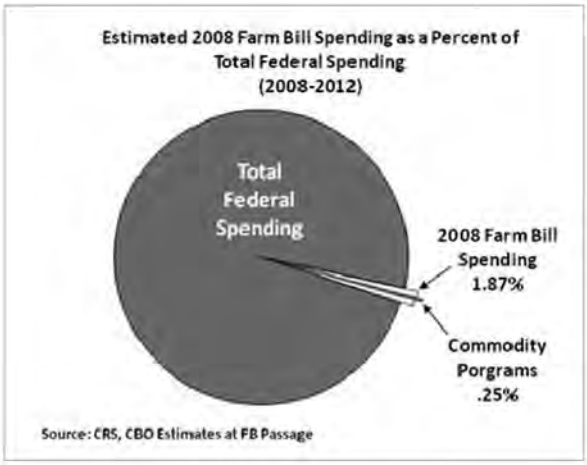
Budget and Standard Reinsurance Agreement Renegotiation

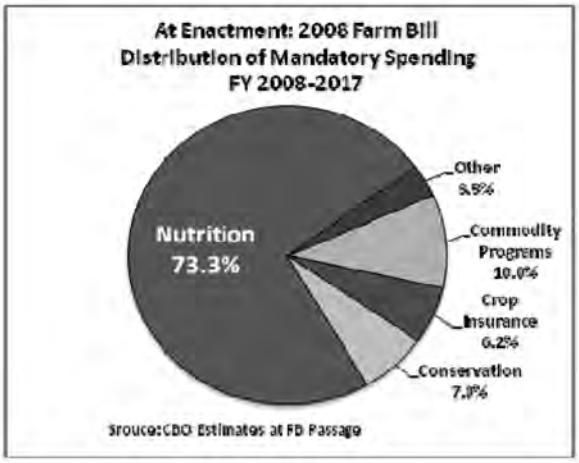
Finally, the USA Rice Federation wishes to convey its gratitude to this panel and to all the members of House Agriculture Committee for your strong "views and estimates" letter, presented to the House Budget Committee, in which you express your opposition to

reconciliation instructions to or assumed savings from the programs within your jurisdiction under the budget resolution for fiscal year 2010, including crop insurance.

We would observe that the farm safety net, including crop insurance, already constitutes less than one quarter of one percent of the total federal budget and just 16 percent of the total Farm Bill budget, having been cut by $7.4 billion during consideration of the 2008 Farm Bill.

The two pie charts, immediately below, illustrate the farm safety net's share of total federal spending and total Farm Bill spending, respectively.





We also understand that the 2008 Farm Bill authorizes the renegotiation of the Standard Reinsurance Agreement (SRA), the contractual agreement between the Risk Management Agency and approved insurance providers. While we appreciate efforts to ensure that the program is run efficiently, we are concerned that any renegotiation of the SRA not retard future progress or even set back the gains made since passage of the Agricultural Risk Protection Act of 2000 by eroding producer or private industry participation in the program.

The President's fiscal year 2010 budget proposal to cut crop insurance was alarming due to both the nature and the degree of the cuts. The significant increases in farmer paid premiums under the proposal would reverse much of the progress achieved since 2000 and sharply set back rather than advance the goal of increasing producer participation, particularly at higher levels of coverage.

Moreover, we fear that the savings achieved in the delivery system could very well result in the attrition of approved insurance providers and agents, especially in underserved regions of the country. Private delivery of crop insurance is important to producers in a number of respects, not least of which is the timely receipt of an indemnity when a producer needs it most. Timeliness of benefits under *ad hoc* assistance programs and the new standing disaster program has been a serious issue, with producers often waiting more than a year after an event to receive the help they need.

Finally, we appreciate the fact that the Federal Crop Insurance Program affords producers the opportunity to tailor risk management tools to the actual risks on an individual farm, to address losses fully under the terms of the policy, and to fully protect producer privacy. We trust that this panel, the full Committee, and the Congress will work to safeguard this program which has proved indispensable to many producers while holding promise for others.

We hope to make the Federal Crop Insurance Program work for America's rice farmers.

Thank you once again for the opportunity to present testimony before this panel.

Mr. MARSHALL. Thank you, Mr. Owen.
Mr. Robichaux.

STATEMENT OF MICHAEL ROBICHAUX, SUGARCANE FARMER, ON BEHALF OF THE AMERICAN SUGAR CANE LEAGUE AND THE LOUISIANA FARM BUREAU FEDERATION, FRANKLIN, LOUISIANA

Mr. ROBICHAUX. Mr. Chairman, Committee Members, thank you for allowing me to testify today. My name is Michael Robichaux. I am a fourth-generation sugarcane farmer from Franklin, Louisiana. My partner and I farm 2,800 acres of sugarcane, and I appear before you today to discuss the effectiveness of crop insurance for sugarcane farmers in Louisiana. I am representing the American Sugar Cane League, the Louisiana Farm Bureau Federation, and my testimony reflects the views of sugarcane farmers in my state.

Sugarcane differs from other annual crops. It has a 3 to 5 year growth cycle, and our plantings are staggered so that we plant about 25 percent of our acreage every year. Our crop insurance purchases are made in September after planting and before commercial harvest season begins. We certify our insured acres in the spring and we do not have replant coverage. About 80 percent of our Louisiana sugarcane acres are insured but mostly only with catastrophic (CAT) coverage. Few farmers purchase buy-up levels because APH premiums are too high for the coverage and 75 percent is the highest coverage you can purchase. CAT is not a viable coverage level and farmers buy CAT solely to maintain eligibility for ad hoc disaster assistance programs. We try to increase buy-up purchases by developing a GRP policy through the 508(h) process. It was released in 2008 and offers a maximum coverage level of 90 percent and premiums no higher than $17 per acre. It does not ensure against individual crop losses but covers us for regional events like killing freezes that can destroy our crops. Our GRP effort showed that an APH rate reduction was warranted and RMA responded by providing a 45 to 75 percent rate reduction on our APH policy.

However, despite a new GRP policy and rate reduction, it has become apparent that we have a problem with our APH history that is tied to the rise and fall of a single sugarcane variety over the past years. Variety LCP 85-384 was first released in 1993, and with a yield potential of more than 30 percent better than existing varieties, quickly 90 percent of Louisiana's sugarcane acres were planted to this variety. Yields increased from 25.7 tons per acre in 1993 to 37 tons per acre in 1999. From 1993 to 2001, Louisiana's average yield increased to 32.1 tons per acre. In the year 2000, brown rust infected the variety LCP 85-384 and rust quickly spread across 90 percent of Louisiana's sugarcane acreage planted this variety. Our state yields plummeted by 16.5 percent to 26.8 tons per acre during the 2002-2007 period. New varieties were developed and released but replanting was delayed when the improved seedlings were destroyed in the nurseries by Hurricane Katrina and Hurricane Rita in 2005. Louisiana still has about 10 percent of our acreage planted in the 384 variety and it should be completely removed from production by next year.

Replanting new, improved sugarcane varieties to replace the LCP 85-384 has resulted in yield increases from 26.2 tons per acre in 2005 to 31.2 tons per acre in 2006 to 34.5 tons per acre in 2007. These yield increases came despite hurricane damage during this period. The problem is that the yield decline from LCP 85-384 makes up most of our entire actual production history. This gives us an artificially low crop insurance yield guarantee for our APH and GRP policies. The depressed APH causes farmers to insure yield that is over 20 percent below our current yields. The low APH creates a low crop insurance yield guarantee and that is why no one is buying crop insurance now.

Utilizing a transitional yield that reflects current yield trends to replace its obsolete yield history would fix the problem. The 384 depression our APH also depresses our revenue guarantee under the SURE Permanent Disaster Program. After Hurricane Gustav, producers with substantial losses like my friend Rodney Flore here today were unable to receive assistance because their revenue guarantee is set too low based on their obsolete APH.

Mr. Chairman, Members of the Committee, we need to be able to ensure a more realistic percentage of our crops' value. We should not have to absorb a 20 percent loss of our crop insurance guarantee due to an obsolete APH. We humbly ask the Committee to direct RMA to substitute transitional yield figures into our sugarcane APH history to better reflect current yield trends.

I thank you for your kind attention and welcome your questions.

[The prepared statement of Dr. Robichaux follows:]

SUBMITTED STATEMENT OF MR. MICHAEL ROBICHAUX, SUGARCANE FARMER, ON BEHALF OF THE AMERICAN SUGAR CANE LEAGUE AND THE LOUISIANA FARM BUREAU FEDERATION, FRANKLIN, LOUISIANA

Mr. Chairman and Committee Members: My name is Michael Robichaux. I am a fourth generation sugarcane farmer from Franklin, Louisiana where my partner and I own Frank Martin Farms. We farm about 2,800 acres of sugarcane and I appear before you today to discuss the effectiveness of crop insurance for sugarcane farmers in Louisiana. I am representing the American Sugar Cane League and the Louisiana Farm Bureau Federation and my testimony reflects the views of sugarcane farmers in my state.

In Louisiana, sugarcane is a vital cog in our state's economy. It is one of our largest row-crops generating $1.75 - 2 billion in statewide economic activity every year. Sugarcane also produces more employment than any other agronomic crop in our state with some 27,000 jobs dependent on the Louisiana sugarcane industry. Sugarcane differs from most annual crops in that it has a 3–5 year growth cycle. About 25% of our acreage is planted every year from July to September. Harvest is 7 days a week from September until early January.

Sugarcane crop insurance operates differently from other annual crops in that we purchase our crop insurance in September, the year before we harvest our crop and certify insured acres in the spring. We also do not have crop insurance coverage for replanting.

In our climate, sugarcane is a hearty and resilient crop that is very tolerant to drought, pests, diseases as well as the occasional hurricane. Much credit goes to the efforts of scientists at the USDA-ARS, LSU Ag Center and Audubon Sugar Institute who have consistently adapted our sugarcane varieties over the years to perform against disease and pests pressure.

Sugarcane is popular in climate change discussions because it is a C4 plant that is an excellent converter of CO2-and its long growth cycle enables it to sequester large quantities of carbon for years at a time. The large amounts of biomass produced from sugarcane also make it a key crop for cellulosic ethanol production.

Sugarcane farmers recognize the need for risk management and support crop insurance. The majority of Louisiana sugarcane producers purchase crop insurance and 80% of Louisiana sugarcane acres are insured. However, the vast majority of

producers only purchase Catastrophic (CAT) levels of crop insurance because until 2008, APH multi-peril was the only policy available, 75% was the highest coverage level and the cost of buy-up coverage was too expensive for the coverage provided. CAT is not a viable coverage level since it only insures crop losses above 50% at 55% of the market price. Farmers purchase CAT solely to maintain eligibility for Ad-hoc disaster assistance programs as required by Congress.

In 2006, we began development of a more affordable sugarcane crop insurance policy with higher buy-up levels. The American Sugar Cane League and the Louisiana Farm Bureau Federation contracted Crop Insurance Systems, Inc. and successfully developed a Sugarcane Group Risk (GRP) Plan Crop Insurance Program through the 508(h) process. The GRP Policy became available in 2008 with a maximum coverage level of 90% and no premiums higher than $17 per acre. It is not an ideal policy because it doesn't insure individual crop losses, only parish wide crop losses. However, it gives us an option to insure against regional events, like a killing freeze that can destroy the majority of our crop. I would like to mention that the Risk Management Agency acknowledged that our complaints regarding high rates on our APH Policy were correct and on the day FCIC considered our GRP Policy, they implemented a 45-75% rate reduction on our APH Policy.

However, despite the addition of a new GRP Policy and lowering rates on our APH Policy, participation has not improved. It has become apparent that our state's tie to the rise and fall of a single sugarcane variety over the past 15 years is reflected in every Louisiana sugarcane producers APH and is the reason why we have insufficient coverage when we purchase sugarcane crop insuranceVariety LCP85-384 was first released in 1993 and within a couple of years, it's superior yield potential caused farmers to quickly plant Variety LCP 85-384 on the majority of Louisiana sugarcane acres. From 1993 when LCP 85-384 was released, yields increased from 25.7 tons of sugar/ acre to a high of 37 tons/acre in 1999. In 3 years, over 90% of Louisiana's sugarcane acreage was planted to Variety LCP 85-384.

As a result of Variety LCP 85-384, from 1993 - 2001, Louisiana's average sugar yield was 32.1 tons/acre. In 2000, brown rust was found in LCP 85-384 and brown rust quickly spread across Louisiana's sugarcane acreage. As it infected over 90% of Louisiana's sugarcane acres that were planted to Variety LCP 85-384, statewide yields plummeted by 16.5% to 26.8 tons/acre during the 2002-2007 period. In the latter part of this period, improved rust-resistant varieties were developed and released, but removing Variety LCP384 from Louisiana sugarcane acres was delayed when many of the improved seedlings were destroyed in research plots by Hurricanes Katrina and Rita in 2005. Currently we estimate that LCP 85-384 remains in about 10% of Louisiana sugarcane acreage and the variety should be completely removed from production by next year.

As a result of replacing LCP 85-384 with new improved sugarcane varieties on Louisiana sugarcane acres, yields have increased each year from 26.2 tons/acre in 2005, 31.2 tons/acre in 2006 and 34.5 tons per acre 2007. It is important to note that these yield increases have occurred despite direct and lingering hurricane damage to the fields and sugarcane plants, raising our expectations for better yields in the future.

The crux is that the yield declines from LCP 85-384 make up almost our entire Actual Production History (APH) base period and creates an artificially low yield guarantee that is used in our traditional APH policy and new GRP policy. The net effect is that when Louisiana sugarcane producers purchase crop insurance, they are insuring an APH yield history that reflects the negative trend line of Variety LCP 85-384. This means Louisiana sugarcane producers are forced to insure a yield that is more than 20% below our current yields and even less of the yield of our new varieties. Unless some sort of transitional yield number can be utilized in place of this obsolete rust-affected yield history, buy-up coverage levels will continue to insure an insufficient amount of our actual sugarcane production.

Louisiana sugarcane producers recognize the correlation between their crop insurance buy-up levels and their sugarcane APH which is used to determine our revenue guarantee under the new SURE Permanent Disaster Program. After we were hit by Hurricanes Gustav and Ike in 2008, we worked on disaster assistance through the SURE Program. We quickly discovered first-hand how our APH yield collapse due to Variety LCP 85-384 left our hardest hit farmers, including my friend Rodney Foret who is with me here today, unable to receive assistance through the SURE program because our APH history is comprised mostly of yields from the decline of Variety LCP 85-384.

Louisiana sugarcane growers appreciate that Congress has recognized the multi-year nature of our crop by providing us with simultaneous planting and harvesting seasons in the SURE box and for providing language in the recent disaster package to address losses for multi-year crops. We are not sure whether the disaster provi-

sion for multi-year losses can offset our problem of depressed APH yield histories but we sincerely appreciate the efforts of this Committee and this Congress in trying to help our producers.

Mr. Chairman and Members of the Committee, fixing the APH problem would go a long way toward improving the performance of the crop insurance program and the SURE program. As producers, we need to be able to insure a more realistic percentage of the value of our crop, instead of insuring a value where our farmers absorb a 20% loss of our sugarcane crop insurance guarantee from the onset. Our financial institutions have also stressed that they want us to be able to insure more realistic yields as a means of providing greater security toward our crop loans. In the current financial climate, with input costs continuing to rise, we simply cannot do it without a realistic APH yield.

We humbly ask the Committee to direct RMA to substitute transitional yield figures into our APH yield history to better reflect current yield trends. I thank you for your kind attention and your dedicated efforts on behalf of US farmers.

I welcome your questions.

Mr. MARSHALL. Thank you, Mr. Robichaux.

Mr. Von Bergen.

STATEMENT OF BING VON BERGEN, WHEAT PRODUCER, PRESIDENT, MONTANA GRAIN GROWERS ASSOCIATION, BOARD MEMBER, NATIONAL ASSOCIATION OF WHEAT GROWERS, MOCCASIN, MONTANA

Mr. VON BERGEN. Mr. Chairman and Members of the Subcommittee, my name is Bing Von Bergen and I am a wheat producer from Moccasin, Montana. I am the President of the Montana Grain Growers Association and I serve on the board of the National Association of Wheat Growers.

First let me thank you for holding this hearing. We appreciate the work of this Subcommittee and your ongoing efforts to provide effective and affordable crop insurance for our nation's farmers. I appreciate this opportunity to offer NAWG's thoughts on the Federal crop insurance program.

Crop insurance is a critical risk management tool for wheat producers. In 2008, 77 percent of the country's total wheat acres were covered by one of the various available forms of Federal crop insurance. In relation to the other farm safety net programs, crop insurance is one of the most reliable and imperative for wheat producers. As the marketing loan encounter cyclical programs currently provide little utility to our members and the direct payment is under increasing fire for reductions, it is clear why Federal crop insurance remains a high priority for our industry.

Crop insurance has traditionally played a key role in protecting against losses related to disasters such as drought and flooding. Beyond that, it provides a stable income environment for farming families and it provides economic stability for rural communities. It also provides the risk management protection that producers must have to obtain operating credit. We are concerned about recent proposals that advocate cutting funding for the Federal crop insurance program. Additional cuts beyond those that were already made in the 2008 are not necessary and may jeopardize the effective delivery of risk protection to our members. Increased premiums resulting from additional cuts may affect producer participation in a program as well as crop insurance already makes up a significant percentage of a producer's input costs.

In light of these budget concerns, we were pleased to see the Committee's views and estimates letter presented to the House

Budget Committee this year in which you defended the budget for agriculture including crop insurance, and we thank you for your continued commitment to these programs. The Federal crop insurance program has been enhanced substantially over the years to meet the evolving needs of producers. Congress in partnership with RMA and the private industry has done a laudable job in improving the program and the tools available to producers since passage of the Federal Crop Insurance Act of 1980. However, like other important tools on the farm, farm programs also need periodic maintenance and sharpening to extend their useful life, utility and effectiveness. I ask the Subcommittee to consider the following areas for improvement.

Number one, the erosion of actual production history, or APH. The nation's wheat growers know all too well the effects of prolonged drought or other disaster conditions. Each year crop failure reduces a farmer's APH, eroding the safety net provided by crop insurance. In years of disaster we recommend allowing the producer to plug in a percentage of its previous APH or the county yield, whichever is higher. The percentage used should be the percentage of the coverage level purchased by the insurer, thus encouraging a producer to insure at a higher level.

Number two, RMA audit procedures. NAWG has a number of concerns with the way in which RMA audits are triggered. We support equitable and timely adjustments in these procedures including raising the $100,000 automatic trigger and limiting audits to the year in question.

Number three, the need for RMA to revise quality loss adjustment factors in wheat. RMA compensation for discounts in many cases is not commensurate with the actual discounts taken at the elevator. We would like to see RMA adopt a method to adjust discounts for quality factors such as test weight, falling numbers and DON that are not adequately covered by RMA's discount factor charts but that are typical in the marketplace.

Number four is separation of crop practices. Wheat producers are required to use the same insurance product for different cropping practices. Whether these differences are irrigated and non-irrigated wheat or spring wheat and winter wheat, the risks faced by growers utilizing these different crop practices are very different. We believe there should be a way to recognize the different risks associated with different cropping practices and allow producers to tailor the tools available to their respective risks.

In conclusion, we will continue to work with Congress, RMA and the private industry to seek improvement to this vital program. We greatly appreciate the role you play in defending the viability and funding for crop insurance.

Mr. Chairman and Members of the Subcommittee, we thank you for this opportunity to testify and I would be happy to respond to any questions you might have.

[The prepared statement of Dr. Von Bergen follows:]

SUBMITTED STATEMENT OF MR. BING VON BERGEN, WHEAT PRODUCER, PRESIDENT, MONTANA GRAIN GROWERS ASSOCIATION, BOARD MEMBER, NATIONAL ASSOCIATION OF WHEAT GROWERS, MOCCASIN, MONTANA

Chairman Boswell, Congressman Moran and Members of the Subcommittee, my name is Bing Von Bergen, and I am a wheat producer from the great State of Montana. I am the President of Montana Grain Growers Association and serve on the Board of the National Association of Wheat Growers (NAWG), a federation of 20 state wheat grower associations.

First let me thank you for holding this hearing. We very much appreciate the work of this Subcommittee and your ongoing efforts to provide effective and affordable crop insurance for our nation's farmers. I appreciate this opportunity to offer NAWG's thoughts on behalf of wheat growers on the effectiveness and operations of the federal crop insurance program.

Importance of Crop Insurance to the Wheat Industry

Crop insurance is a critical risk management tool for wheat producers. According to the Risk Management Agency (RMA), in 2008 nearly 49 million acres - or 77 percent of the country's total wheat acres - were covered by one of the various available forms of federal crop insurance.

In Montana, 89 percent of wheat acres were insured in 2008 according to RMA statistics. In Kansas, 87 percent of wheat acres were insured and in North Dakota, 95 percent. These high percentages illustrate the breadth of use of this vital program and speak to the importance of the largest single part of the federal safety net for agriculture.

In the diverse basket of federal farm safety net programs, crop insurance is one of the most reliable and imperative for wheat producers. The marketing loan and counter-cyclical programs provide little utility to our members as loan rates and target prices are well below the current costs of production. The direct payment is the most dependable and World Trade Organization (WTO) compliant of the three traditional Title I programs and it is the only one of the three currently providing support to our producers. However, it is under increasing fire for reductions. In this context, it is clear why federal crop insurance remains a high priority for our industry due to its dependability and effectiveness as a risk management tool.

Federal crop insurance plays a critical role in the lives of our producers and in rural America. But, because of its complexity, few understand the program well. Consequently, it is necessary to demystify what crop insurance actually accomplishes and defend its critical importance.

Crop insurance has traditionally played a key role in protecting against losses related to disasters such as drought or flooding. Beyond that, it provides a stable income environment for producers and families willing to face the challenge of production perils to feed our nation and the world. Stable farm income equates to stability for rural communities-dollars earned in farming are spent and re-spent throughout the economy. Another critical role of crop insurance is to provide the risk management protection that producers must have to obtain operating credit. This is particularly critical in this recession-threatened banking industry climate since many producers find it impossible to get a farm operating loan if they cannot demonstrate adequate coverage to their lender.

Budget and Standard Reinsurance Agreement Considerations

Considering the many producer and societal benefits of crop insurance, we are concerned about recent proposals that advocate cutting funding for the federal crop insurance program. The cuts outlined in the President's fiscal year 2010 budget proposal are particularly disconcerting as they could harm or inhibit producer participation in the program. Additional cuts beyond those that were already made in the 2008 Farm Bill are not necessary and may jeopardize the capability of the partnership between the federal government and the private insurance industry to effectively deliver risk protection to our members.

If producers are forced to pay higher premiums for the same coverage due to additional cuts in subsidies, producers may rethink buying crop insurance. Particularly in parts of the country facing higher levels of risk, such as Kansas, Montana and North Dakota, the cost of crop insurance is already extremely high. For example, my federal crop insurance premium represents 10 to 15 percent of my total crop input cost and, with hail insurance, my premiums rise to 20 to 30 percent of my input costs. For wheat growers already facing increasingly narrow profit margins in this climate of lower commodity prices and continued high input costs, any increase in crop insurance expenses resulting from a reduction in the crop insurance subsidy would have a dramatic impact on funds available for family living costs.

For these reasons, we were very pleased to see the House Agriculture Committee state opposition to reconciliation instructions or assumed savings from agriculture in the FY2010 Budget Resolution, including crop insurance, in your Views and Estimates letter presented to the House Budget Committee this year.

We also recognize that the 2008 Farm Bill authorized the renegotiation of the Standard Reinsurance Agreement (SRA), the contractual agreement between RMA and approved insurance providers. Though we recognize the need to maximize the efficiency of this program, we also caution the Administration from making changes for purposes of cost savings that would jeopardize either producer or private industry participation in the program as both are vital to its effectiveness as a risk management tool for producers.

Crop Insurance Improvements

The federal crop insurance program has been enhanced substantially over the years to meet the evolving needs of producers. Congress, in partnership with RMA and private industry, has done a laudable job in improving the program and tools available to producers since passage of the Federal Crop Insurance Act of 1980. For example, in 1997 Congress and the Administration worked together to equip the program with the nation's first farm revenue protection feature, offering our wheat growers the first ever revenue component in crop insurance. The revenue protection component has been a great asset to wheat producers and more and more producers are using it as a safety net.

Like other important tools on the farm, farm programs also need periodic maintenance and ″sharpening″ to extend their useful life, utility and effectiveness. I ask the Subcommittee to consider five additional areas that the wheat industry has identified for further improvement, listed in no particular priority order:

- Erosion of Actual Production History (APH)
- RMA audit procedure adjustments
- Revision of quality loss adjustment factors
- Separation of crop practices and classes of wheat
- Acreage reporting requirements

Erosion of Actual Production History (APH)

The nation's wheat growers know all too well the effects of prolonged drought or other disaster conditions. Each year of crop failure reduces a farmer's APH, eroding the safety net provided by crop insurance. NAWG has continued to explore remedies to this and urges a prompt solution.

One solution may be to allow the producer to use either his or her previous APH or the current county yield, whichever is higher. We would also recommend replacing the 60 percent factor with the coverage percentage purchased by the insured. For example, a producer with 70 percent coverage would use a yield plug of 70 percent times the higher of his or her APH or county T-yield.

Another APH-related issue we would like to see addressed is to allow loss protection and production history adjustments for mechanical fire losses. Currently, if a producer experiences a mechanical fire he or she will get paid nothing for the crop and production will be recorded as zero for that year, becoming a part of the production record. This situation distorts actual production history and double-penalizes producers already injured financially by a mechanical fire. A solution would be to use a T-yield or APH yield for purposes of the production record in the event of a mechanical fire loss.

Lastly, we support the option of a new landowner or operator using the APH yield from the previous operator regardless of acreage in that county. The size of a grower's operation or the size of an expansion should have no bearing on what makes sense to use for a proven yield.

RMA audit procedure adjustments

NAWG has a number of concerns with the way in which RMA audits are triggered. NAWG supports equitable and timely adjustments in RMA audit procedures including those outlined below.

- Raise the $100,000 automatic indemnity audit trigger to a more realistic number to account for high national average commodity prices. The $100,000 automatic indemnity audit trigger was put into place when the price of wheat was between $3 and $4 per bushel. It is unrealistic to keep the trigger at $100,000 when the price guarantee has increased to $8 per bushel, for example. We believe the audit trigger should increase proportionately with the guarantee.

- Limit audits to the year in question. Currently, crop insurance audits cover a three-year period. Limiting audits to the year in question would provide a more accurate reflection of the audit need. Additional years may be scrutinized in the event that irregularities occur.

Revision of quality loss adjustment factors

RMA currently relies on a set of Discount Factor Charts to determine appropriate production adjustments for quality losses out of the control of the farmer, including charts for test weight, grades of No. 5 or sample grade, defects, smutty and vomitoxin. However, RMA compensation for discounts in many cases is not commensurate with the actual discounts taken at the elevator. For example, in years of excessive moisture farmers may take heavy discounts at the elevator for low falling numbers - a quality loss that is not accounted for in RMA discount factor charts.

NAWG would like to see RMA adopt a method to adjust discounts for quality factors such as test weight, falling numbers and deoxynivalenol (DON) that are not adequately covered by the Discount Factor Charts but are typical in the marketplace on a periodic basis. NAWG has begun to work with RMA to seek a solution and we would hope that Congress would support these efforts.

Separation of crop practices and classes of wheat

Wheat growers are required to use the same insurance product (Revenue Assurance, Crop Revenue Coverage, etc.) for both irrigated and non-irrigated crops in the same farm. However, the risks faced by growers utilizing these different crop practices are very different. NAWG believes there should be a way to recognize the different risks associated with different cropping practices and allow producers to tailor the tools available to their respective risks. In other words, irrigated and dryland production acres should be allowed to carry different insurance products on the same farm or unit.

Farmers may plant continuous crop winter wheat in the same unit as summer fallow wheat. In that instance, this farmer should be allowed to claim a loss on the continuous crop in the event of a loss, regardless of the production on the summer fallow.

In addition, producers should be allowed to insure winter wheat and spring wheat as separate crops. Producers may have a different production guarantee for spring wheat versus winter wheat, but they are bound by the same coverage type and level for both.

Acreage reporting requirements

The Farm Service Agency (FSA) and RMA have agreed to use the same acreage reporting date (varying only by region) but this has not yet been implemented. We hope that the Subcommittee would join us in encouraging RMA and FSA to implement this in a timely fashion, enabling producers to report to the agencies more accurately, thereby eliminating acreage reporting errors and discrepancies between the two agencies.

In addition, FSA and RMA should work together to share acreage and production data to alleviate duplicate reporting requirements on the part of producers. A unified network programming system such as a Comprehensive Information Management System (CIMS) or a hardcopy paper filing system between the two offices would alleviate potential errors related to double paper acreage filing systems and would reduce the duplicate reporting burden on producers.

Other issues

- Use of NASS data for indemnity calculations: Wheat producers have experienced frustration with regard to the use of data from the National Agricultural Statistics Service (NASS) for calculation of producer indemnity payments under GRP or GRIP policies. Data gathered by NASS through phone interviews and mailed surveys is not credible data for the purpose of calculating insurance payments. In some counties, the use of NASS data as compared to actual FSA data can end up resulting in significant losses of indemnity payments due to data discrepancies.
- Continuous crop winter wheat coverage on expiring Conservation Reserve Program (CRP) acres: A large number of CRP acres are set to expire in the next few years. In order to seed these acres to winter wheat in the year that they are released dictates that the winter wheat acres be classified by RMA as continuous crop winter wheat. However, many of these expiring CRP acres are located in areas that do not have continuous crop winter wheat coverage. We urge RMA to allow growers in these areas to receive a percentage of their summer fallow winter wheat guarantee so that these acres can be insured.

Conclusion

NAWG continues to work with Congress, RMA and private industry to seek further improvement to this vital program. We greatly appreciate the role you play in defending the viability of and funding for crop insurance.

Mr. Chairman and Members of the Subcommittee, our wheat producers thank you for this opportunity to testify on the effectiveness and operations of the federal crop insurance program. The NAWG leaders, staff and I stand ready to respond to any questions you have.

Mr. MARSHALL. Thank you, Mr. Von Bergen.

Mr. Clemens.

STATEMENT OF MIKE CLEMENS, WHEAT, CORN, SOYBEAN, SUNFLOWER AND DRY BEAN PRODUCER, AND VICE PRESIDENT, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWERS ASSOCIATION, WIMBLEDON, NORTH DAKOTA

Mr. CLEMENS. Mr. Chairman and Member of the Subcommittee, thank you for the opportunity to provide you input on the effectiveness of the Federal crop insurance program. For the record, I am Mike Clemens from Wimbledon, North Dakota, where I farm with my wife, Pam. She is a partner in the operation. And we are also bringing our daughter and her husband back into the family operation for this coming year.

As important as farm program supports are to our members, Federal crop insurance remains the most important risk management tool. Because of premium subsidy reform and the action of new products, producers have more policy choices for protection against falling commodity prices and yield losses. The dramatic increase in market volatility over the past year underscores the value of crop insurance to sound risk management. Improvements such as more-affordable premiums with new revenue products would not have been possible without a very significant increase in resources. NCGA is therefore very concerned with the proposed funding cuts that put at risk the progress made increasing overall levels of participation and protection. We believe further budget cuts will diminish RMA's ability to address program deficiencies.

Despite our concerns we may have on certain aspects of Federal crop insurance, NCGA appreciates this Committee's attention to the positive recommendations and suggestions for strengthening the program, the action taken, for example, to advance the pilot program in the 2008 Farm Bill to eliminate premium subsidy disparities between enterprise units and optional units. These policies offer real options to purchase higher coverage levels with premium subsidies more accurately reflecting the reduced risk exposure to the Federal Government and private insurers. Early reports indicate more growers shifting to enterprise unit policies to take advantage of considerable premium savings and better coverage. On my farm, that is about 40 percent savings in the premiums going to an enterprise unit structure. As input costs have risen sharply, enterprise units and whole farm policy coverage may be a very effective risk management alternative for protection against a greater market volatility that has been experienced throughout the Corn Belt. I feel more confident pricing more crops knowing that my insurance will cover my losses due to reduced yields and/or fluctuating prices that my lender relies on for repayment of my operating loan.

As stated earlier, Federal crop insurance is critically important to the financial stability of corn growers' farm operations. My written testimony shows from 2001 to 2008 a dramatic increase in acres covered and buy-up coverage. It is NCGA's view the enhanced cost sharing initiatives are primarily responsible for the increases in participation and levels of coverage. Given the millions of acres not enrolled in Federal crop insurance, there are several areas that require additional attention to help sustain the program's progress. Four items I will cover as quickly as possible.

First, the rating methodology. There is increased concern that Federal crop insurance products throughout much of the Corn Belt had experienced target payout rates well below the target loss ratio of one. One analysis by the University of Illinois's economists showed that from 1995 to 2007, corn performed at an average loss ratio of .58 compared to the program's total average loss ratio of .83. If indemnity payments for corn growers are considerably less than the premiums being paid, our growers are asking why premiums are not being reduced to reflect the actual loss experience. Without changes in the rating methodology, loss ratios for corn will become lower and more widespread because of escalating yield increases and continuing advances in seed technologies such as drought-resistant corn. While the biotechnology endorsement is a positive step, an independent study of RMA's rating methodology will ensure a comprehensive examination of the data and alternative rating methods to address these concerns.

Another issue is the lost adjustment process for quality loss. For an insured unit to be adjusted for quality loss (Aflatoxin), for one example, one test represents the whole insured unit while the insured is subject to what can vary on a load-by-load basis. No provision exists to protect the insured for changes in Aflatoxin levels during the storage while producers are waiting for a better market. With all quality loss general production area has a large percentage of the crop affected by quality loss, it is important to understands that the commodity has a lower value due to the lack of unaffected commodity to help absorb those bushels.

NCGA also wants to bring to your attention the issue raised by growers in Colorado regarding the RMA to combine the skip-row APH databases with solid-plant APH databases. Combining the converted databases with solid-row APH databases has created an unreasonable reduction in coverage because most of their solid-plant history suffered a significant reduction due to drought from 1997 to 2004. As a result, higher skip-row yields get pulled down by the lower solid-row yields. One solution is allowing an insured grower to maintain separate databases for each planting practice. A similar approach is available now and permitted by RMA for summer fallow and continuous crop wheat.

Finally, I would like to address the problem that NCGA acknowledges difficult challenges with the private insurers the eligibility of acres for prevent planting. As an example the program limited preventing planting to 3 years on a parcel land, and even though the same land has been farmed for several years. The land should be able to qualify for payment based on the land preparation the fall before. For a grower who is unable to drain his ground and plant because of swamp buster limitations, the denial of a claim has a

significant impact on farm operation which must continue to pay taxes, cash rent and other fixed costs. We request that this restriction be reconsidered so that the producers can remain eligible for prevent planting claims indemnities.

Once again, Mr. Chairman, I thank you for this opportunity and will yield to questions.

[The prepared statement of Mr. Clemens follows:]

SUBMITTED STATEMENT OF MR. MIKE CLEMENS, WHEAT, CORN, SOYBEAN, SUNFLOWER, AND DRY BEAN PRODUCER, AND VICE PRESIDENT, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWERS ASSOCIATION, WIMBLEDON, NORTH DAKOTA

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to provide you input for your review of the effectiveness of the federal crop insurance program. I am Mike Clemens from Wimbledon, North Dakota where my wife and I operate our family farm and raise spring wheat, corn, soybeans, sunflowers and dry beans. I currently serve as the Vice-Chair of the Public Policy Action Team for the National Corn Growers Association.

The National Corn Growers Association (NCGA) is a national organization founded in 1957 and represents more than 36,000 members in 48 states, 47 affiliated state organizations and more than 300,000 corn farmers who contribute to state check-off programs for the purpose of creating new opportunities and markets for corn growers.

I come hear today to share with you how critical federal crop insurance is to the long term viability of corn growers' farm operations. As important as the farm bill's safety net programs are to our grower members, federal crop insurance remains their single most important risk management tool. Because of restructuring in premium subsidies and the addition of new products, particularly revenue-based insurance policies, producers have more choices available to them that better match the levels of risk they confront against the effects of sharp declines in yields and falling commodity prices. The sharp increase in market volatility experienced over the past year and the impact of adverse weather conditions underscore the value of crop insurance as a key component of sound risk management.

Substantial improvements to federal crop insurance through the Agriculture Risk Protection Act of 2000 (ARPA), including more affordable premiums and new product approvals would not have been possible without a significant increase in resources. NCGA is therefore very concerned with proposed funding cuts that put at risk the progress made increasing overall producer participation and levels of coverage that have reduced the need for disaster assistance. While recognizing the continuing need to press for more cost efficient administrative practices and program delivery, NCGA believes further budget cuts will adversely impact the Risk Management Agency's (RMA) ability to adequately address the program's deficiencies that have yet to be resolved.

Despite some ongoing concerns our growers may have on certain aspects of the crop insurance program, NCGA appreciates this Committee's consideration of our policy recommendations and suggestions for further improving the program. The action taken, for example, to include a pilot program in the new farm bill to eliminate the disparity in premium subsidies between enterprise unit and optional unit based policies has given a real option to purchase higher levels for protection. In exchange for accepting greater production risk of larger areas, producers are now able to access an equivalent amount of subsidized premium of smaller optional units that has not been previously available in larger enterprise unit for whole farm polices. With both the premium discount and subsidies set by RMA more accurately reflecting the reduced risk exposure to the federal government and private insurers, early reports indicate more growers shifting to enterprise unit polices to take advantage of the opportunity for considerable premium savings and better coverage. As input costs have risen over the last few years, enterprise unit and whole farm policy coverage can be a very effective risk management alternative for protection against the greater market volatility and severe weather that has been experienced throughout the Corn Belt.

In addition to eliminating the economic disincentive to purchase enterprise unit and whole farm coverage, the restructured subsidies are likely to reduce the work load for the crop insurance companies due to a fewer number of claims. The primary reason is that a claim is only paid where there is a whole crop loss and not because one field may have been damaged. Another advantage of more equitable unit subsidies is a reduced potential for fraud and abuse as producers will have little reason

to move production from one optional unit to the next because production from all units are averaged together to determine if an indemnity claim is warranted.

As I stated earlier, federal crop insurance is critically important to the financially stability of corn growers' farm operations. For the 2008 crop year, over 69.3 million net acres of corn were enrolled for a total liability of $37.6 billion. In 2001, the net acres of corn enrolled in the program totaled 55.8 million net acres with a liability of $10.7 billion. Even with factoring in the increased demand for corn and higher commodity prices, these numbers indicate that the program has made significant progress with producer participation and the levels of coverage being purchased. Further, the percentage of acres covered by Revenue Assurance (RA) and Crop Revenue Coverage (CRC) policies has jumped from approximately 59.6 percent to over 72 percent. Overall, the percentage of acres insured by revenue based policies, CRC and RA, at the 70 to 80 percent buy up coverage levels has risen from an estimated 42 percent to 54 percent over the same period. While a number of factors influence producers' participation and levels of coverage they purchase, NCGA believes enhanced cost share incentives are primarily responsible for the increases. Approvals of the Pilot Biotechnology Endorsement and the new 508 H-Concept proposal submission procedures for insurance plans are recent actions that should encourage additional innovation and expansion of the program.

Given the millions of acres not enrolled in federal crop insurance, there are several areas in the program's administration that require additional attention to help sustain the program's progress in strengthening producers' risk management planning and the overall farm safety net. For corn growers, there is an increasing concern that the products offered by the federal crop insurance program throughout much of the Corn Belt have experienced target payout rates for several years well below the targeted loss ratio of 1.00. One analysis by economists from the University of Illinois shows that for the period, 1995 to 2007, corn performed at an average loss ratio of .58 compared to the program's total average loss ratio of .83. If indemnity payments for corn are in fact considerably less than the premiums being paid over time, our members are asking the question why premiums are not being reduced to reflect the actual loss experience.

In light of the fact that corn accounted for $3.1 billion of the premiums paid in 2007, 47 percent of the total, NCGA recognizes that this issue raises questions of equity as well as potential implications for the program's overall administration. Some possible explanations for the current disparity between the loss ratio experience and policy premiums for corn are 1) RMA's loss cost methodology that gives equal weights to each year in its experience, including the 1980s when participation was low and higher quality farmland was not enrolled in the crop insurance program and 2) Yield trends that cause Average Production History (APH) yields to lag. Without some correction or modification in the program's rating methodology, NCGA has reason to expect that the loss ratios for corn will become lower and more widespread because of escalating yield increases and further advances in seed technology such as drought resistant corn. Given the seriousness of this issue, we are pleased that the Federal Crop Insurance Corporation Board (FCIC) has authorized RMA to secure an outside independent review of the agency's product rating methodology. We are hopeful the study will ensure a comprehensive examination of the data and alternative rating methods as appropriate to address these concerns.

Another area of concern for our growers is administration of the loss adjustment process for quality losses, particularly in the more southern regions of the Corn Belt. For an insured unit to be adjusted for quality loss (Aflatoxin), one official test represents the whole insured unit where as the insured is subjected to what can be varying discounts on a load by load basis. Aflatoxin is not equally distributed in any given unit whether it is an entire insured unit or one of multiple truck loads delivered from the insured unit.

Discrepancies that exist between a receiving facilities test and an "official test" are most likely attributed to erratic distribution of Aflatoxin in a given quantity rather than a lack of adherence to accepted sampling and testing protocols.When a general production area has a large percentage of the crop affected with Aflatoxin contamination, it is important to understand that the commodity has a lower value due to the lack of unaffected commodity to help absorb those affected bushels (blending). I must also emphasize that insurance coverage ceases at harvest. There is no provision to protect an insured for changes in Aflatoxin levels during storage while producers are waiting for a better marketing opportunity that may or may not present itself.

The procedure for appeals by a producer is long, cumbersome and costly. NCGA is ready to work with the Committee and RMA to develop a more simplified procedure so claims can be settled in an efficient and timely manner. The changes by RMA to pay on a flat scale for aflatoxin losses, produces winners and losers. During

years of low Aflatoxin, producers may be overpaid, but when aflatoxin levels are high and markets are more adversely affected, producers cannot receive adequate payments. Unfortunately, producers in Texas are still dealing with these very issues from claims in 2005. In fact, some producers just received a notice from a company that did not agree with how the claims were settled.

NCGA also wants to bring to your attention a concern raised by growers in Colorado regarding an informational memorandum (PM-09-02) issued by RMA on skip-row planted corn. The purpose of the communication is to convert skip-row corn APH databases to solid plant; combine converted APH data bases with existing solid plant APH data bases, if applicable and determine, report and record the number of skip-row planted acres. Combining the converted databases with existing solid row APH databases has created an unreasonable reduction in coverage for many growers there because most of their solid plant history suffered a significant reduction due to drought in the period from 1997 to 2004. As a result, higher skip-row yields get pulled down by the lower solid row yields.

One solution to address this unwarranted reduction is to allow an insured grower to maintain separate databases for each planting practice (skip-row vs. solid row). A similar approach is now permitted by RMA for summer fallow vs. continuous crop wheat. There is no need to rate the practices differently as is done with wheat. Allowing separate databases using the same rates would be the most equitable way to address this situation.

Finally, I would like to address another problem area that NCGA acknowledges presents a difficult challenge for the RMA and the private companies almost every year, the handling of claims for prevented planting. Even though improvements have been introduced to clarify the options available to growers, there are still situations that arise that call for a more equitable handling of claims. As one example, the program limits prevented planting payments to three years on any one parcel of land even though the same land has been farmed for many years. For a grower who is unable to drain his ground and plant because of "swamp buster" limitations, the denial of a prevented planting claim has a significant impact on the farm operation which must continue to pay the taxes and cash rent on these acres. One answer for some producers is to simply change the listed operator for the affected parcels of land which restarts the crop insurance eligibility window and allows continued payout on the prevented planted acres. The end result is more paperwork, increased administrative expenses for the private insurers and no savings for the program. It is a provision that we request be considered for removal from the regulations that govern the prevented planting claims process.

Once again, Mr. Chairman, I want 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 to build on the progress of the program. We appreciate your leadership and continued support of this very valuable risk management tool.

Mr. MARSHALL. Thank you, Mr. Clemens. I thank all the witnesses for their testimony. This is helpful to us as we go through this process of taking a look at crop insurance programs and how we can improve those programs for the benefit of producers and at the same time save taxpayer dollars. This will be the first of a number of hearings that we will be holding on this subject. We wanted to hear for producers first.

Mr. Bearden and Mr. Von Bergen, both of you mentioned your interest in seeking policies that reflect the differences between irrigated lands and dry lands. Could you explain how the risks associated with these practices actually differ and what RMA's response has been to your request that RMA do distinguish between the two more appropriately? Mr. Bearden, I will start with you. You have had the longest time to rest and relax and recuperate from your testimony.

Mr. BEARDEN. The difference in our area, I am from west Texas on the high plains, is our irrigated, we can have a much higher yield and a much higher input cost, and when we have to insure it, I will just use my own experiences, at 50 percent we are underinsuring it. As a percentage—and I am going to use a percentage of my budget of inputs. But it runs about 10 percent of the budget

where if I do 60 percent on my dry land, it will be about 20 percent of my budget of input costs. What we would like to be able to do is be able to cover those costs to more accurately reflect what we are putting in that crop to manage our risk.

Mr. MARSHALL. And when you make a proposal like that, you offered that explanation, you make a proposal to RMA, the response you get is———

Mr. BEARDEN. RMA had several years ago in their defense had said that that you couldn't take one or the other. Their thinking was that you would load up on the dry land and try to take advantage of the system and underinsure the irrigated. What we want to be able to do is actually insure for closer to what you actually have in the crop. Another part of our recommendation is probably that you need to make it where you can't insure the dry land for more than you can the irrigated but it is basically two completely different sets and has different sets of risk. The irrigation, we take the drought out of it. In my area, drought is the main problem that we have. And so it is a way of being able to take that risk and apply———

Mr. MARSHALL. Have you suggested to RMA that———

Mr. BEARDEN. Yes, sir.

Mr. MARSHALL. —it consider an enterprise approach and it come up with a way of analyzing how much irrigated, how much dry, blend the two together? You haven't suggested something like that?

Mr. BEARDEN. No. Enterprise unit in my area doesn't work. I am spread out over such an area and it doesn't work in my area, especially on irrigated, because you have the thunderstorms that come through that have hail. You may get completely hailed out in one place and get absolutely no hail in another. So enterprise unit is not very attractive to a west Texas cotton producer but we have suggested to RMA to try to do this because of what they have talked about. We hope to bring—we continually try to bring up things that we would like to see changed and hopefully this will work this way.

Mr. MARSHALL. Mr. Von Bergen?

Mr. VON BERGEN. Mr. Chairman, I wish I had some irrigated ground but I do not, but for the wheat producers of the nation that do, it is an issue with them. They would like to be able to insure—there are different crops. I mean, there are different risks, as the previous gentleman said. There are different risks associated with them, and as your risks increase or decrease, what would be wished is that we could insure them separately no different than the spring wheat or winter wheat that I also alluded to in my separation of crop practices. If they are distinctly different crops or different farming practices, they should stand alone and should not have to carry the same insurance. Also in the State of Montana, enterprise units would not work for the same reason. We are so spread out with large acreage and a lot of the wheat states are that way, that enterprise doesn't work in some areas. It is specific to some areas it does work but not in a lot of areas.

Mr. MARSHALL. I have got an additional question, perhaps more than that, and what I will do is stop and go to my colleague, Mr. Moran from Kansas.

Mr. MORAN. Mr. Chairman, thank you very much. I think this is a very insightful panel. I appreciate very much the testimony of each of you. Unfortunately, some of the testimony is testimony that we have heard in previous years and it is discouraging to me that we are back in some instances having to say the same thing again, that we need to see greater progress and solution to these problems. In the short time I have I want to focus my questions to my constituent, Jarrod.

Mr. Spillman, you indicate that, as you know, there is a provision in the 2008 Farm Bill related to crop insurance and grain sorghum. Section 12009 requires the Risk Management Agency to determine a new pricing methodology that is transparent and that can be replicated. You mentioned that there are problems with implementing this provision and I want to give you an opportunity to explain to me, explain to the Committee what the challenges are that the sorghum producers have encountered with RMA in the attempts to implement what I thought was a provision that would be beneficial in addressing the issue that you describe about grain sorghum producers making other choices for the crops that they plant.

Mr. SPILLMAN. Well, on behalf of the sorghum industry, I would like to thank you for your efforts, the Congressmen for their efforts on the issue here. First of all, this is a big problem for me in my area with sorghum being underinsured. But right now the national association tells me that they submitted a proposal by the deadline of April 5 and the two universities and two economists have also submitted proposals. So far the RMA has been moving forward in a timely manner. We will work with you to make sure that the timely cooperation continues and more importantly new methodology to determine price election for sorghum is available for the 2010 crop year.

I also need to mention that the national trade association is running into significant problems with ERS leading up to the transparency theme of the law. Sorghum staff tells me that ERS is not made available any pricing methodology and data used to determine price elections.

Mr. MORAN. That is discouraging because the farm bill law requires that FCIC not later than 60 days after the date of enactment of that law make available all methods and data including the data from Economic Research Service used by FCIC to develop the expected market prices for grain sorghum under the production and revenue plans of FCIC. We need to make certain we get RMA's attention today and in the future that Congress has told them to act and they need to respond. So I appreciate knowing—I am disappointed to know that is the case but I appreciate knowing it so that perhaps we can do something about it.

Mr. Spillman, you also indicated that participation in crop insurance is poor, 59 percent nationally by sorghum producers. Where does that number come from, that 59 percent, and how does that relate to you specifically on your farm? Do you cover your grain sorghum with crop insurance?

Mr. SPILLMAN. Yes, I do. I cover all my production with crop insurance but as a young producer and somebody that hasn't been in it near as long as the other farmers in my county, it is bad business not for me to insure all my crops, especially for the lenders

that I have. But if you look at it to where the rest of the country or the averages at 59 percent which is poor, that tells you that everybody else is not insuring their products due to the production costs being so high in the area and it is just trading dollars for dollars. But the other states I wanted to mention that are on the Subcommittee like Georgia and North Carolina are at 13 percent, South Dakota 47 percent, Colorado at 72 percent, Missouri 28 percent and Texas 55 percent. And so there are other states in the Sorghum Belt as well that are sorghum producers who aren't choosing the products to insure their crop.

Mr. MORAN. I appreciate your testimony, and what Mr. Spillman was indicating is that most farmers in his neighborhood and in Kansas are older than he is, and we are glad to see that there is a young farmer making it work in Sheridan County, Kansas. Mr. Chairman, thank you very much.

Mr. MARSHALL. Mr. Moran, I appreciate your line of questioning and Mr. Spillman's response combined with your questions make me wonder whether or not it wouldn't be appropriate for the Subcommittee to make a formal inquiry of RMA concerning whether it has complied with the directive that we gave it in the farm bill and if it has not, why not.

Mr. MORAN. Mr. Chairman, if you would yield, I appreciate that suggestion. I would be happy to join with you, Mr. Boswell or anybody else on the Subcommittee in a letter to RMA asking them to respond specifically to that fact and learn what the facts are as compared to a hearing down the road in which we would ask them that question. I think the sooner we can encourage them to respond, the better we will be.

Mr. MARSHALL. And I would be delighted to work with the gentleman in preparing such a letter. I am sure Chairman Boswell will as well. I would like to get the information. I would like our staff, frankly, to get together with the appropriate staff at RMA and try and sort through this so we can get this thing done without any further delay.

The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I apologize to the witnesses in the middle. I had to go somewhere else real quickly and come back. Rickey and Mr. Von Bergen, if you did in fact split irrigated versus dry land in the case of cotton, would you expect a different premium since those are two different risk profiles?

Mr. BEARDEN. Well, to give you an example, my dry land area, 60 percent yields a guarantee of about $60 and a premium of about $15 an acre. In my irrigated at 60 percent is about 500 pounds and the premium is about $12 an acre. So my guess is that you would see an increase in irrigated up to 70, 75 percent because the premium becomes, just say 10 percent of your operating budget. You can raise that up and be able to take more insurance on your irrigated and better cover your risk. Right now I can't go up because I am mostly dry land and I can't afford to go up because as was mentioned a while ago, I am just swapping dollars. For every dollar of premium, every dollar of guarantee that I get, I just go another dollar of premium and if you have a zero and you get all that back, it is fine, but I am not in the business of trying to make zeroes, I am in the business of trying to make production work. So if you

make your production work, then at the end of the year that is just another set of expenses that didn't pan out. It had no value because you were just swapping dollars. There is no net gain to the producer. What I think would happen would be you would see a tremendous increase in the overall percentage coverage of irrigated producers.

And you asked another question a while ago about the enterprise unit that I would like to add a little bit to. If you could divide up where you could take enterprise on dry land and APH products that are actually where you can put it on units might have some attraction also because hailstorms are the biggest obstacle for irrigated in my area that are highly individualized. On dry land, the main thing that you have is drought and that is usually a lot wider spread than the other and then we can buy products, other products through crop hail insurance to cover those other losses. But the main thing is, we need to look at being able to regionalize and to make fit the things that we need to make risk management really and truly work for us to manage our risk. We live in such a time that insurance at 60 percent just doesn't get it done. We don't have that kind of margins in cotton and any other crop that I grow. We don't have that type and I am pretty sure none of the rest of these guys do either. I think that is something that would really help us.

Mr. CONAWAY. Mr. Von Bergen, any comments?

Mr. VON BERGEN. Just a statement that producers, if the coverage level is there and we get better coverage, producers are very well ready to step up to the plate and pay more premium. That is not the issue. We want the coverage to be there. If it is adequate, we will gladly pay more. As far as there is a flip side to the irrigated. Sometimes a producer because they irrigated, he has less risk. He might not want to put as much coverage on that but the way the system is set up, for example, wheat is wheat. You have to carry the same coverage level whether if you choose CRC or RA. You are bound by that to all your wheat crop. The same applies to spring wheat versus winter wheat. If I choose CRC coverage for my winter wheat in a dual county where I can raise both spring wheat and winter wheat, I am bound by that same coverage and the same level of my spring wheat crop. There are two entirely different crops. In South Dakota, it is a terrible issue. Sometimes we are bound by the coverage we choose in the fall for our spring wheat crop. So what we are asking for is every commodity or every practice stand on its own by the risks and let the producer choose the level he wants and the insurance he wants.

Mr. CONAWAY. Thank you, Mr. Chairman. I yield back.

Mr. MARSHALL. I think we have few enough questioners at this point that we can have a number of different rounds, so if you want to stick around, Mr. Conaway.

Mr. Von Bergen, I am trying to figure out why anybody would voluntary want to live in Moccasin, Montana. Did you pick the name in order to keep outsiders from coming in? Is that the idea?

Mr. VON BERGEN. Actually, Mr. Chairman, it is a beautiful country that the Indians settled so it is between mountain ranges and a very good place to grow a family.

Mr. MARSHALL. All of the witnesses heard my question to the first panel, probably not very articulately phrased, but having to do

with the process that RMA and the industry goes through in trying to figure out what this year's crop insurance program is going to look like. The question was whether or not different organizations, more entities should be involved in those negotiations and the response from the first panel was "we are not involved right now." Mr. Clemens, I actually thought one of the points that you made was that you thought there needed to be a little more input in that process of designing the product that is being delivered to you all, offered to you all, and so maybe I will start with you. Others might have some thoughts on that subject as well.

Mr. CLEMENS. Mr. Chairman, with the National Corn Growers, and I am also on the National Sunflower Board, we have gone to RMA and we have taken our list in there to see what we can improve in both the commodities I grow on my farm. We were able to on the sunflower side change the RMA formula for sunflowers which made it very beneficial for producers to work with that program and to implement it on their farm as a risk management tool. On the corn growers, we have done several things with corn acreage expanding in North Dakota the way it is really ramping up, moving from a lot of wheat production and barley production to corn and soybeans in our state. We have gone through a pilot program in our state of having a yield that is good for your farm that you can take it to new production areas in your farm and you can—it is more than just a county T-yield. It is your personal T-yield, so if you have experience growing corn, you can———

Mr. MARSHALL. You are referencing speaking with RMA about things it should take into account, I guess, in the negotiation process with the industry concerning the product that is going to be offered. The question is, should you all be involved in those negotiations?

Mr. CLEMENS. Mr. Chairman, the answer would be yes. It is good to have a seat at the table and make sure that we can visit with them to find out what we need and what their needs are so we can come to a solution instead of everybody working behind the scenes thinking this is what you really needed and it wasn't what you needed. So I think it really should be a part of the program.

Mr. MARSHALL. Other witnesses? Mr. Robichaux?

Mr. ROBICHAUX. Yes, Mr. Chairman, I think that we should be part of the process. We have an intimate knowledge of our own problems and we can share that with RMA and they could adjust their methodology and policies that fit our problems. I think it would be best all the way around to have a place at the table, so to speak.

Mr. MARSHALL. Other witnesses?

Mr. BEARDEN. I think we should have greater involvement. As producers, we are the ones that ultimately are going to have to pay for the thing. I want to interject something else is that I think we can offer a lot as producers from the moral hazard side of it. I don't know many producers that are in this game that have survived very long to try to just survive on insurance. They use it as a tool to help themselves and to protect themselves, not to just play the system, and we have had instances in the past and we will continue to have where someone doesn't think all the way through the policy and I think producers on these representations would greatly

help that because there are some things that have put out that people didn't think all the way through before they implemented it.

Mr. MARSHALL. Maybe not just moral hazard but you could also assist, perhaps assist with concerns that the industry has over fraud.

Mr. BEARDEN. Fraud is something that when somebody does it, we all suffer, just like it has been mentioned here the $100,000. Well, they had to come up with some number. In my particular area last year we had a big wipeout and, you know, nearly every producer triggered that. Well, that really didn't accomplish anything as far as fraud and abuse but I think there are some things that could be done that producers have a lot to offer in that regard.

Mr. MARSHALL. The gentleman from Kansas, Mr. Moran.

Mr. MORAN. Nothing further, Mr. Chairman.

Mr. MARSHALL. The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Nothing further.

Mr. MARSHALL. Well, I thank the witnesses for their testimony. This is very helpful to the Committee. If you have additional thoughts that you have not already shared with us, we will leave the record open for 10 days and if you could provide those thoughts in writing, we would appreciate it.

With that, this hearing is adjourned.

[Whereupon, at 12:15 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED STATEMENT OF MR. MICHAEL ROBICHAUX, SUGARCANE FARMER, ON BEHALF OF THE AMERICAN SUGAR CANE LEAGUE AND THE LOUISIANA FARM BUREAU FEDERATION, FRANKLIN, LOUISIANA

Additional Testimony

The fact that only 25% of Louisiana's sugarcane acres are planted every year means that it takes at least 4 -8 years longer for a Louisiana sugarcane farmer to modify their Actual Production History (APH) on their sugarcane acres when compared to an annually planted crop. At a minimum, it takes 4 years for a sugarcane farmer to replant their sugarcane acres from a poor performing variety into a better performing variety. However, when shifting varieties, it may take additional years to enable a sugarcane farmer to grow enough sugarcane of selected varieties for seed to replant their entire sugarcane acreage. This is important when you compare sugarcane with an annually planted crop where poor performing or disease susceptible varieties can simply be replanted to a different variety the very next year. The APH of annually planted crops do not reflect the longer period of variety transition that is found within the APH of crops like sugarcane.

The current method of calculating a producer's APH has been developed over the years for annually planted crops like corn, wheat and soybeans but is used without modification to determine the APH for multi-year crops like sugarcane. We believe that sugarcane's 4-8 year replanting cycle to transition sugarcane acreage into different varieties justifies the use of transitional yields within a sugarcane producer's APH. At issue is that under the current APH system, Louisiana sugarcane farmers are currently insuring a yield of a crop variety (LDCP 85-384) they no longer produce. Since older yields are excluded as new yields are included into a sugarcane producers 10 year APH, the worst yields from Variety LCP 85-384 in 2002 - 2006 will not be removed until yields from the years 2013 - 2017 are added into the 10 year yield history. This means it will take 8 years before APH yields can start to reflect current yields. However, during the upcoming 8 year period, Louisiana sugarcane farmers' multi-peril and group risk plan crop insurance program yield guarantee and the SURE Permanent Disaster Program revenue guarantee will grossly undervalue Louisiana sugarcane crops in the field.

We have excellent yield data from the new varieties that are now in Louisiana sugarcane fields such as HoCP 96-540, L 99-226, L 99-233 and L 97-128. Well proven yields from these current varieties could be used to substitute at least the worst 4 years of yield decline for Variety LCP 85-384. The use of these transitional yields within a Louisiana sugarcane producer's 10 year APH would better re-establish their true yields and provide them with risk protection until they have 10 years of APH history in current varieties.

Our recommendation would be to direct the Risk Management Agency to utilize transitional yields derived from current commercial sugarcane varieties in at least 4 years of Louisiana sugarcane producers' lowest recorded APH yields to permit risk protection programs to operate properly until producers can establish a 10 year APH yield based on current varieties.

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