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HEARING TO REVIEW THE FEDERAL CROP INSURANCE PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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HEARING TO REVIEW THE FEDERAL CROP INSURANCE PROGRAM

MONDAY, MAY 14, 2007

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

The Subcommittee met, pursuant to call, at 2:31 p.m., in Room 1300, Longworth House Office Building, Hon. Bob Etheridge [Chairman of the Subcommittee] presiding.

Present: Representatives Etheridge, Marshall, Salazar, Herseth Sandlin, Pomeroy, Boustany, and Neugebauer.

Staff Present: Tyler Jameson, Clark Ogilvie, John Riley, Sharon Rusnak, April Slayton, Debbie Smith, Kristin Sosanie, Bryan Dierlam, and Jamie Weyer.

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

Mr. ETHERIDGE. This hearing of the Subcommittee on General Farm Commodities and Risk Management to review the Federal Crop Insurance Program will come to order.

I want to thank my colleagues and the witnesses for being here today. You know that if you have a hearing on a Monday afternoon, it puts a lot of extra pressure on witnesses as well as my colleagues who, if they went home, it would shorten their weekend. So I want to thank them for being here.

At the previous crop insurance hearing, we heard from those that oversee, sell, adjust, manage and reinsure the policies that make up our crop insurance system. Today, we will hear on behalf of the producers who use the system as well as those who would like to be a part of that system.

While traditionally the farm bill does not delve deeply into crop insurance matters, it does provide an opportunity to make some improvements to the system. The 2002 Farm Bill contained a subtitle which included several small provisions regarding crop insurance, and I strongly expect that at least some minor changes to the crop insurance system will find their way into this farm bill.

The purpose of crop insurance is to help farmers better manage their risk. To the extent it does not accomplish this goal, it is our task to improve the system. I am a believer in crop insurance, and I want to ensure that farmers and taxpayers are getting the best product for their dollars invested. It is my hope that we will learn today ways we can improve the system so that more producers will

be able to take advantage of this important risk management tool. I look forward to hearing today's testimony from our witnesses.

[The prepared statement of Mr. Etheridge follows:]

PREPARED STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

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I am a believer in crop insurance, and I want to ensure that farmers, and taxpayers, are getting the best product for their dollar. It is my hope that we will learn today ways we can improve the system so that more producers will be able to take advantage of this important risk management tool.

I look forward to hearing today's testimony from our witnesses, and I now turn to the gentleman from Louisiana, Mr. Boustany, who is sitting in for the Ranking Member, Mr. Moran.

Mr. ETHERIDGE. I now turn to the gentleman from Louisiana, Mr. Boustany, who is sitting in for our Ranking Member, Mr. Moran, who is on his way back, for any comments he may have and his opening remarks.

OPENING STATEMENT OF HON. CHARLES W. BOUSTANY, JR., A REPRESENTATIVE IN CONGRESS FROM LOUISIANA

Mr. BOUSTANY. Thank you, Mr. Chairman.

I know Congressman Moran would like to be here, but he has got his difficulties back in his home State of Kansas that he is dealing with, and so I am pleased to sit in for him today.

I want to thank you for calling this hearing. It is a very important hearing. We have heard from the USDA, from crop insurance companies, from crop insurance agents, from GAO and other parties; and I think it is wise to hear from these witnesses today who each have their own concerns about how the current crop insurance programs work.

I continue to hear from producers in my district along the Gulf Coast about the need to improve crop insurance. Nearly 2 years ago, my district was struck by Hurricane Rita. Hurricane Rita did substantial damage to many farms in my home state, and this was preceded by the damage caused by Hurricane Katrina just 1 month before. I believe we have to have a strong crop insurance program that can adequately address the inherent risk of a normal farming operation as well as provide relief to farmers in cases of severe disaster.

Having reviewed the testimony, I observed that we have three different types of concerns to address today. The first deals with crop insurance for new and smaller crops. It seems that some of the witnesses, Sesame Growers Association, for example, would like to expand their production, but without crop insurance there is an unwillingness on the part of some lenders or landlords to fi-

nance or support these crops. I want to make sure that we can address these types of concerns, that we don't limit the options of producers because we don't have a crop insurance product available to them.

That being said, I want to make sure that our crop insurance programs remain actuarially sound; and I am anxious to hear more about this issue in ways that we can address this problem.

Additionally, I believe it will be important to review the impact that traditional ethanol and cellulosic ethanol production is having on the industry and how crop insurance could be hindering progress in this area as well. It is important how we address the importance of certain energy crops, while remaining grounded in the actuarial soundness of any new crop insurance program.

Second, we have a recurring problem with declining yields that is addressed in the testimony of the sorghum producers. The sorghum producers have hit a common theme, and it is one that Ranking Member Moran and Mr. Neugebauer and others, including RMA, continue to address. I would like to hear the ideas on how we can deal with declining yields so we don't end up with a situation where producers have less protection but at a higher price. At the end of the day, I believe it is important that farmers and not bankers are making the decision of which crops to plant.

Third, we have testimony dealing with potential changes to the 508(h) process, and I think the 508(h) process has worked well. Since the passage of ARPA, 70 proposals have been submitted to RMA; and 46 have been approved. This means that about 10 per year have been submitted to RMA since the passage of ARPA.

I am interested to hear more about the proposals that we will hear about today. I want to make sure that any changes to the program would not simply result in more expenditures that would encourage the development of a cottage industry, whereby people submit ideas for development. While they may be a worthy concept, they may not be subject to approval; so we need to strike a careful balance with this.

Again, I want to thank the Chairman for calling this hearing. I look forward to the testimonies of the witnesses, and I hope we can address these issues as we go forward. Thank you.

[The prepared statement of Mr. Boustany follows:]

PREPARED STATEMENT OF HON. CHARLES W. BOUSTANY, JR., A REPRESENTATIVE IN CONGRESS FROM LOUISIANA

Mr. Chairman,

Thank you for calling this hearing to hear from a number of individuals who have an interest in crop insurance. We have heard from USDA, from crop insurance companies, from crop insurance agents, from GAO and other parties. I think it is wise to hear from these witnesses who each have concerns with how the current crop insurance programs work.

I continue to hear from producers in my district along the Gulf Coast about the need to improve crop insurance. Nearly 2 years ago, my district was struck by Hurricane Rita. Hurricane Rita did substantial damage to many farms in my home state, and this was preceded by the damage cause by Hurricane Katrina just 1 month before. I believe we have to have a strong crop insurance program that can adequately address the inherent risks associated with a normal farming operation, as well as provide relief to farmers in cases of severe disaster.

Having reviewed the testimony, I observe that we have three different types of concerns to address today.

The first deals with crop insurance for new or smaller crops. It seems that some of the witnesses, sesame for example would like to expand their production, but without crop insurance, there is an unwillingness on the part of some lenders or landlords to finance or support these crops. I want to make sure that we can address these types of concerns so that we don't limit the options of producers because we don't have crop insurance. With that being said, I want to make sure that our crop insurance programs remain actuarially sound. I am anxious to hear more about this issue and ways to address to problem.

Additionally, I believe it will be important to review the impact that traditional ethanol and cellulosic ethanol production is having on the industry and how crop insurance could be hindering progress. It is important that we address the importance of certain "energy crops," while remaining grounded in the actuarial soundness of any new crop insurance program.

Second, we have a recurring problem with declining yields that is addressed in the testimony of the sorghum producers. The sorghum producers have hit on a common theme and it is one that the Ranking Member Mr. Moran, Mr. Neugebauer and others including RMA continue to address. I would like to hear ideas on how we can deal with declining yields so we don't end up with a situation where producers have less protection but at a higher price.

At the end of the day, I believe it is important that farmers, not bankers, are making the decision of which crops to plant.

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Again, I want thank the Chairman for calling this hearing. I look forward to the testimony of the witnesses and I hope you address these issues in your testimony, or in the Q&A period.

Mr. ETHERIDGE. Thank you very much.

Let me also recognize the Chairman of the full Committee, Mr. Peterson. Thank you for joining us and for any comments you may have.

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

Mr. PETERSON. I thank the Chairman and Ranking Member for their leadership and for calling this hearing. I also thank the witnesses for being with us today.

As has been said, Federal crop insurance is an important part of our safety net. You know, most Americans don't live in a farm or on the farm or in farming communities, have no clue about what a risky business you guys are in and how much money it takes to farm nowadays. So we, as has been said, want to make sure that we maintain that safety net and make sure that we have got the ability for people to continue to farm.

Historically, as has been said by the Chairman, crop insurance has not been a major part of farm bills. However, that does not mean that we cannot consider some changes to improve this program. As was mentioned about the declining yields, we have been trying to deal with that issue for over 10 years. Frankly, I have come to the conclusion that this cannot be dealt with in crop insurance in any meaningful way. So we are looking at some way to deal with the safety net that we have and the issues that we have been unable to solve. I am determined to somehow or other figure out how to do this, and that will entail us looking into crop insurance to make sure that it all fits together.

Today, we will be hearing from a number of groups that would like to see some changes in the crop insurance system. I think their testimony will help us move forward and make the right kind of decisions as we mark up the farm bill starting next week.

Again, Mr. Chairman, I want to thank you for your leadership in holding this hearing, and we look forward to hearing the testimony.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

The Chair would request that other Members submit their opening statements for the record so the witnesses can begin their testimony and ensure that we have ample time for each Member to ask questions.

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

Thank you, Mr. Chairman. As I have stated before, the Federal Crop Insurance Program represents a key component of the farm safety net for agricultural producers. It is essential to shielding agricultural producers from localized crop losses. In addition to providing liquidity to producers who have lost a crop, the federal crop insurance also provides assurance to lenders and retailers that extend needed credit to farmers and ranchers during the growing season.

Two weeks ago this Subcommittee heard from U.S. Department of Agriculture officials and a number of crop insurance industry representatives regarding the condition of the crop insurance industry. The witnesses stated that the Federal Crop Insurance Program has grown tremendously over the years and many witnesses expected the industry would continue to experience positive growth. However, many of the witnesses remarked that some issues remain, such as crops that continue to be uncovered by crop insurance policies and the failure of the system to develop a program to deal with multi-year droughts that cause declining yields and reduce the effectiveness of the traditional crop insurance policy.

The suggestions of the USDA officials and the crop insurance providers were useful. This Subcommittee, however, is also interested in obtaining the producer perspective on the Federal Crop Insurance Program. After all, it is for the producer that the crop insurance program was created. The program should be designed to address the challenges faced by producers, while maintaining actuarial and programmatic integrity.

I am pleased today to be presented with the suggestions of farmers and ranchers across the nation and from diverse production backgrounds on how to improve the current system. Should Congress consider addressing the crop insurance industry in the near future, the advice provided today will be a useful resource for this Committee.

I look forward to all the witnesses' testimony and hope that our discussion today can yield useful information for this Committee to utilize in the coming months.

Thank you, Mr. Chairman.

Mr. ETHERIDGE. With that, let us go to our first panel. We would like to welcome our first panel to the table: Ms. Caren Wilcox, Executive Director and CEO of the Organic Trade Association here in Washington; Mr. Hilton R. Segler, President of the Georgia Pecan Growers Association; Mr. Scott Marlow, Director of the Farm Sustainability Program, the Rural Advancement Foundation International of the United States in Pittsboro, North Carolina; Mr. David Gillen, farmer, on behalf of the National Corn Growers Association from South Dakota.

Ms. Wilcox—let me also remind each of you, if you would, your full statement will be included in the record; and if you will endeavor to summarize as close to 5 minutes as you possibly can, that would allow each one of us to have adequate time.

Thank you, and you may begin.

STATEMENT OF CAREN WILCOX, EXECUTIVE DIRECTOR AND CEO, ORGANIC TRADE ASSOCIATION, WASHINGTON, D.C.

Ms. WILCOX. Thank you, Mr. Chairman, and good afternoon. Good afternoon, also, Representative Boustany and Members of the Subcommittee.

My name is Caren Wilcox; and I am Executive Director of the Organic Trade Association located in Greenfield, Massachusetts. It is my honor to have the opportunity to testify today. My comprehensive testimony regarding the entire organic community is on record with the Subcommittee on Horticulture and Organic Agriculture. Thank you for paying attention to this fast-growing segment of agriculture.

As you will hear today, the organic community has not been able to rely on USDA for the information it needs to understand its markets or the information to create a wide range of insurance products. So OTA does studies for the industry by itself.

Last week, we released preliminary results of our latest market survey and announced that the organic food and beverage market reached 3 percent of the retail sector in the United States in 2006. Of course, the organic community is pleased by this growth. However, there is emerging evidence that consumer desire for organic products is outpacing domestic production. OTA is seeking to reduce these hurdles to farmers entering organic production.

While organic farmers are pleased that they are no longer considered entirely ineligible for some forms of crop insurance, they continue to be penalized by the current system; and OTA seeks to create fairness for them. Currently, organic farmers are charged a 5 percent premium over the cost a conventional farmer pays. Adding to the inequity, when organic farmers must collect on their insurance policies they are compensated at the price of the conventional crop, not the higher organic price.

An inability to seek crop insurance similar to what would be expected in conventional agriculture is one of the impediments to more farmers seeking to convert land to organic production. In order to remedy the situation for current and future organic farmers, we have developed legislative language that would amend the Federal Crop Insurance Act by adding a new subsection entitled *Contracts for Organic Production Coverage Improvements.*

We acknowledge that the national organic standard only came into effect in late 2002 and that USDA did not originally collect localized, separate data for organic crops *versus* the same crops grown conventionally. Fortunately, the USDA is now beginning to gather more price and data for organic agriculture products. It should be possible for the Federal Crop Insurance Corporation to prepare appropriate studies of risk and loss experience.

We believe that if the Congress will ensure that the data continues to be gathered across all segments and that there are appropriate studies mandated as part of the ongoing reviews conducted by the Corporation, then crop insurance products can be created that will be actuarially sound and will be available on an expanding basis to organic farmers. Such studies should lead the Department to be able to eliminate arbitrary price disparities.

As data collection continues to be more comprehensive, the Department should review incoming data at least annually beginning

in the 2008 crop year so the FCIC can make determinations and eliminate the surcharges; and farmers can be paid on actual losses in a timely manner. However, the proposed new system is very dependent on Congress and USDA creating and supporting comprehensive data collection.

We have been very pleased by the RMA AMS interagency agreement on price collection and support FCIC continuing and expanding it to facilitate collection and dissemination of segregated retail and wholesale price information for organic production.

In addition, OTA has called for the development of an insurance product with coverage that would protect the producer of an organic crop against the risk of a crop becoming contaminated through no fault of the producer and in a manner that would cause that crop to lose its access to organic markets and prices.

Finally, OTA's legislative proposal would require that the FCIC report annually to the House and Senate committees on its progress in developing and improving Federal crop insurance for crops grown in compliance with USDA's national organic standard and program. Our proposal is deliberately formulated not to create a budget score, because it requires these reviews and studies to fit within the Corporation's existing program of research and contracts currently funded at about $25 million.

Thank you for this opportunity to speak with you today. We look forward to working with the Subcommittee as you decide on crop insurance authorizations in the farm bill.

[The prepared statement of Ms. Wilcox follows:]

PREPARED STATEMENT OF CAREN WILCOX, EXECUTIVE DIRECTOR AND CEO, ORGANIC TRADE ASSOCIATION, WASHINGTON, D.C.

Mr. Chairman, Ranking Member, and Members of the Subcommittee, I am Caren Wilcox, Executive Director of the Organic Trade Association (OTA), the membership-based business association for organic agriculture and products in North America. I am here today speaking on behalf of the Organic Trade Association (OTA).

OTA is the voice for the organic business community, and has had this role for over twenty years, since its founding in 1985. Since that time, OTA membership has grown more than eight-fold, and now encompasses approximately 1,600 members across all parts of the organic farming, processing, distribution, and retailing supply chain for food, organic textiles, and personal care products.

Organic agriculture forms the basis of a fast growing part of the agricultural economy, and offers hope to farms and shoppers alike, while contributing to the improvement of our land, air, and water resources. Many farm businesses involved with organic production have started with a vision of changing agriculture for the better, and have grown over the years to become well-known products.

On April 18, 2007, before the Horticulture and Organic Agriculture Subcommittee, I provided extensive testimony on the state of the industry and the exciting growth taking place in the organic marketplace. I also outlined the laws, regulations, and practices that underlie that success. OTA provides private monitoring of the industry's growth, and has been involved with passage of the laws and regulations governing the industry. Also, during that testimony, I outlined OTA's 2007 Farm Bill agenda—its potential remedies to the various impediments faced by organic farmers. In particular, in the case of crop insurance there is a lack of data collection by USDA that for other segments of agriculture is collected. Today I would like to focus on one particular impediment—the lack of adequate crop insurance.

One of the major impediments to converting more farm land to certified organic status has been the type of crop insurance available. Originally, organic farmers were not considered eligible for federal crop insurance. The Agricultural Risk Protection Act of 2002 (ARPA) provides that organic farming practices be recognized as good farming practices. Prior to this ruling, crop insurance policies may not have covered production losses when organic insect, disease, and/or weed control measures were used and such measures were not effective.

However, the newly available federal crop insurance was presented at a disadvantageous rate. Organic farms pay a 5% additional premium and in the event of a crop loss they only receive compensation at a conventional price level for their organic crop. This is attributed by crop insurers and RMA to the fact that actuarial data is not available to insurers. While this is changing, it is important for RMA to use collected data to enable an insurance product to be developed promptly to help organic farmers. Some price and loss data is finally being collected by USDA, and this should be helpful in creating valid insurance products.

In order to address the inadequacy of available crop insurance, OTA has developed legislative language that would amend the Federal Crop Insurance Act by adding a new subsection entitled "Contracts for organic production coverage improvements."

If this legislation were to be enacted, within 6 months the Corporation would be instructed to enter into one or more contracts for the development of improvements in federal crop insurance policies covering crops grown in compliance with USDA's own national organic standards. This development research would include:

1. A review of the underwriting, risk, and loss experience of organic crops covered by the Corporation, as compared with the same crops grown in the same counties and during the same crop years using non-organic methods. The review should be designed to allow the Corporation to determine whether significant, consistent, or systemic variations in loss history exist between organic and non-organic production, and shall include the widest available range of data, including but not limited to loss history under existing crop insurance policies, collected by the National Agricultural Statistics Service, and other sources of information determined to be reliable and relevant.

Unless this review documents the existence of such significant, consistent, and systemic variations in loss history between organic and conventional crops, either collectively or on individual crops, the Corporation shall eliminate the 5% premium surcharge that it currently charges for coverage for organic crops on such crops. The review shall be conducted on an ongoing basis, at least annually, beginning with the 2008 crop year and for each crop year thereafter as annual data is accumulated by the Corporation, so that the Corporation may make the determinations and eliminate the surcharge in a timely manner as the review deems appropriate.

2. The development of a procedure, including any associated changes in policy terms or materials required for its implementation, to offer producers of organic crops (including dairy and livestock) an additional price election that would reflect the actual retail or wholesale prices, as appropriate, received by organic producers for their crops, as established using data collected and maintained by the Agricultural Marketing Service or other sources. The development of this procedure shall be completed in time to allow the Corporation to begin offering the additional price election for organic crops with sufficient data for the 2009 crop years, and to expand it thereafter as the AMS expands its data collection and availability for organic crop prices.

3. The development of an insurance coverage that would protect the producer of an organic crop against the risk of that crop (including dairy and livestock) becoming contaminated, through no fault of the producer, in a manner that would cause that crop to lose its access to organic markets and prices.

The OTA legislative proposal also would require that the Corporation continue and expand its interagency agreement with AMS to facilitate the collection and dissemination of segregated retail and wholesale price information for organic production at relevant shopping points, points of entry, wholesale markets, and retail markets, including the funding of all phases of the pilot and implementation stages of this project until the resulting price collection facility has been established on a nationwide basis.

Finally, OTA's legislative proposal would require that the Corporation report annually to the House Committee on Agriculture and to the Senate Committee on Agriculture, Nutrition, and Forestry on its progress in developing and improving federal crop insurance for crops grown in compliance with standards issued by the Department of Agriculture providing for the certification of such crops under the National Organic Program, including the numbers and varieties of organic crops insured, the development of new crop insurance approaches, and the progress of the initiatives mandated under this proposal. The annual report will also include the Corporation's recommendations on how it can continue to improve this insurance coverage.

OTA's most recent market survey has preliminary results that indicate that organic agriculture and production have managed to provide almost 3% of the U.S. retail food and beverage supply in 2006. The organic community has accomplished this largely by its own efforts to develop voluntary standards, support state and then a federal standard for organic agriculture and producers. The community also has developed methods, academic knowledge, and technologies that have built the success of organic. This has been accomplished with very little help from the federal government, certainly none similar in quantity and quality to that provided to other parts of agriculture.

The crop insurance proposal we put before you today is drafted to avoid generating a budget score. Instead, the organic projects will share in the $25 million fund authorized each year for spending on contracts and partnerships by RMA under section 522(e) of the Act. We would suggest backing up this approach with Committee Report language that urges RMA to ensure that organic projects receive their fair share of the fund, particularly during the early years of the new farm bill when they will be the most expensive.

We believe that this proposal, if enacted, would go a long way toward reducing the impediments faced by current certified organic farmers, and will act as an encouragement to farmers who wish to transition all or part of their farms to organic production.

Mr. Chairman, OTA thanks you for this opportunity to testify on behalf of the organic community on this important topic and looks forward to working with you on solutions.

Mr. ETHERIDGE. Thank you.

Mr. Segler?

STATEMENT OF HILTON R. SEGLER, PRESIDENT, GEORGIA PECAN GROWERS ASSOCIATION, ALBANY, GA

Mr. SEGLER. Good afternoon, Chairman Etheridge and Members of this Committee. I am Hilton Segler, a retired pecan grower and President of the Georgia Pecan Growers Association.

Pecans grow in 20 states. Most of our improved varieties are grown along the Gulf Coast from New Mexico to North Carolina. Georgia has the most production, followed by Texas. Pecans are the only major crop that is native to the United States. All other major crops were imported to America from other countries.

I chaired the first Committee back in 1980 to get Congress to pass the bill that would enable the RMA to provide Federal crop insurance for our pecan growers. In 2003, we were able to add 79 counties in Georgia and in 2004 two counties in Alabama, Baldwin and Mobile. Only in 2005 was a national program approved 25 years after we started.

Crops such as peaches, peanuts, blueberries, cotton, and corn have a provision that in the event of a crop failure insurance coverage cannot be adjusted down more than 10 percent of the individual farm's APH average. This is referred to by RMA as a 10 percent cup. Long-range weather forecasters predict that the Gulf Coast region will continue to have the same weather for the next 15 to 20 years. If this is true, our crop insurance will be worthless in a few years without this 10 percent cup.

For crop years 2004 and 2005 hurricanes were devastating to the pecan industry in the Southeast. Until that time, the loss experience for this crop did not even approach the premiums paid by growers and the need for yield protection was not even an issue. Since that time, the opposite has been true. Alabama and Georgia have suffered crop and tree loss unprecedented in this region due to nature's wrath, the loss not only from the income but tree loss population and the significant reduction in insurance guarantee

from pecan growers since the program does not enjoy the luxury of this 10 percent cup.

The Valdosta regional Office of RMA submitted a request to the Kansas City national office for a 10 percent cup for the crop years 2004 and 2005 with no success. The reasoning from Kansas City was that the pecan program is a revenue program unlike APH and not production-based.

Gentlemen, this simply is not true. Production is half of the equation that determines the pecan growers' guarantee, the other half being price received on a 2 to a 10 year average.

As with the CRC corn and cotton insurance program, pecans also use a combination of yield and price to establish the revenue guarantee. The disaster incurred by peach producers in 1996 when growers in the Southeast averaged near five bushels an acre overall prompted the administrative office of RMA here in Washington to implement a 10 percent cup for the crop year 1997. This set a precedent that was parallel with the catastrophic weather events that have befallen our pecan growers not only in the State of Georgia but Alabama, Florida, Mississippi and Louisiana in the crop years 2004 and 2005.

With the billions of dollars being thrown at the disaster in the Gulf, we can't afford not to recognize the disaster that has befallen our pecan industry in the Southeast and provide them the same yield protection so sorely needed. To correct this, we need to implement the 10 percent cup, have RMA go back to the 2004, and readjust the pecan growers APH average up to this time. It should be understood that no claims will be accepted or no additional premiums paid, only a readjustment of the APH average.

In conclusion, another change would permit the pecan grower to insure his pecans by farm number. By practice, growers now have to average every acre that they have in the county. Many of our growers have farms located several miles apart and you can have things happen on one farm that don't happen on another. This would be very similar to you owning three pieces of property, three houses and have one be burned by fire and the insurance company asks you to take an estimated value of the other two because they have increased in value and subtract what you have and pay you the difference. They are not paying you what you have got insured on that particular farm.

I appreciate the concerns that this Committee has, and we certainly appreciate the opportunity for the Georgia Pecan Frowers to be here today to address these issues, and we hope that you consider our issues in the 2007 Farm Bill.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Segler follows:]

PREPARED STATEMENT OF HILTON R. SEGLER, PRESIDENT, GEORGIA PECAN GROWERS ASSOCIATION, INC., ALBANY, GA

Good Afternoon Chairman Etheridge and Members of the Committee. My name is Hilton Segler. I am a retired pecan grower and President of the Georgia Pecan Growers Association, Inc.

Pecan History

Pecans grow in 20 states. Most of our improved varieties are grown along the Gulf Coast from New Mexico to North Carolina. Georgia has the most production fol-

lowed by Texas. Pecans are the only major crop that is native to the United States. All other major crops were imported to America from other countries.

George Washington planted several young pecan seedlings at Mount Vernon in 1774. Thomas Jefferson started growing pecan trees at Monticello in 1779. Union soldiers returning north in 1865 after the civil war brought pecans with them and helped to increase the nuts popularity. It took about 4 centuries for the pecan to become an important crop in the United States; it reached a commercial scale in 1920 and has increased steadily ever since.

Most edible tree nuts are essentially one state crops; Almonds, Pistachios, and Walnuts are produced in California; Filberts in Oregon and Macadamia nuts in Hawaii. The pecan on the other hand, is a multi-state crop, stretching across the country from the Southeast to the Southwest throughout some twenty states.

Pecans are one of our National Treasures; over 40% of both houses of Congress, regardless of party affiliation have pecans growing in their state. I just wanted you to understand the importance of pecans to our nation.

Federal Crop Insurance

I chaired the Committee, which began in 1980, to get Congress to pass a bill that would enable the RMA to provide federal crop insurance for our pecan growers. Not until 1998 did RMA allow us to have three pilot counties (Dougherty, Lee and Mitchell) in Georgia. In 2003, we were able to add seventy-nine additional counties in Georgia and in 2004 added two additional counties in Alabama (Baldwin and Mobile). Only in 2005 was a national program approved 25 years after we started.

It was the sense of Congress on the expansion of crop insurance that enabled us to move forward in the last 5 years. There are some small changes but important provisions that need to be made to the current policy to bring it in line with other crops. Crops such as Peaches, Peanuts, Blueberries, Cotton, Corn, etc. have a provision that in the event of a crop failure insurance coverage cannot be adjusted down more than 10% of the individual farms APH (yield average); this is referred to by RMA as a 10% percent cup. Long range weather forecasters predict that the Gulf Coast region weather patterns will continue for the next fifteen to twenty years. If this is true, our crop insurance would be worthless in a few years without this 10% cup

Pecan growers' insurance has decreased $300.00 per acre and premiums have increased as much as $10.00 per acre sense the devastating hurricanes of 2004. We experienced a severe drought in the late summer/fall of 2005, which began in August, just as the flowers for the following year's (2006) crop were being induced. Any stress, especially drought, occurring at this time, will limit the return crop as it puts additional stress on the tree to bring its current crop to maturity. To correct this with our growers, RMA would need to go back to the 2004 crop and re-adjust the growers APH as if the 10% cup was in effect at that time. RMA should not accept any additional claims or premiums for this time period.

Another change in the policy would be to permit a grower to insure his pecans by farm number. At the present time a grower can insure by practice (irrigated or non-irrigated) but has to average all his pecan groves by county. Many of our growers have farms located several miles apart. There could be a hail storm on one farm but not on another. It makes no sense not to let each farm be insured by farm number. This is why most all other crops have this safety protection and we don't understand why pecans are different. A good example would be like having three houses all insured and one was destroyed by fire and your insurer asked you to average the appraised value of the other two, and only paid you the difference, regardless of the insurance on the one that you lost.

I want to thank the Committee for giving our organization an opportunity to testify today. We sincerely hope the 2007 Farm Bill will address these issues of concern to our Pecan Producers and reflect the value of their production to the U.S. Economy, as well as the dietary needs of all Americans. Thank You.

Mr. ETHERIDGE. Thank you, sir. Mr. Marlow.

STATEMENT OF W. SCOTT MARLOW, DIRECTOR, FARM SUSTAINABILITY PROGRAM, RURAL ADVANCEMENT FOUNDATION INTERNATIONAL—USA, CHAPEL HILL, NC

Mr. MARLOW. Chairman Etheridge, Representative Boustany, Members of this Subcommittee, thank you for this opportunity to address you today about how crop insurance affects the ability of farmers to adjust to recent shifts in our agricultural economy.

Between Hurricane Floyd in 1999 and Hurricane Katrina in 2005, the percentage of eligible acreage in my home State of North Carolina participating in crop insurance increased from 56 percent to almost 78 percent, but an estimate of the percentage of North Carolina farm receipts covered by crop insurance fell from 19 percent in 1999 to around 13 percent in 2005. It is not that crop insurance changed but that crop insurance did not change to keep up with North Carolina's farm economy.

We are moving rapidly from crops with extensive risk management and disaster programs to enterprises with ineffective or no risk management. Today I would like to focus on three issues associated with this transition. My testimony is based on our experience in North Carolina, but we are addressing these issues with farmers from across the South and the rest of the Nation.

First, there is no effective risk management for farms with production contracts where the farmer does not own the product. According to the 2002 Census of Agriculture, 69 percent of hogs and essentially 100 percent of broilers raised in the our state were raised under production contracts, and we are seeing anecdotal evidence of production contracts being adopted in non-livestock crops.

Livestock producers are also increasingly concerned about the risks of the disease outbreaks, quarantine and depopulation by either state or Federal officials which are not insurable causes of loss in existing programs.

We recommend that the Risk Management Agency develop or adapt crop insurance programs to ensure against the risks associated with production contracts and their unique ownership structure. Livestock programs should also include the peril of quarantine, depopulation by Federal or state government and bioterrorism as insurable causes of loss.

Second, there is a lack of risk management for value-added products critical to mid-scale agriculture.

Nationally, we are quickly losing mid-scale farms that are too large to access growing direct markets but are too small to compete in commodities markets, the agriculture of the middle that makes up the backbone of our agricultural economy and land stewardship. But we are also seeing a rapid rise in demand for high-quality, specially raised products like organic produce, heirloom vegetables and specialty meats.

These emerging markets have grown beyond the ability of the small farmers who pioneered them to fill. The greatest hope for agriculture of the middle is the transition to production of high-value, specialized crops and livestock brought to niche markets in ways that bring a greater percentage of the food dollar back to the farm.

In our experience, there is currently no crop insurance that provides effective risk management for value above the commodity price. This gap in the reduction in access to credit and Federal disaster programs that accompanies it creates a financial disincentives for farmers to make the transition and increases the risk and vulnerability of those that do.

In recent years, RMA has been piloting the Adjusted Gross Revenue and Adjusted Gross Revenue-Lite crop insurance programs. AGR and AGR-Lite provide income insurance based on the 5 year average of gross farm revenue as established on Schedule F of the

farmer's taxes, which addresses added value and crop diversity. Since 2005, North Carolina has been fortunate enough to be one of the pilot states for AGR-Lite.

While AGR-Lite is simple in concept, it has proven to be extremely complicated in implementation, requiring documentation not only of gross income but of all the crops and enterprises that make up that income. Specifics in the requirements of the program have made it difficult to determine eligibility of income and coverage of losses. Because of the complexity of both application and claims adjustment, crop insurance agents are reluctant to promote it and farmers are reluctant to trust it.

These difficulties have been borne out in declining enrollment numbers, despite significant outreach efforts. As the only programs that address value-added markets, it is critical that we get AGR and AGR-Lite right.

We recommend that the AGR and AGR-Lite programs be extended in this farm bill but reformed to be more accessible before expansion to national availability. Reform should emphasize streamlining the application and claims adjustment processes and shifting the program structure to reward diversification and innovative marketing.

Third, crop insurance for organic producers is inadequate due to the increased premiums and benefits that do not recognize the price for organic products. Crop insurance guidelines recognize organic farming as good farming practices, and the actual production history of the crop insurance policies are based on and reflects the individual producer's management.

So we recommend that the 2007 Farm Bill eliminate the current 5 percent surcharge on premiums for organic producers. We also suggest that this farm bill establish a deadline for providing payments that reflect organic market prices.

In closing, access to effective crop insurance programs is essential for farmers' transition to the emerging markets that are key to the health and vibrancy of our family farms. Thank you for this opportunity to testify today, and I welcome any questions and look forward to working with you in the future.

[The prepared statement of Mr. Marlow follows:]

PREPARED STATEMENT OF W. SCOTT MARLOW, DIRECTOR, FARM SUSTAINABILITY PROGRAM, RURAL ADVANCEMENT FOUNDATION INTERNATIONAL—USA, CHAPEL HILL, NC

Chairman Etheridge and Ranking Member Moran, Members of the Subcommittee, thank you very much for this opportunity to address the Subcommittee about crop insurance, and specifically about how crop insurance affects the ability of farmers to adjust to recent shifts in our agricultural economy.

My name is Scott Marlow, and I am the Director of Farm Sustainability for the Rural Advancement Foundation International—USA. RAFI–USA is a non-profit organization based in Pittsboro, NC that addresses issues of equity, sustainability and diversity in agriculture and rural communities. I am also here on behalf of the thousands of farmers in North Carolina and across the country that we have worked with over the last 15 years to help access new markets, seek equity in production contracts, get reward in the marketplace for the environmental stewardship that they do or help find ways to keep going in the face of disasters of weather or price. My testimony is based on the specifics of our experience in North Carolina, but we are also addressing these issues with farmers from across the southeastern United States, and the rest of the country.

While crop insurance has a long history of providing effective risk management for the traditional crops of North Carolina agriculture, recent changes in our farm economy mean that the Risk Management Agency faces a series of challenges in providing effective risk management for a significant percentage of North Carolina farm income, and we expect these challenges to increase in the years to come.

Between Hurricane Floyd in 1999 and Hurricane Katrina in 2005, the percentage of eligible North Carolina acreage participating in crop insurance increased from 56% to almost 78%, but the percentage of North Carolina farm receipts covered by crop insurance, based on North Carolina Department of Agriculture and Consumer Services and Risk Management Agency data, fell from 19% in 1999 to around 13% in 2005, and the percentage of farm income eligible for crop insurance fell from approximately 38% to 28%.[1] It is not that crop insurance changed, but that crop insurance did not change to keep up with changes in North Carolina's farm economy.

The segments of the farm economy with extensive crop insurance, commodities such as tobacco, cotton and corn, while vitally important to many farmers in our state, have dropped in their percentage of North Carolina farm receipts. The fastest growing segments of North Carolina's farm economy—livestock produced under production contracts, specialty crops like greenhouse, nursery and Christmas trees, and emerging value-added markets such as organic and specialty livestock—are all underserved, if served at all, by current crop insurance programs. We are moving rapidly from crops with extensive risk management and disaster programs to enterprises with ineffective or no risk management. Today I would like to focus on three issues associated with this transition.

Issue 1. Lack of Risk Management for Operations With Production Contracts

The greatest percentage of North Carolina farm income, almost 60%, now comes from broilers, turkeys and hogs. The structure of these livestock industries has significant effect on the outlook for risk management programs. According to the 2002 Census of Agriculture, 69% of hogs and essentially 100% of broilers raised in our state were raised under production contracts where, according to USDA definitions, the producer never owns the animal.[2] We are also seeing anecdotal evidence of production contracts being adopted in specialty crops and other non-livestock areas.

In the past, the Risk Management Agency has acknowledged the gap in risk management for livestock producers,[3] and in hearings before this Subcommittee last week, Dr. Keith Collins outlined two current pilot programs for livestock. It is important to note, however, that animal ownership is essential for eligibility in both of these programs and neither will provide risk management for livestock produced under production contracts. Livestock producers are also increasingly concerned about the risks of disease outbreaks, quarantine or preventative depopulation by either state or federal officials as they are currently not insurable causes of loss.

There is precedence for benefits to producers of livestock under production contracts in *ad hoc* disaster programs. The 2000 Supplemental Appropriations Act passed on Nov. 29, 1999 targeted $10 million for contract growers[4] under the Livestock Indemnity Program. Following Hurricane Katrina and the other Gulf Coast hurricanes of 2005, Congress made some assistance available to contract growers in the form of Livestock Indemnity Payments and Emergency Conservation Program cost share assistance for cleaning up debris from poultry barns and/or costs to reconstruct or repair barns if there were uninsured losses.[5] However, ad hoc programs that Congress may or may not pass after a specific disaster are no substitute for risk management that contract growers may incorporate into their farm business planning on an ongoing basis.

Recommendation

Crop insurance programs must be developed that insure against the risks associated with production contracts and the unique ownership structure that they bring, either by developing crop insurance programs specific to production contract income, or by including production contracts in currently existing programs that insure income rather than products. Livestock programs must also include the peril of quarantine, depopulation by federal or state government and bio-terrorism as insurable causes of loss.

Issue 2: Lack of Risk Management for Value-Added Products Critical to Mid-Scale Agriculture

Nationally, we are losing the mid-scale farms that have made up the backbone of our agricultural economy and land stewardship. The most rapid loss is among those farms that are too large to access the growing direct market economy, but too small to compete in the undifferentiated commodities market—the agriculture of the middle.[6] Last year, North Carolina led the nation in the loss of farms.[7]

But we are also seeing a rapid rise in demand for high-quality, specially-raised products like organic produce, heirloom vegetables and specialty meats, what we call "food with a taste, a place and a face," driven by consumer demand and an increase in spending on away-from-home food.[8] According to Rick Schnieders, the CEO of the Sysco Corporation, the defining aspect of retail food is price, whereas the defining aspect of restaurants and food service is differentiation. As consumers shift more of their food dollar to food consumed outside the home, there will be greater demand for the type of differentiation of products that only mid-scale farmers can provide.[9]

These emerging markets for natural, organic and specialty foods have grown beyond the ability for the small farmers who pioneered them to fill, and require the capacity and the management capability of the mid-scale farmers that we are currently losing. The greatest hope for mid-scale farmers is the transition to production of high-value, specialized crops and livestock brought to niche markets in ways that bring a greater percentage of the food dollar back to the farm, and our greatest challenge is assisting mid-scale farmers in connecting to these markets before they go away.[10]

Crop insurance plays an important role in encouraging or discouraging that transition, both in providing risk management, and because crop insurance determines access to credit and access to additional disaster program benefits. In a 2004 survey of tobacco farmers, RAFI–USA found that 67% identified access to capital as a key barrier to diversifying their farm. In a yearlong study with agricultural lenders in North Carolina, we found that lenders based the expected value of crops for both collateral and budgets on assured income as determined by either conventional commodities markets or crop insurance. Because the added value of specially marketed crops like organic is uninsured, it is frequently not included in either collateral valuation or anticipated income. The farmers of these crops are therefore more likely to be required to put personal property up as collateral for operating loans in addition to the crop itself, and are less likely to have a farm plan that shows a positive cash flow. While lenders do not recognize the higher value of specialty crops, they do recognize the higher expense of producing them.[11]

Recent crop disaster payments have been based on benefits received under crop insurance or the Non-Insured Disaster Assistance Program (NAP). While this choice makes sense in that it rewards participation in risk management programs, it leaves those farmers who are not eligible for effective crop insurance programs without assistance. If proposed crop disaster payments are combined with crop insurance, conventional farmers will receive compensation for nearly 100% of their damage, whereas producers of value-added, niche and specialty crops without effective crop insurance will receive nothing.

In our experience, there is currently no crop insurance that provides effective risk management for the value that farmers add through either specialized production or marketing. The lack of risk management for value-added products, and the reduction in access to credit and other disaster programs that accompanies it creates a financial disincentive for farmers to make the transition, and increases the risk and vulnerability of those that do.

The challenge for crop insurance is that the emerging markets and differentiated products do not come with the uniformity and automatic data collection that provides the underpinning of conventional commodity crop insurance. The very aspects of these markets that make them vibrant and exciting and profitable—the ability to respond quickly to a wide variety of specific niches of quality and production—are the same aspects that make it extremely difficult to program for them. The traditional product development approach of developing a crop-specific risk profile and then releasing a crop-specific insurance product is unable to address the diversity of emerging products, enterprises and markets.

In recent years, RMA has been piloting the Adjusted Gross Revenue (AGR) and Adjusted Gross Revenue-Lite (AGR-Lite) crop insurance programs. AGR and AGR-Lite provide income insurance based on the 5 year average of gross farm revenue as established on Schedule F of the farmer's taxes, including value added through specialty markets and addressing the complexity of many small and mid-size farms. Since 2005, North Carolina has been fortunate enough to be one of the pilot states for AGR-Lite.

While AGR and AGR-Lite are simple in concept, they have proven to be extremely complicated in implementation. Because of the complexity of both application and claims adjustment, crop insurance agents are reluctant to promote it and farmers are reluctant to trust it. Specifics in the requirements of the program have made it difficult to determine eligibility of income and coverage of losses, and some farmers have beensurprised to discover the limitations of their coverage only when their claims were adjusted. In short, this program is not working.

These difficulties have been borne out in declining enrollment numbers, both in North Carolina and nationally, despite significant outreach efforts. From a high of 970 policies nationally in 2003, enrollment dropped steadily to 551 in 2007. As the only programs that address value-added markets, it is critical that we get AGR and AGR-Lite right.

Recommendation

The AGR/AGR-Lite programs should be extended, but reformed to be more accessible and affordable, and then expanded to be available nationally. Reform should include specific steps to address shortcomings in the program, but should emphasize streamlining the application and claims adjustment processes, and shifting the program structure to reward diversification and innovative marketing.[12]

Issue 3: Inequity for Organic Producers

Of the rapidly growing high-value markets, organic is the best recognized and provides the clearest example for crop insurance. Many current crop insurance programs are available for organic crops, but the structure of these programs penalizes organic farmers and creates a financial disincentive for seeking organic certification. When an organic producer signs up for crop insurance, they pay an extra 5% surcharge that is assessed to offset perceived additional risk associated with organic production, although this perceived risk has not been quantified by research.

When farmers receive crop insurance and other disaster program benefits, these benefits do not recognize the added value of organic, and payments are calculated based on the conventional price. For an organic farmer who receives a price for organic product that is double the conventional price, 75% crop insurance coverage based on the conventional price actually covers 37% of the farmer's income. Organic farmers in essence pay more for less coverage. This double inequity needs to come to an end.

When an organic farmer's lawsuit to receive assistance under the Crop Disaster Program based upon the market price for organically grown adzuki beans was successful,[13] USDA promptly changed the program regulations to allow assistance only at the conventional price. The courts have upheld the new regulation[14] so action by Congress is the only way to ensure that organic farmers receive assistance based on their market price, just as conventional farmers receive assistance based on the market price for their goods.

Recommendation

Organic producers should have access to insurance programs that meet their needs without putting them at a competitive disadvantage to conventional producers. The 2007 Farm Bill should eliminate the current 5 percent surcharge on premiums for organic producers and establish a deadline for providing payments that reflect organic market prices to organic producers.[15]

In closing, access to effective crop insurance programs is essential for farmer's transition to the emerging markets that are the key to the health and vibrancy of mid-scale agriculture. Thank you for the opportunity to testify today, and I welcome any questions from the Committee.

Notes

1. Percentage of coverage was determined using percentage of eligible acreage participating from the RMA State Crop Insurance Profile (*http://www.rma.usda.gov/pubs/state-profiles.html*) and the percentage of farm receipts by commodity from North Carolina Department of Agriculture and Consumer Services Agricultural Statistics Service (*http://www.ncagr.com/stats/cashrcpt/cshcomyr.htm*). Percentage of greenhouse/nursery participation was estimated using the percentage of total value of greenhouse/nursery products that were represented by crop insurance liability.

2. "Under a production contract, the farmer provides services to the contractor, who usually owns the commodity under production. For example, contractors in poultry production usually provide chicks to the farmer along with feed and veterinary/transportation services. The farmer then raises the chicks to maturity, whereupon the contractor transfers them to processing plants. Contractors often provide detailed production guidelines, and farmers retain far less control over production decisions. The farmer's payment resembles a fee paid for the specific services provided, instead of a payment based on the market value of the product."

Nigel Key and James MacDonald, "Agricultural Contracting; Trading Autonomy for Risk Reduction." USDA Economic Research Service. *Amber Waves* Volume 4 Issue 1. February 2006. Pg. 28.

3. Eldon Gould, Review of the Federal Crop Insurance System. Hearings before the Subcommittee on General Farm Commodities and Risk Management of the House Committee on Agriculture, March 15, 2006.

4. P.L. No. 106–113, Appendix V, Title I, Chapter 1, 113 Stat. 1501.

5. Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, P.L. No. 109–148, Division B, Title I. (December 20, 2005) and Emergency Agricultural Disaster Assistance Act of 2006, which was enacted into law on June 15, 2006 as Title III of the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recover Act of 2006. The formal citation of the Act is P.L. No. 109–234).

6. For more information about the issues associated with agriculture of the middle, including current research and overview documents see the web site of the National Task Force to Renew Agriculture of the Middle at *www.agofthemiddle.org*.

7. North Carolina Department of Agriculture and Consumer Services Press Release, "North Carolina leads nation in loss of farms . . . again." 2/19/07. *http://www.ncagr.com/paffairs/release/2007/2-07farmloss.htm.*

8. Stewart, Hayden, Noel Blisard, Sanjib Bhuyan and Rodolfo Nayga, "The Demand for Food Away From Home, Full service or fast food." United States Department of Agriculture Economic Research Service Agricultural Economic Report Number 829. January, 2004.

9. Schnieders, Rick, "Presentation to the Georgetown University Law School." Available at *http://www.agofthemiddle.org/papers/sysco.pdf.*

10. Kirschenmann, Fred, Steve Stevenson, Fred Buttel, Tom Lyson and Mike Duffy, "Why Worry About Agriculture of the Middle." White paper prepared for the National Task Force to Renew Agriculture of the Middle. Available at *http://www.agofthemiddle.org/papers/whitepaper2.pdf.*

11. The full report on the Farmer/Lender Project is available at *http://www.rafiusa.org/pubs/puboverview.html.*

12. Draft AGR/AGR-Lite reform recommendations:

1. Streamline application process and adjustment process to increase farmer access to the program and encourage crop insurance agent participation, clarifying coverage and benefits.

2. Provide higher levels of coverage on AGR/AGR-Lite whole farm revenue programs. Current deductibles are too high for producers. The maximum effective coverage for AGR-Lite is 72% (80% coverage, 90% payment rate). In many cases, thin profit margins do not allow a 28% drop in revenue without severely impacting the viability of the farm operation. Consider an 85% coverage level and 100% payment rate like several of the MPCI coverages.

3. Add a "floor" to the 5-Year income history used to determine coverage levels. Low revenue can reduce the approved AGR to the point where the insurance will not provide adequate coverage. Example: maintain the 5 year Schedule F average, but allow up to 10 years if available.

4. Crop insurance payments and Noninsured Crop Disaster Assistance (NAP) are not considered allowable income in the 5 year history but are considered revenue to count for claim purposes. Adding MPCI indemnities and NAP to allowable income would provide a floor to compensate for low revenue years.

5. The animal/animal product rates need reviewed to more accurately reflect the risk. More analysis is needed to see which risk pool livestock commodities should go into *versus* simply putting all livestock in the highest risk pool.

6. Carryover commodities still in the production phase present some unique beginning and ending inventory challenges. The inventory rules should be reviewed to ensure the procedures provide clear directions on how to handle these commodities. In addition, clarity should be provided as to whether or not coverage is provided for these commodities including Christmas trees, shellfish, nursery, and livestock.

7. Strengthen the policy regarding establishing local market value, particularly for direct marketers. Currently, the policy indicates that if published prices are not available, then the average price offered by two commercial buyers, one nominated by the policyholder and one by the insurance company, should be used. This needs to be strengthened in two ways. First, for direct marketers it should be the best estimate of those involved in direct marketing, as commercial buyers are not involved. Second, the value for estimating the revenue for the producer's intention report for the current year should be determined at the time the intentions report is filed, otherwise the producer loses the price fluctuation protection otherwise provided by the policy. There are reports where the price is either not finalized at the time the intention report is filed or that it

is adjusted at claims time. Neither is acceptable because such changes can reduce the producer's protection that was initially sold to them and adversely impacts the collateral value of the policy.

8. Definition of 'Animals' needs to be revised to ensure it is inclusive of production agriculture. The current definition is "living organisms other than plants or fungi that are produced or raised in farming operations including, but not limited to, aquaculture, bovine, equine, swine, sheep, goats, poultry, aquaculture species propagated or reared in a controlled environment, bees, and fur bearing animals, excluding animals for sport, show, or pets." For shellfish farm eligibility it may be helpful to modify the definition by adding: Shellfish (licensed commercial producers under the local approving authority in a certified growing area). This will further define the controlled environment and eliminate recreational *versus* commercial operations. Another definition issue involves 'fryers.' While poultry is currently listed in the definition, a fryer is not. It also needs to be clear that animals under contract are insurable.

9. Develop mechanisms to extend AGR and AGR-Lite to new and beginning farmers so they have the opportunity to utilize federal risk management programs. Strong consideration should be given to permit such producers to have protection and premium rates established based on information for similar farms that have sufficient historical information to meet the requirements of these insurance plans.

13. *Pringle* v. *United States of America*, 1998 U.S. Dist. LEXIS 19378 (E.D. Mich. 1998).

14. *Partlo* v. *Johanns*, 2006 U.S. Dist. LEXIS 43071 (D. D.C. 2006).

15. Proposed Legislative language on organic:

Crop Insurance—Premium Surcharge

Section 508(d) (7 U.S.C. 1508) of the Federal Crop Insurance Act is amended by adding a new (d) as follows:

(d) SURCHARGE PROHIBITION.—The Corporation may not require producers to pay a premium surcharge for using scientifically sound sustainable and organic farming practices and systems.

Crop Insurance—Market Prices

Section 508(c) (7 U.S.C. 1508) of the Federal Crop Insurance Act is amended by adding a new (5)(C)(v) as follows:

(v) in the case of organic commodities, shall be, no later than October 1, 2009, the expected or the actual organic market price of the agricultural commodity, as determined by the Corporation.

Mr. ETHERIDGE. Thank you, sir.

I would now recognize Mr. Gillen for 5 minutes.

STATEMENT OF DAVID GILLEN, FARMER; VICE CHAIRMAN, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWERS ASSOCIATION; CHAIRMAN, BOARD OF DIRECTORS, SOUTH DAKOTA CORN GROWERS ASSOCIATION, WHITE LAKE, SD

Mr. GILLEN. Thank you, Mr. Chairman.

Mr. Chairman, Members of the Subcommittee, thank you for this opportunity to provide you input as you review the Federal Crop Insurance Program.

My name is David Gillen. Along with my wife Carol, we own and operate a no-till grain farm at White Lake, South Dakota. We have been operating our century farm for 29 years, raising corn, wheat and soybeans.

Currently, I serve as Vice Chair of the National Corn Growers Public Policy Action Team and Chairman of the South Dakota Corn Growers Association Board of Directors.

On behalf of NCGA, our 32,000 plus members from 48 states and more than 300,000 producers who contribute to corn check-off programs, I cannot overemphasize the importance of an effective and

affordable Federal Crop Insurance Program to our member growers' risk management planning. Assuming commodity markets remain above current farm price support levels over the next several years, crop insurance becomes even more critical for protecting producers' farm revenue.

As recently as 2005, when we experienced the second highest corn harvest ever, many producers were impacted by substantial crop losses due to severe drought, flooding and other adverse weather events that resulted in indemnity payments exceeding $697 million. In a year when growers were facing considerable jumps in input costs, particularly fuel and fertilizer, the income protection from Federal crop insurance was essential for keeping many farm operations out of serious financial trouble. Also, 2006 was the worst drought in my area in 28 years of farming.

Crop insurance has a huge impact in how we run our farm operations. In addition to removing risk and providing much stability to the industry, we need a crop insurance program that rewards good management and sound risk management practices.

One policy change proposed by NCGA would enhance the incentive for producers to assume more risk in exchange for higher levels of revenue protection. Because the size of the unit has a significant effect on the cost of crop insurance, we believe it is very important to eliminate the disparity between subsidized premiums for coverage by optional or basic and the larger enterprise and whole farm coverage. Only 3 percent of acres are covered using enterprise units, compared to almost 61 percent for optional units and 36 percent for basic units. The key reason enterprise and whole farm unit coverage is used so little is because of the economic disincentive created by this continuing disparity.

Premiums are discounted for enterprise units and whole farm coverage. However, the reduction in costs does not adequately reflect the declining yield variability with larger units. Under the current subsidy structure, optional unit coverage is a better buy for most producers. If the same program dollars that a producer spends, for example, on 75 percent optional coverage could be spent on 85 percent enterprise coverage, the produce would have better coverage on his whole farm, even though he would have to absorb the losses on individual units.

Our view is that the carrot approach, rather than the stick approach, should be used to encourage more use of this type of coverage, particularly enterprise unit. NCGA's proposed change would allow producers to continue use of coverage by optional or basic units. One considerable advantage for producers that select optional units is that a high yield on one unit does not affect the coverage on another unit. We anticipate that some growers will continue to prefer this optional unit coverage that protects against losses on each individual unit.

NCGA is recommending for your consideration legislation language to authorize changes that would eliminate this flaw in the subsidy structure. We believe this reform would enhance program efficiency without adding to the budget baseline. It would likely reduce the moral hazard.

By encouraging greater use of enterprise unit coverage, producers would be rewarded for better management, assuming more

risk and directing even more attention to detail on individual units. Moreover, the need for disaster assistance would be lessened when producers buy up to higher levels of insurance. In today's tight budget environment, any step we can take to reduce the administration costs, inequities and the potential for program abuse is beneficial to farmers and the taxpayer. The structure of the Federal Crop Insurance Program should encourage producers to insure adequate revenue to avoid devastating losses but must not artificially stimulate production.

Mr. Chairman, I want to thank you again for this opportunity to share with this Committee NCGA's views and policy recommendations for further improving the Federal crop insurance system for our member growers. We appreciate your leadership and continued support of the corn industry. Thank you.

[The prepared statement of Mr. Gillen follows:]

PREPARED STATEMENT OF DAVID GILLEN, FARMER; VICE CHAIRMAN, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWERS ASSOCIATION; CHAIRMAN, BOARD OF DIRECTORS, SOUTH DAKOTA CORN GROWERS ASSOCIATION, WHITE LAKE, SD

Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to provide you input as you review the Federal Crop Insurance Program. My name is David Gillen. Along with my wife Carol, we own and operate a no-till grain farm at White Lake, South Dakota. We have been operating our century farm for 29 years raising corn, wheat and soybeans.

Currently, I serve as the Vice Chairman of the National Corn Growers Association's (NCGA) Public Policy Action Team and Chairman of the South Dakota Corn Growers Association Board of Directors.

On behalf of NCGA, our 32,000 plus members from 48 states and more than 300,000 producers who contribute to corn check off programs, I cannot overemphasize the importance of an effective and affordable Federal Crop Insurance Program to our member growers' risk management planning. Assuming commodity markets remain above current farm price support levels over the next several years, crop insurance becomes even more critical for protecting producers' farm revenue against significant yield losses.

In 2006, 62 million net acres of corn were insured under federal crop insurance for liability protection at approximately $16.7 billion. While questions have recently been raised on the amount of resources and delivery of the program, there should be no question regarding the necessity of the private-public partnership between the Department of Agriculture and private insurers to provide the levels of protection now available to farmers across the corn belt.

As recently as 2005 when we experienced the second highest corn harvest ever, many producers were impacted by substantial crop losses due to severe drought, flooding and other adverse weather events that resulted in indemnity payments exceeding $697 million. In a year when growers were facing considerable jumps in input costs, particularly fuel and fertilizer, the income protection from federal crop insurance was essential for keeping many farm operations out of serious financial trouble. Also, 2006 was the worst drought in my area in my 28 years of farming.

Over the past several years, NCGA has placed a high priority on monitoring the progress of the Federal Crop Insurance Program, encouraged greater participation to enhance risk management plans and worked to ensure that any problems that arise are adequately addressed by the companies and the Risk Management Agency. To be sure, the variety of insurance plans offered through this shared cost program has enabled producers to purchase policies that better match the needs of their farm operations. Ever since their introduction, revenue insurance plans have become a very important risk management tool for corn growers. For producers who use forward contracts, these popular policies allow greater flexibility to market their grain while reducing the risks against short or failed crops.

An article written for the Economic Research Service in November, 2006 by Drs. Robert Dismukes (USDA) and Keith Coble (Mississippi State University) zeroes in on the key reason for the growth of these products; "As a tool based on revenue shortfalls rather than on yield or price shortfalls, revenue insurance can be more effective at stabilizing income than insurance plans or farm programs that protect against yield and price risks." They also noted an important advantage of revenue

insurance over other risk management tools or farm support; the plans 'match the costs of risk protection with benefits and base coverage on the crop's market value'. Every farmer knows that it is revenue that pays the bills. This is the fundamental reason why over 66% of policies for corn sold for the 2006 crop year were written for Crop Revenue Coverage (CRC), Revenue Assurance (RA) or Group Risk Income Protection (GRIP). These policies, alone, accounted for over $1.43 billion, over 90 percent of the total premiums paid. Another important reason for the growth in revenue insurance policies is the increase in the share of subsidized insurance premiums from less than 30 percent to 56 percent since 1996.

These numbers underscore the impact crop insurance can have on our farms and how we run our operations. In addition to removing risk and providing much stability to our industry, we need a crop insurance program that rewards good farm management and sound risk management practices and tools.

One policy change proposed by NCGA would enhance the incentive for producers to assume more risk in exchange for higher levels of revenue protection. One unintended consequence of increased subsidies coupled to levels of protection authorized under the Agriculture Risk Protection Act of 2000 is a system that does not fully recognize the lower risk exposure of enterprise and whole unit policy coverage. Because the size of the unit has a significant effect on the cost of crop insurance, we believe it is very important to eliminate the disparity between subsidized premiums for coverage by optional (field subdivided basic units) or basic (all crop land of a single crop into one insurance unit) and the larger enterprise unit (all shares of a crop in the county) and whole farm (all eligible insured crops in the county) coverage. According to RMA, only 3 percent of acres are covered using enterprise units compared to almost 61 percent for optional units and 36 percent for basic units. The key reason enterprise and whole farm unit coverage is used so little is because of the economic disincentive created by this continuing disparity.

Premiums are discounted for enterprise unit and whole farm coverage; however, the actual reduction in costs does not adequately reflect the declining variability in yield and/or revenue as a producer aggregates acres into the larger insurance units. Under the current subsidy structure, optional unit coverage is a better buy for most producers. If the same program dollars that a producer spends, for example, on 75% optional coverage could be spent on 85% enterprise coverage, the producer would have better coverage on his whole farm even though he absorbs the losses on individual units.

Our view is that a carrot rather than a stick should be used to encourage more use of this type of coverage, particularly enterprise unit. NCGA's proposed change would allow producers to continue use of coverage by optional or basic units. One considerable advantage for producers that select optional units is that a high yield on one unit does not affect the coverage on another unit. We anticipate that many growers will continue to prefer optional unit coverage that protects against losses on each individual unit.

One solution for securing more equitable crop insurance premiums for larger unit coverage is to decouple per acre premium subsidies from the unit of coverage selected by the producer. With assistance provided by RMA legal counsel and Congressional staff last year, NCGA is recommending for your consideration legislative language to authorize changes that would eliminate this flaw in the subsidy structure. We believe this reform would enhance program efficiency without adding to the budget baseline. Once fully implemented, the proposed change would likely reduce moral hazard and the adverse selection of insurance coverage.

By encouraging greater use of enterprise unit or whole farm coverage, producers would be rewarded for better management, assuming more risk and directing even more attention to detail on individual units. Moreover, we expect the need for disaster assistance would be lessened when producers buy up to higher levels of insurance. In today's tight budget environment, any step we can take to reduce the administration costs, inequities and the potential for program abuse is beneficial to farmers and the taxpayer.

Mr. Chairman, I want to thank you again for this opportunity to share with this Committee NCGA's views and policy recommendations for further improving the federal crop insurance system for our member growers. We appreciate your leadership and continued support of the corn industry.

Mr. ETHERIDGE. Thank you, sir.

The Chair would like to remind Members that they will be recognized for questions in order of seniority for Members who were here at the start of the hearing. After that, Members will be recog-

nized in order of their arrival to the hearing. So I appreciate the Members understanding of that.

I now recognize myself for 5 minutes.

Mr. Marlow, assuming AGR and AGR-Lite could be reformed, would they serve as effective risk management products for contract producers or do we still need separate policies that can be available for contract farmers? Are there special risks to contract producers that require a separate type of crop insurance policy?

Mr. MARLOW. Yes, if it was reformed. Currently there is a prohibition in AGR and AGR-Lite against its coverage of contract producers. If that was shifted and we were able to fix the program, it could be an effective risk management tool for contract producers.

As I mentioned, we are seeing people being very concerned about risks of quarantine, of outbreaks of different diseases and also bioterrorism, which are not currently allowed or allowable coverage; and we would like to expand to improve those as a part of the program.

But the answer to your question is, yes, it could be a very effective tool, but it is currently blocked by the regulations of the program.

Mr. ETHERIDGE. Share with us a little bit more the issues related to quarantine. Because if they are under contract, who is the person you are hurting? Just the grower himself?

Mr. MARLOW. Certainly, because animals are owned by the company but raised by the farmer, the impact of a quarantine or depopulation is shared between the company and the farmer. The challenge is that most producers have a significant mortgage on their operation, and even if they lose production, they don't lose their mortgage payments. So they are losing that income, and so the segment of that income that does come to the farmer would be very important to cover in the case of a quarantine or any kind of other depopulation.

Mr. ETHERIDGE. Or a heavy disease that creates a depopulation.

Mr. MARLOW. Absolutely.

Mr. ETHERIDGE. That helps them to get on the record, because not everyone who sits on this panel deals with that.

Ms. Wilcox, you want to eliminate the 5 percent premium if an underwriter risks the review that you will rely on them to conduct. If they cannot document significant, consistent and the systemic variations in loss history between organic and conventional crops, in your view, how significant must the difference be to justify keeping the 5 percent premium? And can you quantify that for us so I will understand it?

Or, assuming this review is completed, are you going to be faced with another debate between you and RMA, whether any differences a review finds in risk between organic and conventional is significant enough to justify the premium?

Ms. WILCOX. Well, Mr. Chairman, we acknowledge in our testimony that both of those questions are very difficult to answer since we don't have the data. We would like very much to be able to have the studies done. We don't know whether there will be a difference found.

We do know that there is sometimes in some segments of organic agriculture a diminution of production during the transition period, and normally there is a recovery in the fourth or fifth year. The transition is 3 years. And sometimes there is a recovery right during transition while the farmer learns about new techniques and new ability to farm organically. So we are open to that discussion with RMA.

We are grateful for the fact that we are even going to get any data, because that was not going to be collected for a long time. But they have now begun the collection, and we are willing to live with the results and have those discussions with them.

Mr. ETHERIDGE. Okay. Thank you.

I recognize the gentleman from Louisiana.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Ms. Wilcox, I want to follow up on the question the Chairman just asked.

In looking at the organic crops one of the problems is making sure you have access to organic markets, and that is part of the reasoning for the 5 percent extra that is added in the premium. You want to get rid of that. But in looking at access to markets, I want to dig into how that is determined. Is it just simply a pricing mechanism?

For instance, when an organic farmer has crops that they want to bring to market, do they make comparisons? And is it simply a pricing decision or are there some other factors?

Ms. WILCOX. Well, it is a demand decision, actually, Congressman.

As I said in my initial testimony, we are now at 3 percent of the retail market for food and beverages in the United States. Our members tell us that they could sell much more organic product if they could manage to produce it and deliver it to market. So the demand is definitely there.

The 5 percent, as I understand it, on the premium is a number that the Department decided to attribute to risk for the insurance. They demand that the farmer pay an extra 5 percent premium for his insurance. If the farmer does suffer a loss the formula only pays him for the conventional price that his neighbor would get if he went to market.

Mr. BOUSTANY. Would an AGR or AGR-Lite type of program work?

Ms. WILCOX. Well, AGR-Lite has been used by some organic farmers, or has attempted to be used by some organic farmers. But they have met with a lot of the difficulties that my fellow panelists outlined, and it is a very complex system.

As you probably know, with organic, you do rotate crops. So we are a multi-crop process. And so then they have to account for each crop and how much they planted, which time and which field. It gets very, very complicated.

Mr. BOUSTANY. Thank you.

Mr. Marlow, in looking at the AGR and AGR-Lite programs, in your testimony, you make a recommendation that the program should be extended but reformed to be more accessible or affordable and then expanded to be available nationally. And you said that reforms should include specific steps to address shortcomings in the

program. And also it should emphasize streamlining the application and claims adjustment process and shifting the program's structure to reward diversification and innovative marketing.

You talk about how difficult it is to implement the program. Why? Give me more detail as to what are the real problems in implementing this. What are farmers faced with in this?

Mr. MARLOW. The concept of the program is that a person should be able to come in with basically 5 years of their schedule left and use that or the gross number to basically set their crop insurance.

Fundamentally what happens when they come in is they then have to put together a report on their operation which outlines each of the individual crops that they have produced, the amount produced and the price that they have received for each. They must also provide documentation for each of those levels. They then have to put together a farm plan which then documents all of the different crops that they are going to produce, what price they expect to get and what they expect their yields to be.

So that instead of simply insuring that gross number, in essence what it does is it creates individual crop insurance plans for each of those individual crops and then puts them together into the AGR-Lite plan. The farmer then has to do quite a bit of record keeping, documentation, planning; and all these things have to go quite a long ways.

The challenge is that agents don't want to do this. It is very complex for an agent to sign someone up and to understand what it is. So we are getting a lot of resistance from crop insurance agents who are not trained on it and don't want to offer it. With many farmers, their initial inquiries about this product are either negative or deflecting.

Mr. BOUSTANY. If you could come back to us with some specific recommendations on how to simplify that, we would enjoy hearing those recommendations.

Thank you. I will yield back.

Mr. ETHERIDGE. I thank the gentleman.

The gentle lady from South Dakota, Ms. Herseth Sandlin.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman.

I appreciate all the testimony today. I want to particularly commend the testimony of Mr. Gillen a leader not only in South Dakota both in agriculture and a number of different commodities, but in the growing biofuels industry and his leadership nationally as well. So I do want to pose some questions to you, Mr. Gillen.

Since our field hearing in South Dakota last fall that we had in Wall, South Dakota, there have been a number of proposals to address a particular issue that came up during that field hearing. We heard about the concern that Federal farm programs were providing farmers with incentives to plow virgin prairie land, and I understand the same complaint has been made about crop insurance with its ability to move yields to new land. So among those proposals that have been floated since that field hearing by various conservation groups, outdoor groups and others, some would curtail or eliminate certain Federal subsidies for any land that is converted from grass or native prairie into farm ground. Some are advocating limiting farm bill benefits to LDP and counter-cyclical payments only. Some support allowing crop insurance on the land

but deny them price support assistance. Some, of course, want to eliminate all Federal support for converted grass. And some even want to ban the practice altogether. So what are the positions of the South Dakota Corn Growers and the National Corn Growers Association on this particular issue?

Mr. GILLEN. Thank you very much.

That is an issue that has come to light recently because there is a native sod that is being broke up. Our biggest concern is why it is being done, and we feel that the biggest reason it is happening is the crop insurance. The crop insurance people are being able to apply the T-yield or their APH to that property. If that wasn't taking place, a lot less of this sod would be broken up.

But the position of the National Corn Growers is that we still want—if somebody wants to convert the grass to farmland, we still want program support. But we just do not want crop insurance be the reason why it is being broken up.

So what we are proposing is there would be no insurance initially when that grass is brought into crop production, and there would be no insurance until the actual production history was developed over a 4 year period. So that would mean there would be no APH movement from the producer's average production to that tract of land or there would be no T-yield there. So there wouldn't be any crop insurance protection until after 4 years.

We feel that that is a fair way to go. But we don't feel that all the program force should be taken away because—it would be between the haves and have-nots. How can you have producers on one side of the fence having support and producers on the other side not, just because that sod was broken earlier.

I think that would address the issue.

Ms. HERSETH SANDLIN. The proposal as it relates to the crop insurance issue in particular, how do you define ineligible land for that first 4 years? Land that has never been cropped? Land that hasn't been cropped for X number of years? And would you have a different treatment for CRP land?

Mr. GILLEN. Our only recommendation is for native grass that has never been broken, and on the FSA maps there would be no record of any crop. So as long as there was ever a record of a crop ever being grown, that wouldn't be a part of this. It would only be applied of native sod that is being grown.

Ms. HERSETH SANDLIN. Thank you.

On a different issue, as it relates to unit coverage, National Corn Growers support changing the premium structure, subsidy structure for crop insurance to encourage farmers to insure larger units. As you explained in your testimony that can be enterprising or whole farm units rather than the separate coverage, optional, or basic for individual fields or the particular crop.

Now how much would the subsidy structure need to be changed in order to get the effect that NCGA is seeking? Because I know that you say there has been some increase in utilization, coverage with that particular product and I think 30 percent to 56 percent since 1996. So what are you proposing? How far do we need to go to bump that percentage up even further?

Mr. GILLEN. I make that decision. But, right now, only 3 percent of the producers use enterprise unit coverage and 61 percent use optional. So there is a definite discrepancy there.

At the 75 percent level, they are subsidized, I believe, at 55 percent; and at 85 percent they are subsidized at 38 percent. So the enterprise unit coverage at the 85 percent level would have to be somewhere above 38 percent but not above 55.

In my farm, if I could take the same subsidy, and the total premium, the subsidy part of the premium and the farmer premium and at 75 percent option needed coverage, I could take those total dollars and if I could apply those total dollars to 85 percent enterprising the coverage. I would have to assume the risk of the loss of those individual units, but I would have 10 percent better coverage on my whole farm. It wouldn't cost the taxpayer any money, and it wouldn't be any more money out of my pocket. It is just how the formula is put together. It is just a method between enterprise units.

So this also comes to the issue with low APHs. If producers were able to buy up coverage at the 85 percent level, there would be less of a need for disaster assistance, and they would have better coverage if they had low APH. It fixes a lot of issues; and it would increase the cost very little or, actually, zero if more producers were incentivized to move in this direction.

Ms. HERSETH SANDLIN. Thank you very much, Mr. Chairman.

Mr. ETHERIDGE. The gentleman from Texas, Mr. Neugebauer, for 5 minutes.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Ms. Wilcox, you pointed out the fact that today in some of the organic crop insurances they will pay a 5 percent premium, but they are reimbursed at the standard commodity rate. So if I am growing organic asparagus and I lose my crop, I am going to get paid at the same rate as just the normal asparagus crop. What is the price differentiation between organic and just general commodities that are not grown organically in the marketplace today?

Ms. WILCOX. Well, that is one of the things we would like to determine officially. But I can tell you that in some cases it can be as much as 50 percent more. In asparagus, I couldn't tell you the differential. But in corn, for instance, for organic corn, we can be at almost double the price.

But we don't have those kinds of official numbers from USDA on a consistent basis. They have just started to collect segregated pricing data, and we are very grateful for that. That they have started, but we need that to continue so that our farmers will have a base on which to be compensated.

Mr. NEUGEBAUER. Do you think the appropriate resources are in place to continue that process; or do we need to look at that?

Ms. WILCOX. Well, we asked in our testimony to be sure that we can do that on a comprehensive basis. Right now, there is a pilot program under way between RMA and AMS, and we need to be sure that that is going to cover all the commodities on an enrolled basis, and we need to look at that in the farm bill, yes.

Mr. NEUGEBAUER. To the rest of the panel, and particularly in the organic area, are there other holes in the organic system. As we sit down and look at this farm bill and possibly some changes

in the crop insurance program, what is brought out in the testimony?

Mr. MARLOW. We would certainly support the policy of increasing the record keeping. Having really solid data on these markets, on prices, on volumes is very important and becomes critical for other programs. It is very hard to program for something that you don't know how big it is or how much it is or what it looks like and can't get that hand around it.

Part of the question is going to be where the burden of proof is in terms of releasing the 5 percent surcharge. The OTA's proposal is that the burden of proof is we need to prove that there is not greater risk.

The other way to look at it is to say, and what we believe, is that, because organic is an accepted production practice, that the burden of proof should be on the Risk Management Agency to prove that there is additional risk. We should remove the surcharge unless the proof goes in the other direction.

We both want a lot of data to be able to get our hands around it. The question is, where should the burden of proof lie in terms of this issue of the 5 percent surcharge? But certainly this issue of getting at the AGR and the income-based products are a way that you can get at the diversity of crops and the diversity of markets that people are accessing, which is really critical to organic.

Mr. NEUGEBAUER. I guess if I am understanding correctly, you could make a shorter crop and an organic crop and possibly still have more income than a normal crop.

Mr. MARLOW. Absolutely. I was speaking to a farmer in northeastern North Carolina last week who has moved 20 of his 1,200 acres into organic. His corn has a lower yield, but he is making more money on it. He is moving, this year, 30 acres into transition.

But the challenge is, in terms of looking at crop insurance, is that that risk, that lower yield is going to show up in his actual production history. So, therefore, as he gets crop insurance, he will get crop insurance based on that actual production history, so his yields are going to be set at that organic level. So that actual production history isn't going to capture what he has with that.

We are seeing this transition more and more. But it is very challenging for them to get good risk management on that.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. ETHERIDGE. I thank the gentleman.

The gentleman from North Carolina, Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman, and thank you for holding this hearing.

One of the things that I would like the Subcommittee to do is be cognizant of other hearings being held across the face of Congress on crop insurance. And as we, amongst ourselves, get into the weeds of the program and understand the valuable risk management, and practical essentials risk management contributes, even though we try to make it better. We have to be aware that some of our colleagues are sitting in other hearings and thinking the whole darn thing is a scam. We need to really get to the bottom of what points of fact are driving their concerns, even dispel them if they are erroneous or deal with them if they are factual.

I think I have worked as hard on crop insurance as anybody in Congress. But, if there are problems with it, let's get to the bottom of it. I am not defensive about it. I don't have any pride of authorship about it. If there are problems, we want to fix them.

On the other hand, a good deal I think of the perception out there is erroneous, and we need to dispel that with our own expertise about what this contributes in terms of risk management.

In that one, I turn to our friend from the Corn Growers, my fellow Dakotan, albeit South Dakotan, Mr. Gillen. Worst drought in 28 years.

Mr. GILLEN. Yes, sir.

Mr. POMEROY. Do we need a disaster bill?

Mr. GILLEN. Permanent one or current one?

Mr. POMEROY. Current one.

Mr. GILLEN. There are producers out there that do. What helped us a lot this last time around was revenue insurance, those that have revenue insurance with FCIC. We got paid extra per bushel on corn. That extra dollar a bushel was huge. The crop insurance worked for us.

But the other producers, the wheat people in my area, the people that didn't have RA they didn't get in on that.

Mr. POMEROY. We have got a problem with some of the high-risk areas in the Dakotas where year after year it drives your APH down to where you can't secure enough protection for the financial exposure that you have got. It has also been a problem at least in North Dakota.

Mr. GILLEN. Yes, it is.

To answer that, when you are insuring corn at $2.50 or $2.60 where we have been at, there is a huge hole that producers can't absorb. When the coverage like this year's was at $4, it helps a lot in that area.

Mr. POMEROY. The migration of the coverages to this CRC coverage, in your view, would that have been possible without the enhanced subsidies we committed in the ARPA legislation of 1999?

Mr. GILLEN. That legislation was very good as far as the increase in the subsidy, enough to make them more affordable.

Mr. POMEROY. You have to make it happen.

Actually, from a cost benefit standpoint for a farmer, the extra risk coverage you got really wasn't worth it in terms of what you had to lay out in premium, but that extra subsidy then made that higher coverage level a better deal and that has allowed the innovation of these revenue products which free the farmer to further mitigate risk by trading futures. Is that right?

Mr. GILLEN. Yeah. It did allow producers to use the futures market as long as they had that risk management tool on the crop insurance side to use it.

What we are proposing, what the enterprise would cover would take them even further yet, as far as bushels, being able to buy a higher level of coverage. If they are willing and producers like myself are willing to absorb those losses on those individual units, and if a subsidy was changed, the percentage was changed in enterprise units, we can get that extra 10 percent coverage, from 75 to 85 percent coverage. To me, that is huge and is going a long way for a producer that has a low APH.

Mr. POMEROY. It is. But I will tell you why the people I represent use individual units or basic units is to get their coverage, nudge their coverage up as high as it can go because they want to maximize their risk protection. And when you indicate, well, that won't be necessary if they buy subsidized premiums, can buy up at the higher level for the enterprise unit, I agree with you. But I don't think it is an even trade from an actuarial standpoint. I think substantially more subsidies would have to be provided to get the kind of subsidized buy-up for the enterprise unit than for the individual unit, don't you?

Mr. GILLEN. To increase the enterprise unit would be adequate, I think. There are producers out there that have several different units and they want individual coverage on those units and they don't want to give that up. This would address that. This wouldn't change their coverage at all. This would just be for producers that want to put all their crop insurance into one unit.

Mr. POMEROY. Right. I think conceptually what you are talking about there makes sense. I like moving to an enterprise unit. It would eliminate a lot of cheating in the program, too, in my view.

On the other hand, I think that we are going to have to have substantially more subsidy if we are going to have the same kind of premium affordability at higher coverage levels for the enterprise unit. I believe people are deciding on the individual unit because that, right now, is the only way they can afford to get the higher coverage levels that they want, and the higher risk protection that they want. If you are going to switch that to an enterprise unit I think you are going to talk about a pretty substantial increase in subsidy, wouldn't you?

Mr. GILLEN. You wouldn't have that increase in subsidy.

Getting back to your point of affordability of insurance, the National Corn Growers have come forward on the farm bill with a revenue package revenue proposal and this is integrated with the crop insurance. And what that means is you would work with the crop insurance farm level and the accounted level support. It would be like a permanent disaster, and it would plug that hole. It was integrated, and you get the higher of the two, either the farm level support or the kind of level support. As long as it is integrated, you could reduce your premium by 40 to 60 percent, because the crop insurance wouldn't have that risk anymore. The revenue proposal would cover that risk. That would be huge, long way of addressing the issue of premiums being too high.

Mr. POMEROY. I know my time is up. I am just about done. Is that the cost of production coverage?

Mr. GILLEN. No, sir.

Mr. SCOTT. I would ask the gentleman to yield if he had time to yield.

Mr. POMEROY. Yes, I will yield; and the gentleman can consume the balance of my time.

Mr. ETHERIDGE. I thank the gentleman for his question.

The gentleman from Colorado, Mr. Salazar.

Mr. SALAZAR. Well, thank you, Mr. Chairman.

I appreciate the panel's being here today. As many of you know, I am a farmer, and I do raise organic seed for Gourmet Farms, or-

ganic potato seed. We understand how expensive it is to raise organic seed.

Ms. Wilcox, you mentioned in your testimony could you just give me an incident of how a crop could be contaminated without fault of the producer.

Could you expand on that and give me an example?

Ms. WILCOX. Well, typically, it is caused by grit from a neighbor, sometimes a neighbor over 100 miles away, and it can be either a chemical or it can be genetically modified material.

Mr. SALAZAR. Would you then say that Federal crop insurance should be liable for an issue like this, or would this be more of a legal matter to where the farmer could pursue legal avenues to compensate himself if someone caused that harm or that injury?

Ms. WILCOX. Well, we have many farmers who would like to be able to pursue that as a liability against not only the contaminator but also the company that produced the product. But we know from experience in other countries, namely, in Canada, that that has actually bankrupted farmers who have attempted to do that. And in our country, under product liability, it appears that we would have to have product liability reform in order to be able to do that. So we have been looking at whether there would be the possibility of coverage that would potentially help the farmer when he does have a contamination that is completely not his fault.

Mr. SALAZAR. Well, thank you.

Mr. Segler, regarding your request to insure pecan farmers by farm number, can you give me an example of about how expensive it is to raise pecans per acre?

Mr. SEGLER. The cost of pecans runs somewhere between $1,000 to $1,200 per acre. It takes us 9 months to grow them, so it is a tremendous investment. And when you look at most all other crops that can insure by individual farms, if you had a farm on one side of the county and another on the other side of the county, as it stands now, you could have a loss on one farm and the other farm might make up the difference that you lost as far as insurance coverage. But, you would still have a loss, and we have to average everything in the county. That is not true with most all other crops.

Mr. SALAZAR. Okay.

Has RMA actually provided us an explanation for not allowing this option for pecan growers?

Mr. SEGLER. Not on that part. They have on the 10 percent cup yield protection. They say that it is a revenue-orientated crop, and that is true in one aspect, but that is only half the equation. They do not recognize that it is the same as corn or cotton, that it takes both production and price to determine the guaranteed insurance coverage. Both equations have to be there.

Mr. SALAZAR. Okay. Thank you very much. Oh, go ahead. Have you finished? Thank you. I do appreciate it.

Thank you, Mr. Chairman. I yield back.

Mr. ETHERIDGE. The gentleman from Georgia, Mr. Marshall, 5 minutes.

Mr. MARSHALL. Thank you, Mr. Chairman. I am going to continue with some questions for my fellow Georgian, Mr. Segler.

First of all, I guess I should say Congress appreciates the work you have done for some 20-odd years, and I hope that pecan grow-

ers will appreciate it. Was it the regional office that proposed to RMA National that there be a modification to meet some of your needs? What was the proposed modification that National said no? Was it on the 10 percent cup?

Mr. SEGLER. The 10 percent cup, both after the catastrophic forms that we had in 2004 and 2005. In both years, the regional office of RMA submitted to the Kansas City office the request to implement the 10 percent cup, paralleling the catastrophic damage of the 2004 and 2005 hurricanes with the same damage that we had in 1996 on peaches when they froze out. It is, in my opinion, a shame, Mr. Congressman, that we have to go to the Congress of the United States to get something done that RMA administratively took care of in 1996.

Mr. MARSHALL. Yes. Let me try to draw that analogy a little bit more.

So RMA's response was that this was a revenue crop and cannot be done. Yet, it was done administratively for peaches. Is that what you are telling me? I know a number of farmers who have peaches and pecans, and there is different care involved. There is pruning involved. There is fertilizing involved. For some reason, pecans are labeled as revenue crop and cannot get the 10 percent cup limit, and then peaches are not, and you can. Can you explain that?

Mr. SEGLER. No, sir. They probably can explain it better than I because it is the same as the CRC program for corn and cotton. It takes both yield and price to determine the ERT. RMA, the people that I have been involved with since 2003 in trying to get this corrected. They simply have a hard time understanding not only why we do not have this, but why the crop insurance was ever written without it.

Mr. MARSHALL. By the way, there is a whole bunch of Georgia corn growers out there to make sure we get this done.

Mr. SEGLER. I draw the analogy between peaches and pecans. I am real troubled by peaches and pecans. It seems to me that there is really, truly, no difference there at all. I am saying, Mr. Congressman, in 1996, when Georgia and the Southeast experienced a 5-bushel-per-acre yield, RMA recognized that yield as catastrophic damage. They implemented administratively this 10 percent cup because they had it on other crops, on the peaches for 1997. After 1997, it became a part of their policy.

I can assure you that unless this is rectified immediately, not 2 or 3 years from now, we will not have crop insurance on pecans. It will go down to zero because we are having to put some catastrophic numbers in like zero. It happened in Texas as well. This is something that should not be permitted.

Mr. MARSHALL. I appreciate your being here.

Mr. ETHERIDGE. I thank the gentleman.

Let me thank our panelists for being here today. Thank you for your comments, and if you have others you would like to share with us, please do so very shortly because this Committee is going to be moving forward.

Now let me invite our second panel if they will come to join us at the table.

Let me welcome you, our full panel.

On this panel is Mr. Bill Kubecka. Is it pronounced "cue-beck-ah"?

Mr. Kubecka. Yes, sir.

Mr. ETHERIDGE. He is the past President of the National Sorghum Producers in Palacios, Texas.

Mr. Gary Iverson is the Executive Director of the Great Northern Growers Cooperative in Sunburst, Montana.

Mr. Steve Chapman is the President of the American Sesame Growers Association of Lorenzo, Texas.

Mr. Tim Watts is the President of Watts and Associates, Incorporated, in Billings, Montana.

Welcome.

When you are ready, Mr. Kubecka, you may begin with 5 minutes. Let me remind each of you your total testimony will be included in the record, and if you would, try to summarize that within 5 minutes. Thank you.

STATEMENT OF WILLIAM H. "BILL" KUBECKA, FARMER; PAST PRESIDENT, NATIONAL SORGHUM PRODUCERS, PALACIOS, TX

Mr. KUBECKA. 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 the manner in which RMA operates the Federal Crop Insurance Program.

My name is Bill Kubecka, and I farm in Matagorda and Jackson Counties in the upper coast of Texas. I raise sorghum, cotton, and rice in a diversified operation that also includes cow-calf pairs and aquaculture. I believe that sorghum is a self-insurance crop as it takes less water to produce a crop, but it does not get treated as such by RMA.

Sorghum farmers are very, very frustrated with RMA's operation of their risk management programs because their policies run contradictory to sorghum's inherent risk management characteristics. RMA has based sorghum price elections on long-term, historical sorghum-corn price relationships. But with ethanol changing the market dynamics for feed-grains, this is not relevant. RMA must change their way of doing business when it comes to sorghum. Penalizing sorghum because it is not traded on a futures market is wrong.

On my farm, I can consistently market sorghum at a 10 percent premium to corn, some years at a 30 percent premium. Yet RMA set my 2007 price election at a 6 percent discount to corn. RMA's administration has resulted in an extra 16 percent deductible on my sorghum insurance. In effect, this makes a 65 percent deductible policy more like a 50 percent deductible policy.

If the Committee includes changes in the farm bill to RMA's risk management programs, NSP asks that, first, sorghum price elections accurately reflect local prices; second, that expected county yields do not have large, short-term variations; third, that a transparent system of establishing transitional yields is implemented; and last, that RMA expand the Pilot Forage Sorghum Program.

According to RMA, in 2006, a USDA-sponsored risk management program covered 67 percent of sorghum acreage. That number is significantly lower than other crops. Corn had 79 percent of its

acreage covered, cotton 92 percent, wheat 77 percent, and soybeans 80 percent.

With participation at significantly lower rates than other crops, this shows that the program has problems. Sorghum farmers do not see or receive the same benefits as other crops. We find it ironic that our crop's risk management advantages are essentially discounted when price elections are lower than high water-use crops that are more risky to grow in the semi-arid sorghum belt.

Price elections need to more accurately reflect local cash prices. 1,000,000,000 gallons of new ethanol demand will come on line in 2007 and early 2008 in the sorghum belt, and this will continue to increase the price of sorghum.

Drought has decimated sorghum yields: During the past couple of years, parts of the sorghum belt have received the third lowest rainfall since modern record keeping began. Gross Revenue Insurance Program and Group Risk Plan, also known as GRIP and GRP, are supposed to use long-term yields as a basis for insurance. However, if you look at page 10 of my written testimony, you will find a map that shows where RMA has increased an expected yield by 3 percent in one county and then decreased the expected yield by over 30 percent in an adjoining county. 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. The expected county yields should be based upon a function that accounts for increased yield due to technology and genetics.

While transitional yields, better known as T-yields, really only affect new producers of a crop, RMA must utilize a more transparent system of assigning T-yields that does not penalize one crop against another.

RMA created the Forage Sorghum Pilot Program in 2005 at the request of NSP. NSP has been working with RMA to make significant changes to the program for the 2007 crop year to rebalance T-yields across the sorghum belt. NSP wants to work with the Committee and RMA to make sure that this program expands and is actuarially sound.

In conclusion, NSP's Board asks that Congress solve problems with risk management programs before expanding crop insurance and before the Committee creates additional programs that will be based on crop insurance numbers.

I appreciate the opportunity to submit this testimony in support of bettering the crop insurance safety net for sorghum producers. I want to end by saying that setting sorghum risk management programs equal with other crops is good, sound, policy for saving water and lessening America's foreign energy dependence. Thank you.

[The prepared statement of Mr. Kubecka follows:]

PREPARED STATEMENT OF WILLIAM H. "BILL" KUBECKA, PAST PRESIDENT, NATIONAL SORGHUM PRODUCERS, PALACIOS, TX

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 sorghum industry and my farm.

My name is Bill Kubecka, and I farm near Palacios in Matagorda and Jackson Counties in the Upper Coast of Texas. I raise sorghum, cotton, and rice in a diversified operation that also includes cow-calf pairs and aquaculture.

NSP represents U.S. sorghum producers nationwide and our mission is to increase the profitability of sorghum producers through market development, research, education, and legislative representation.

NSP is committed to work with the Committee and its staff as it works to reauthorize our nation's farm laws. The organization and industry are supportive of the current farm bill. However, we believe that Congress can clarify several program details so that USDA interpretation does not impact producers' ability to use sorghum in a profitable cropping system.

One program that could be improved is USDA's risk management program. Crop insurance is a major component of the farm safety net for grain sorghum. It 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 three areas of crop insurance as they relate to grain sorghum: price elections, expected county yields, and transitional yields. The testimony will also briefly discuss forage sorghum. But first, we need to examine the current situation that sorghum producers encounter.

Industry Overview

The Great Plains states produce the largest volume of grain sorghum, but the crop is grown from Georgia to California and from South Texas to South Dakota. According to the National Agricultural Statistics Service (NASS), last year sorghum was produced in many of the states that you represent. This includes Georgia, Mississippi, Kentucky, Arkansas, Kansas, South Carolina, Nebraska, Colorado, South Dakota, Missouri, Louisiana, Texas, Oklahoma, and California.

Over the past ten 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 2006. Annual production from the last 10 years has ranged from 795 million bushels to 360 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 what it was prior to the 1985 farm bill. It is a goal of the industry to increase producers' profitability and to take acres back closer to the pre-1985 farm bill level. NSP expects that returning acreage to that level will help ensure the infrastructure to supply the needs of the ethanol industry, livestock industry and export markets. The sorghum industry has submitted to USDA a national checkoff proposal which will allow producers the opportunity to direct research funds towards their priorities. It will also ensure research and development funding to continue to improve our crop. In addition, forage sorghum utilized as silage, hay and direct grazing represents approximately an additional five million acres of production. The USDA reported that in 2006, 347,000 acres of sorghum were harvested for silage, producing approximately 4.6 million tons of silage.

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

In the last two years, approximately 45% of the crop was exported. Further, last year the U.S. had almost 90% of world sorghum export market share. In 2005–2006, Mexico bought more than two-thirds of our exported grain. NAFTA has created a strong market for U.S. sorghum to Mexico and producers in my area benefit from historically high basis because of this market.

Of the 55% of the crop that is not exported, 26% goes into pork, poultry, and cattle feed; 24% goes into ethanol production; 4% goes into industrial use; and 1% goes into the food chain.

In fact, sorghum's newest market is the exponentially growing ethanol industry. We have seen a 57 percent increase in that market over the last 2 years and expect it to grow even faster over the next 12 months as we have over one billion gallons of ethanol capacity coming on line in sorghum growing areas in the next 12 months.

Outside of the U.S., approximately half of total production of grain sorghum is consumed directly as human food. In addition, the U.S. dominates world sorghum seed production with a billion 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

For 2006, 67% of sorghum acreage was covered by a USDA-sponsored risk management program. That number is significantly lower when compared to other crops. For example, corn had 79% of its acreage covered; cotton, 92%; wheat, 77%; and soybeans, 80%. Obviously, crop insurance for sorghum does not work as well as other crops. Our members have been asking a lot of questions regarding the low participation rate. We would hope that USDA would be working to promote sorghum production in the semi-arid sorghum belt, especially as the prices for starch—corn and sorghum—are being driven up by the ethanol industry. Setting sorghum risk management programs equal with corn is essential to sound water saving policy and essential to a sound energy policy.

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 rainfall since modern record keeping started. In fact, yields are so low that there is almost no yield left to insure. Producers are very hesitant to utilize a program that has limited coverage when growing a drought tolerant crop.

More importantly, producers plant sorghum because it is a self-insurance crop as it takes less water and less inputs to produce a crop. NSP's members feel that sorghum is perfect crop for risk management, because sorghum is much more drought tolerant than other crops in the semi-arid sorghum belt. The plant goes dormant during periods of no rain, rather than die as other crops do. We 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.

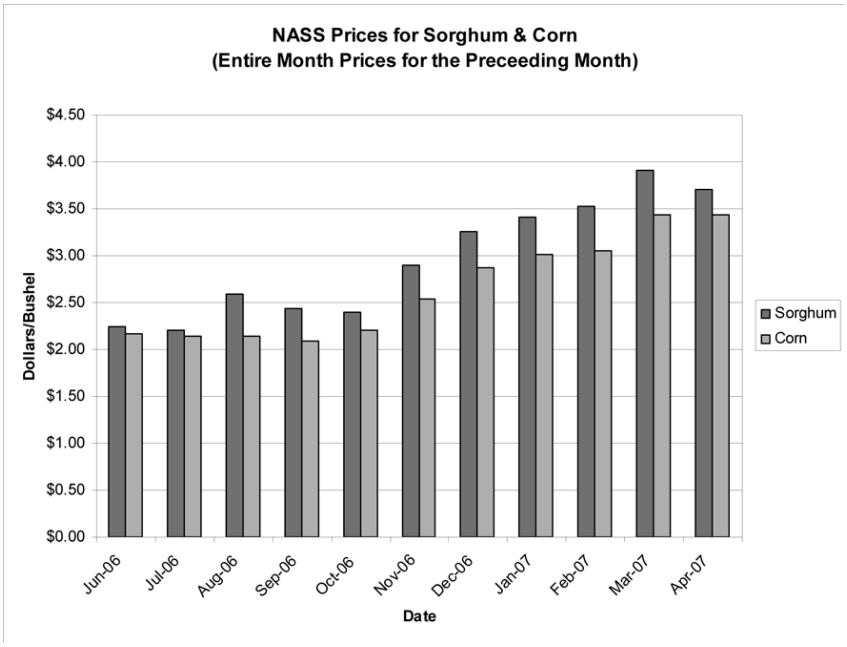
Price Elections

The mechanism used by USDA's Risk Management Agency (RMA) to set price elections for grain sorghum provides a lower level of protection as compared to other crops. The most widely used RMA program for sorghum farmers is Crop Revenue Coverage (CRC). In 2006, 63% of the insured sorghum acres were covered by CRC insurance, as it allows producers to manage for both yield and price risk. Crops with large volumes of production have an exchange-traded futures market to determine the price used in their risk management programs. RMA uses an average of closing futures prices for a given time period to determine the CRC price election. Sorghum, however, does not have an exchange-traded futures market, so its price election is determined by RMA and is based on its price relationship with corn. We ask that the Agency do a better job of reflecting the sorghum price. The renewable fuels industry has significantly changed the demand for sorghum. In fact, the NSP staff has a hard time keeping track of all the new ethanol demand that is impacting local prices of sorghum.

Prior to 2004, RMA set the price election of sorghum at a flat 95% of the corn price election, basing that on historical feeding value relationships. Beginning with the 2004 crop year, the CRC Commodity Exchange Endorsement (CEE) changed their policy to state that RMA will set the grain sorghum price election based on the "United States Department of Agriculture (USDA) January estimate of corn and grain sorghum prices." Sorghum worked with Congress and USDA to implement the change in hopes that RMA's programs would more accurately reflect local prices but that has not happened.

For example, the January USDA estimates include WASDE and NASS publications. In the January 2007 WASDE report, the corn price range was $3.00–$3.40/bu and the sorghum price range was identical at $3.00–$3.40/bu. In the January 2007 NASS *Agricultural Prices* publication, USDA projected the January price for corn at $3.23/bu and the sorghum price at $3.60/bu. However, when RMA announced the CRC price election for sorghum, it was $3.55/bu, while the price election for corn was $3.76/bu. This is a 21__/bu deficit when WASDE had projected identical price ranges and NASS had published sorghum prices as 37__/bu higher than corn. Our producers are becoming more and more frustrated with insurance policies that are discounted as compared to other crops they are planting.

Figure 1.



Prior to the RMA change, NSP met with RMA to present current pricing data to ensure that sorghums' risk management prices accurately reflected local prices. NSP now believes the CRC price election is set based upon the USDA baseline that is published in February of each year. The baseline projects the corn and sorghum prices for a 10-year period. NSP believes that the ratio between sorghum and corn for the upcoming crop year is what is used by RMA to set the price election for sorghum per the CRC CEE. In the February 2007 baseline, the sorghum-corn ratio was .943. This was found by taking the sorghum price of $3.30/bu and dividing by the corn price of $3.50/bu. RMA then used a ratio of .944 when determining the CRC price election ($3.55/bu for sorghum divided by $3.76/bu for corn). Since the price election change in the 2004 CEE, the ratio used by RMA has never deviated more than ½% from the ratio in the corresponding baseline.

Using the baseline to set the CRC price election for sorghum is wrong. The baseline is assembled by the Interagency Commodity Estimates Committee (ICEC) within the World Agricultural Outlook Board which publishes the WASDE estimates. In discussions with the head of the ICEC Feed Grains Committee, the baseline was never intended to be used as a pricing tool since the sorghum price is based on a long-term historical ratio to the corn price. **NSP's board believes that a crop insurance program based on a futures market, or in sorghum case, a forward looking policy, is a much better tool than a backwards looking, historical price risk management tool.**

The ethanol industry is radically changing the dynamics of the sorghum market, and RMA must realize this. Within a couple of years, 86% of the sorghum in Kansas will be produced in a county within 50 miles of an ethanol plant. That new demand is dramatically increasing the local price of sorghum. The new demand mentioned above does not take into account the proposed plants, but only those that will actually be producing ethanol by the end of 2008.

This type of radical change to the sorghum market cannot be captured by a long-term historical ratio of sorghum to corn prices. If you expand this type of analysis to the whole United States, 61% of the total US sorghum crop will be near an ethanol plant. RMA is penalizing sorghum producers in this dynamic market by using an antiquated ratio.

In my own instance, sorghum has traded above corn for the past ten years with some time periods having sorghum at 135% the price of corn at the Corpus Christi market. Consistently, however, I trade 10% over corn in my market. I am being dis-

criminated against by RMA with a price election that, for 2007, is 6% less than corn. This, in effect, is an extra 16% deductible on my sorghum insurance making a 65% deductible policy more like a 49% deductible policy compared to corn. While this testimony will not attempt to predict the effect of price elections on cropping decisions, it is a known fact that price elections do affect cropping decisions for farmers. As bankers look at insurance guarantees for producer financing, the price election difference between corn and sorghum is a critical point. In some cases, the market may send one signal to plant sorghum, but the insurance guarantee is better for corn due to a higher price election. The insurance price election is now becoming a factor that is included in farmers' decisions on which crop will be planted. We would encourage this Committee to promote policy that would encourage producers to use insurance as a risk management tool. Sorghum producers deserve a level playing field to compete with other crops.

While most of the price election section has dealt with CRC, the MPCI price election for sorghum must also be corrected. Although this price election is not based directly on the corn price, the deficiencies are still evident. In 2006, the MPCI price election for sorghum was 97.5% of that of corn, while in 2007, the sorghum price election is only 94.3% of corn. This reduction in comparison to corn is in direct opposition of the data presented in USDA publications showing sorghum equal to or above corn.

If the ability to change crop insurance language does happen in the next Farm Bill debate, NSP would ask that language be inserted that sorghum price elections be set at a level no less than corn for all insurance products.

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 3% 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, is using short-term weather gyrations 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 moves expected county yields based upon short-term weather patterns and not long-term trends.

As noted in *Figure 2,* Rawlins 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. As permanent disaster programs are mentioned, some programs may consider using county expected yields to calculate disaster payments. This would make these yield trends very important to the success of such a program.

In reference to *Map 1*, RMA cannot justify increasing an expected yield by 3% in one county and then decreasing the expected yield by over 30% 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 gyrations make the use of GRIP and GRP highly 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 these 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. Dr. Art Barnaby of Kansas State University has developed such a function that may be further simplified as research is done on trend yields.

Transitional Yields

While transitional yields, better known as T-yields, really only affect new producers of a crop, RMA must utilize a more transparent system of assigning T-yields that does not penalize one crop against another. For example, in Kay County, Oklahoma, the corn yield decreased, but RMA increased the T-yield, while holding the sorghum T-yield flat. RMA again is discriminating against sorghum. The actual corn yield has decreased from a high in 2003 of 106.8 bushels per acre to 34.5 bushels per acre in 2006. Based upon a history of following short-term yield patterns, RMA should have decreased the T-yield for Kay County. However, RMA increased the T-

yield by 48% from 52 bushels per acre in 2006 to 77 bushels per acre in 2007. RMA did not adjust the T-yield for sorghum between 2007 and 2006, which reflects the flat yield trend from 2003 to 2006.

Forage Sorghum

This RMA pilot project is becoming more and more important to the sorghum industry as the cellulosic ethanol industry develops. Forage sorghum is high yielding and uses a third less water that other silages. NSP supports a forage sorghum insurance program.

RMA created the forage sorghum pilot program in 2005 at the request of NSP. NSP has been working with RMA to make significant changes to the program for the 2007 crop year to rebalance T-yields across the sorghum belt. NSP wants to work with the Committee and RMA to make sure that this program expands and is actuarially sound.

Conclusion

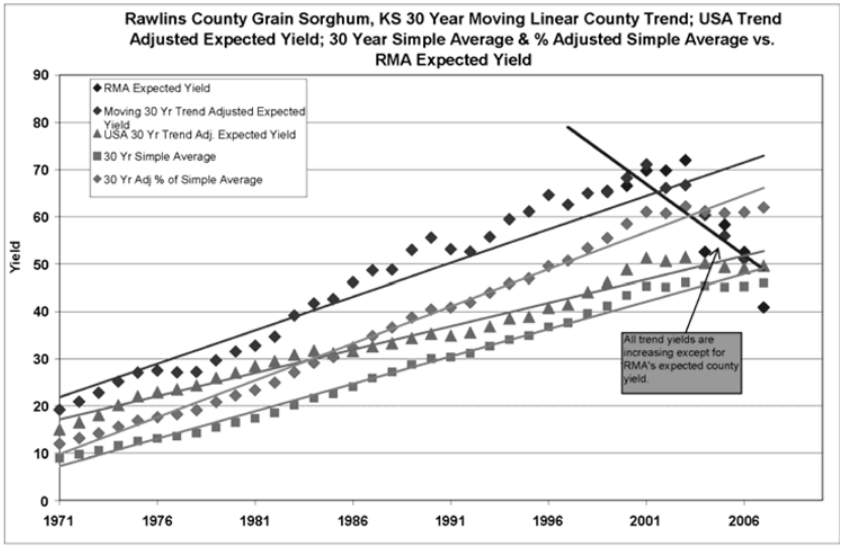
Crop insurance is a critical part of the safety net for sorghum producers; however, only 67% of sorghum acreage is covered by a USDA risk management product. NSP's board asks that this Committee seriously discuss why this situation exists and implement policy to improve coverage of sorghum. Our board believes that increasing the acreage covered by a USDA risk management product is good, sound water policy and good, sound energy policy. USDA's risk management products can be improved for sorghum and made more equitable across crops if steps are taken to address the issues of price elections, expected county yields, and transitional yields.

NSP asks that language be inserted in the next farm bill that will (1) assure sorghum price elections are no less than corn price elections, (2) develop expected county yields that do not have large short-term variations, and (3) implement a transparent system of establishing transitional yields.

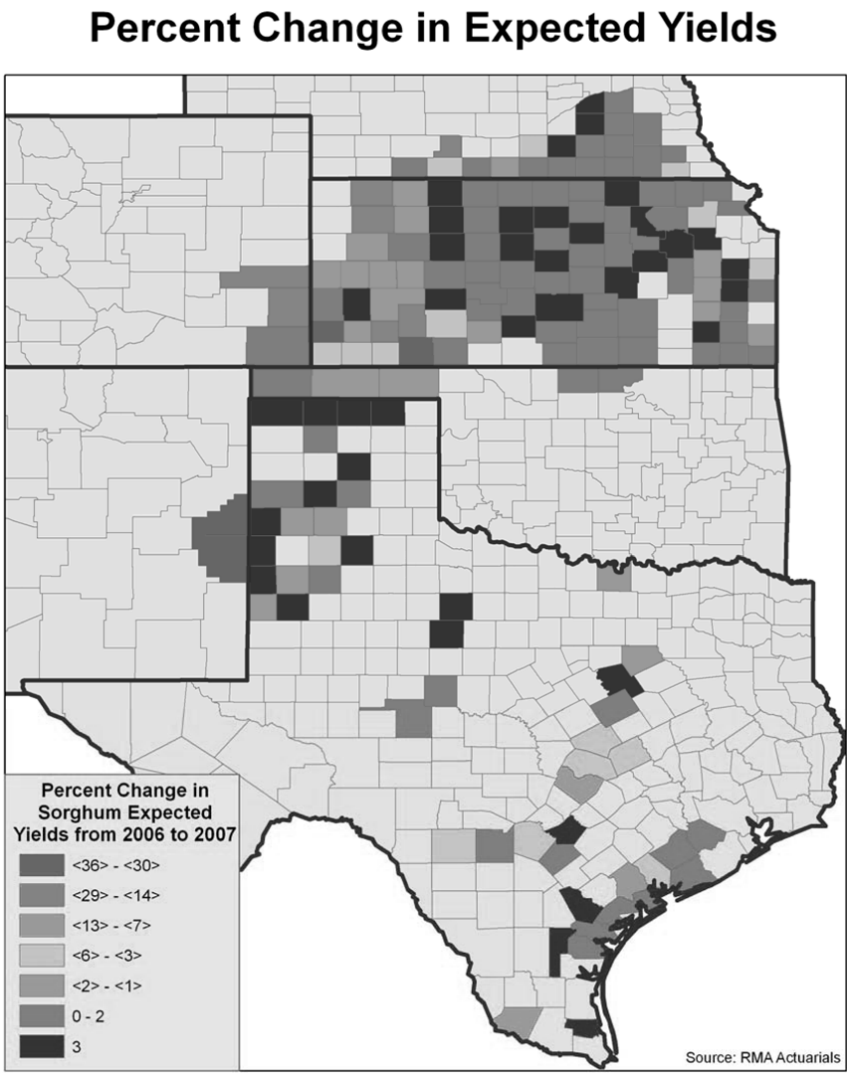
Also, since the crop insurance program works so poorly for sorghum, NSP's board asks that Congress fix the sorghum problems before expanding crop insurance and creating additional programs that will be based off of crop insurance numbers.

I appreciate the opportunity to submit this testimony and work for the betterment of the crop insurance safety net for sorghum producers.

Figure 2.



Map 1.



Mr. ETHERIDGE. Thank you, sir.
Mr. Iverson.

STATEMENT OF GARY W. IVERSON, EXECUTIVE DIRECTOR, GREAT NORTHERN GROWERS COOPERATIVE, SUNBURST, MT

Mr. IVERSON. Mr. Chairman and Members of the Committee, it is an honor to be here today to talk about an oilseed that has the potential to dramatically improve the rural economies of many western states and help our country achieve energy independence. That oilseed is camelina, and it can be used as a feedstock to produce biodiesel, just like canola, sunflower seeds, or soybeans.

My name is Gary Iverson, and I am the Executive Director of the Great Northern Growers Cooperative in Sunburst, Montana. Our Cooperative is dedicated to working with agricultural producers to market value-added agricultural commodities which are adapted to Montana conditions and provide economic development to our state.

My story relates to Montana, but it could equally apply to Minnesota, Washington, Oregon, Colorado, Utah, Nebraska, North or South Dakota, all of whom have growing conditions well suited to camelina.

Camelina is a member of the mustard family. It is a summer annual oilseed crop. It is also known as False Flax or Gold of Pleasure. The Romans called it the Romans' Pleasure. The seed was widely grown in Eastern Europe from ancient times until the 1940s when it was replaced by canola.

Soybeans, sunflower, and canola are the main oilseed crops grown in temperate climates in the United States and are the principal feedstocks currently used to produce biodiesel. These oilseed crops are not suitable to marginal lands with low moisture, low fertility, or higher pH soils. For example, soybeans are ideally suited to the corn belt, but are not well adapted to arid northern and Rocky Mountain states.

In recent years, farmers have shown increased interest in growing sustainable crops with reduced requirements for fertilizer, pesticides, and energy input that can be used for both food and fuel production. Camelina is that crop. It requires minimal inputs and is well suited to marginal soils, arid climates and lower soil fertility.

Camelina can be grown as a dryland crop using minimal till. Camelina production can be limited by high humidity, weather that is virtually unknown in Montana, which causes downy mildew, the only significant disease of camelina. Grown in areas with high moisture and high fertility soil, oilseeds like canola will outyield camelina. However, under dryland conditions, camelina yields will be nearly double that of canola.

Camelina is of particular interest to biofuel manufacturers because of the low cost of production. It may also be an effective biofuel for cold climates as the cold point of camelina oil is 10 to 15 degrees lower than soybean or canola.

Camelina production is rapidly increasing in the Northern Great Plains. Montana is currently the largest producer of camelina in the world. Last year, 10,000 acres were grown in Montana. This year, that number will expand to 50,000 acres. The number of acres grown in Montana and other states will continue to grow rapidly as the demand for biodiesel continues to increase.

There are two roadblocks to getting farmers to move acreage into camelina production. The first challenge is that there are currently no labeled pesticides available to control weeds and pests. This barrier is being resolved as research scientists and as pesticide manufacturers move the appropriate products into the market.

The bigger challenge is the lack of Ag Department safety-net programs. I spend my days working with agriculture producers, educating them about the potential markets for this exciting new energy crop. No matter how great the promised return on investment

might be, the lack of crop insurance is a major roadblock to new crop acceptance. Farmers have trouble getting their banker to support loans for crops without crop insurance. Farmers are also hesitant to move away from a crop with a long track record and the full bundle of USDA program support to a new crop with no safety net whatever.

Montana's Governor, Brian Schweitzer, recently referred to camelina as his new girlfriend. As our country works to develop homegrown sources of clean renewable fuels, we believe states like Montana can substantially contribute to energy feedstock production. In fact, we project that camelina will surpass 1,000,000 acres in Montana in the next 2 to 3 years. In order to achieve this benchmark, Montana farmers need risk protection and support from Farm Services Agency and from other state and Federal agencies.

Camelina is a new crop to North America. It does not have the sort of yield and price data that is required to obtain Federal crop insurance under the normal process, a process that may take years to navigate. Congress can best promote the increased production of renewable fuels by instituting a targeted program administered by the Department of Agriculture that would provide the needed safety net to growers in the short term to allow this industry to take root and deliver on the promise of energy independence.

Thank you.

[The prepared statement of Mr. Iverson follows:]

PREPARED STATEMENT OF GARY W. IVERSON, EXECUTIVE DIRECTOR, GREAT NORTHERN GROWERS COOPERATIVE, SUNBURST, MT

Mr. Chairman and Members of the Committee:

It is an honor to be here today to talk about an oilseed that has the potential to dramatically improve the rural economies of many western states and help our country achieve energy independence. That oilseed is camelina, and it can be used as a feedstock to produce biodiesel, just like canola, sunflower seeds or soybeans.

My name is Gary Iverson and I am the Executive Director of the Great Northern Growers Cooperative in Sunburst, Montana. Our Cooperative is dedicated to working with agricultural producers to market value-added agricultural commodities which are adapted to Montana conditions and provide economic development to our state. My story relates to Montana, but it could equally apply to Minnesota, Washington, Oregon, Colorado, Utah, Nebraska, North Dakota or South Dakota, all of whom have growing conditions well suited to camelina.

Camelina, a member of the mustard family, is a summer annual oilseed crop. It is also known as False Flax or Gold of Pleasure. The seed was widely grown in Eastern Europe from ancient times until the 1940's when it was replaced by canola.

Soybeans, sunflower, and canola are the main oilseed crops grown in temperate climates in the United States and are the principal feedstocks currently used to produce biodiesel. These oilseed crops are not suitable to marginal lands with low moisture, low fertility, or higher Ph soils. For example, soybeans are ideally suited to the Corn Belt, but are not well adapted to arid, northern and Rocky Mountain states.

In recent years, farmers have shown increased interest in growing sustainable crops with reduced requirements for fertilizer, pesticides, and energy input that can be used for both food and fuel production. Camelina is that crop. It requires minimal inputs and is well suited to marginal soils, arid climates, and lower soil-fertility.

Camelina can be grown as a dry-land crop using minimal till. Camelina production can be limited by high humidity—weather that is virtually unknown in Montana—which causes downy mildew, the only significant disease of camelina. Grown in areas with high moisture and high fertility soil, oilseeds like canola will out yield camelina. However, under dry land conditions, camelina yields will be nearly double that of canola.

Camelina is of particular interest to bio-fuel manufactures because of the low cost of production. It may also be an effective biofuel for cold climates, as the cloud point of camelina oil is 10 to 15 degrees lower than soybean or canola.

Camelina production is rapidly increasing in the northern Great Plains. Montana is currently the largest producer of camelina in the world. Last year 10,000 acres were grown in the state. This year, that number will expand to 50,000 acres. The number of acres grown in Montana and other states will continue to grow rapidly as the demand for biodiesel continues to increase.

There are two roadblocks to getting farmers to move acreage into camelina production.

The first challenge is that there are currently no labeled pesticides available to control weeds and pests. This barrier will be resolved as advances are made to selectively breed more resilient varieties of camelina and as pesticide manufacturers move the appropriate products into the market.

The bigger challenge is the lack of Department of Agriculture safety net programs. I spend my days working with agriculture producers, educating them about the potential markets for this exciting new energy crop. No matter how great the promised return on investment might be, the lack of crop insurance is a major roadblock to new crop acceptance. Farmers have trouble getting their banker to support loans for crops without crop insurance. Farmers are also hesitant to move away from a crop with a long track record and the full bundle of USDA program support to a new crop with no safety net whatsoever.

Montana's Governor, Brian Schweitzer, recently referred to camelina as his new girlfriend. As our country works to develop home-grown sources of clean, renewable fuels, we believe states like Montana can substantially contribute to energy feedstock production. In fact, we project that camelina will surpass 1 million acres in Montana in the next few years. In order to achieve this benchmark, Montana farmers need risk protection and support from Farm Services Agency and other state and federal agencies.

Camelina is a new crop. It doesn't have the sort of yield and price data that is required to obtain Federal crop insurance under the normal process—a process that I understand takes many years to navigate. Congress can best promote the increased production of renewable fuels, by instituting a targeted program administered by the Department of Agriculture that provides the needed safety net to growers in the short term to allow this industry to take root and deliver on the promise of energy independence.

Thank you.

Mr. ETHERIDGE. I thank the gentleman for his testimony.

Mr. Chapman.

STATEMENT OF STEVEN D. CHAPMAN, PRESIDENT, AMERICAN SESAME GROWERS ASSOCIATION, LORENZO, TX

Mr. CHAPMAN. Thank you, Mr. Chairman and Members of the Committee. My name is Steven Chapman. I am a fourth-generation farmer from Lorenzo, Texas, and I grow cotton, sorghum, wheat, and peanuts. I am also a Member of the Board of Plains Cotton Growers Association. I also grow another crop that I am here today to talk to you about. That is sesame.

I am the founding President of the newly formed American Sesame Growers Association, headquartered in San Antonio.

In addition to Texas, sesame is commercially grown in Oklahoma, Kansas and Arizona, and it has huge potential. Our Association's top priority and objective and the sole reason I got off my tractor in the middle of planting season, got on a plane and flew 1,600 miles to be here today is simple. We respectfully request a pilot program for Actual Production History Multi-Peril Crop Insurance for sesame.

Mr. Chairman, the irony is sesame is a very low-risk crop. Let me be clear. We do not need crop insurance because of sesame's inherent production risks. We need crop insurance because of the commercial practicalities of securing acres and financing.

The bottom line is this: Landlords and lenders demand crop insurance. Since crop insurance is unavailable to sesame, land and loans are given only to other crops. The lack of crop insurance means that accountants and actuaries, not farmers, are deciding what to plant on Texas farms. The sesame acreage that is produced to date is self-financed on owned land.

Mr. Chairman, sesame production is an American success story that has yet to be told, and it will never be told if we do not get crop insurance and get it soon. Let me first explain the agronomics; second, the economics; and, third, the policy solution for crop insurance.

It is a low-cost, low-risk crop that allows farmers to make a profit. In last summer's drought, we saw that it was often the only crop that survived in some areas. It is an excellent rotation crop for cotton, corn, wheat, soybeans, and peanuts. This is one of our principal uses for sesame. It conditions the soil and reduces cotton root rot and root knot nematodes, which improves our subsequent cotton crop. This is why we say, "Sesame is cotton's best friend." sesame is used for bakery, confection, and is crushed for oil. Because it is toasted before it is crushed, it does not compete with other U.S.-produced vegetable oils. Almost all of the sesame consumed in the U.S. is imported. Quite candidly, our domestic customers have food safety concerns, given recent news. So do many other countries like Japan. They both want a U.S. supply.

With crop insurance and a chance to expand, ASGA believes, through our conversations with commercial traders and processors around the world, the U.S. could be a net exporter with a 20 percent world market share within a decade. That equates to about 750,000 acres. Right now, because ASGA farmer members believe that we are in a race with Brazil to capture this market, timing for crop insurance policies is critical.

So let me wrap up my testimony with our proposed policy solution, Mr. Chairman. We want a pilot program for Actual Production History Multi-Peril Crop Insurance for the 2008 sesame crop year. Because sesame grows in the same areas, under the same conditions, and with similar practices as sorghum, sesame fits well as an addition to the Coarse Grains Crop Provisions and a modification of the Sorghum Loss Adjustment Manual. The economic and agronomic merits of sesame earned us a spot on the agenda at a Board meeting of the Federal Crop Insurance Corporation.

Our request for a new policy was denied by the FCIC Board because they have a guideline of not granting new insurance policies for small-acreage crops. That decision has put us in a vicious circle. RMA and FCIC say sesame cannot be insured because the acreage is too small, but the acres are too small because sesame cannot be insured. We have done everything we can do administratively with FCIC and RMA.

Clearly, the situation sesame growers and potential sesame growers find themselves in is an unintended consequence of the FCIC's acreage guidelines. Thus, it is a matter of policymaking and a proper role for Congress to remedy the problem and to provide some equity to the Crop Insurance Program.

Indeed, sesame is considered a minor oilseed under the farm bill, but it is the only minor oilseed without a crop insurance policy.

Sesame is a program crop, and it is the only program crop without a crop insurance policy.

Thank you very much for your interest, attention and consideration.

[The prepared statement of Mr. Chapman follows:]

PREPARED STATEMENT OF STEVEN D. CHAPMAN, PRESIDENT, AMERICAN SESAME GROWERS ASSOCIATION, LORENZO, TX

Thank you Mr. Chairman, and Members of the Committee.

My name is Steven Chapman. I am a fourth generation farmer from Lorenzo, Texas, and I grow cotton, sorghum, wheat, and peanuts. And I grow another crop that I am here today to talk to you about—sesame.

I am the founding President of the newly formed American Sesame Growers' Association, headquartered in San Antonio.

In addition to Texas, sesame is commercially grown in Oklahoma, Kansas, and Arizona.

Our Association's top priority and objective, and the sole reason I got off my tractor in the middle of planting season, got in a plane and flew 1,600 miles to be here today, is simple.

We respectfully request a pilot program for Actual Production History Multiple Peril Crop Insurance for sesame.

Sesame has huge potential to bring profitability to farm balance sheets across Texas, Oklahoma, and elsewhere—if, and only if, we are to obtain basic crop insurance.

Mr. Chairman, the irony is sesame is a very low risk crop. Let me be clear, we don't need crop insurance because of sesame's inherent production risks. We need crop insurance because of the commercial practicalities of securing acres and financing.

The bottom-line is this: landlords and lenders demand crop insurance. Since crop insurance is unavailable to sesame, land and loans are given only to other crops.

The lack of crop insurance means that accountants and actuaries—not farmers—are deciding what to plant on Texas farms.

The sesame acreage that is produced to date is self financed on owned land.

Mr. Chairman, sesame production is an American success story that may never be told if we do not get crop insurance. And get it soon.

Let me explain first the agronomics, second the economics, and third the policy solution for crop insurance.

Sesame is a crop with huge potential—from Kansas to Oklahoma to Texas to California to Arizona.

It is a low cost, low risk crop that allows farmers to make a profit without relying on program payments.

It is drought tolerant requiring ¼ the water of corn, ⅓ the water of sorghum and ½ the water of cotton. In last summer's drought, we saw that it was often the only crop that survived in some areas.

It is an excellent rotation crop for cotton, corn, wheat, soybeans and peanuts. This is our principal use for sesame.

It conditions the soil and reduces cotton root rot and root knot nematodes, which improves our subsequent cotton crop. This is why we say, "Sesame is cotton's best friend."

And, quite frankly, the issues with WTO are not going to get better for us as cotton farmers and we badly need alternatives. Sesame is an excellent one.

The reason sesame offers this opportunity is because plant breeding by a Texas company, Sesaco, has yielded new varieties of sesame. These varieties can be mechanically harvested with a combine. Because these are relatively new varieties we have only recently had a crop that needed to be insured.

All the traditional sesame production is harvested by hand because the sesame capsule opens as it dries and drops the seed on the ground.

As for the economics . . . the current U.S. production is about 2,500 tons grown on 10,000 acres. All U.S. sesame is grown on contract.

Sesame is used for bakery, confection, and is crushed for oil. Because it is toasted before it is crushed, it does not compete with other U.S. produced vegetable oils.

Almost all of the sesame consumed in the U.S. is imported.

Quite candidly, our domestic customers have food safety concerns given recent news. So do many other importers, like Japan. They both want a U.S. supply.

With crop insurance and a chance to expand, ASGA believes, through our conversations with commercial traders and processors around the world, the U.S. could be a net exporter, with a 20 percent world market share within a decade.

That equates to about 750,000 acres.

Right now, we as ASGA farmer members believe we are in a race with Brazil to capture this market. Thus timing for a crop insurance policy is critical.

So let me wrap up my testimony with our proposed policy solution, Mr. Chairman.

We want a pilot program for actual production history multiple-peril crop insurance for the 2008 sesame crop year.

We think the policy should be limited to mechanically harvestable sesame varieties that are already marketed under contract.

That way there will be no coverage for revenue risks, only production risks.

Because sesame is used in rotation it only replaces other insured crops and, therefore, will not add additional costs to RMA's programs. Sesame could actually lower RMA's liabilities in dollars per acre. Because sesame grows in the same areas, under the same conditions and with similar practices as sorghum, sesame fits well as an addition to the Coarse Grains Crop Provisions and a modification of the Sorghum Loss Adjustment Manual.

The economic and agronomic merits of sesame earned us a spot on the agenda at a Board meeting of the Federal Crop Insurance Corporation.

Our request for a new policy was denied by the FCIC Board, however, because they have a guideline of not granting new insurance policies for small acreage crops.

That decision has put us in a vicious circle: RMA and FCIC say sesame cannot be insured because the acreage is "too small." But the acres are "too small" because sesame cannot be insured.

We have done everything we can do administratively with FCIC and RMA.

Clearly, however, the situation sesame growers—and potential sesame growers—find themselves in is an unintended consequence of the FCIC's acreage guidelines.

Thus, it is a matter of policymaking and a proper role for Congress to remedy the problem, and to provide some equity to the crop insurance program.

Indeed, sesame is considered a minor oilseed under the farm bill. And it is the *only minor oil seed without a crop insurance policy.*

Sesame is a program crop. *It is the only program crop without a crop insurance policy.*

As I said earlier Mr. Chairman, sesame is a great American success story that could never be told unless quick action is taken now to provide an actual production history multiple-peril crop insurance pilot program for the 2008 sesame crop year.

Thank you very much for your interest, attention and consideration.

Mr. ETHERIDGE. Thank you, sir.

Mr. Watts.

STATEMENT OF TIM J. WATTS, PRESIDENT, WATTS AND ASSOCIATES, INC., BILLINGS, MT

Mr. WATTS. Thank you for the invitation, Mr. Chairman and Members of the Subcommittee.

Members of the panel, thank you.

I would submit that this might be the first time in the history of Congress that we have had two individuals from Montana testify on any witness list.

I am Tim Watts, President of Watts and Associates. Watts and Associates is an economic consulting firm in Billings, Montana, focused on crop insurance development. In the U.S., we have been awarded approximately 40 projects from RMA and FCIC, with many complete and a few in progress. We have also been active in the international community, with efforts in Canada, India, and have been active with contracts with the World Bank.

We believe the U.S. crop insurance system is one of the best systems in the world. There are frequently emerging innovative systems proposed internationally. To stay one of the best systems in the world, we have to constantly be vigilant of these emerging technologies and emerging new processes in order to improve our exist-

ing system and provide the best service that we can to our customers, mainly agricultural producers and U.S. taxpayers.

We applauded Congress' decision in approving ARPA legislation in 2000 to expand the crop insurance safety net by encouraging new and innovative and next-generation crop insurance plans for major and minor crops—with an emphasis on the word "minor" crops—and also by leveling the subsidy playing field between crops and among crops. We encourage Congress to renew this mandate in the 2007 Farm Bill.

We have listened to the requests today, and we receive similar requests from producer groups every month, desiring to start, expand, or refocus crop insurance for their commodities. These requests cover such national issues as energy costs related to the costs of production coverage, livestock insurance, quality adjustment issues as experienced in North Dakota, Texas, and virtually every region in the U.S., and new generational approaches as well as new individual crop coverage such as sesame.

These regional and national issues are expensive to solve, historically costing between $250,000 to several million dollars for development costs. Just as an example, this would be one of the development efforts recently funded.

The most promising avenue for addressing the need of crop insurance for individual crops is the so-called "508(h) process" that allows a private group to submit a product, which if approved by the FCIC Board, is then incorporated in the Federal system, and the submitter is reimbursed for the cost of developing and maintaining the product. If it fails, the submitter eats the development cost; *i.e.,* he bears the entire financial risk.

This process, however, has been much underused over the years, primarily because it places the entire financial risk on the submitter. As a result, according to the Congressional Research Service, out of about $80,000,000 made available by Congress under ARPA over a 6 year period, the 508(h) program utilized less than $9,000,000 of the allocation of the $80,000,000.

We suggest amending the 508(h) process for two purposes. First, we make it more user-friendly to producer groups by having the FCIC Board share in the financial risk at an earlier point and provide an iterative environment for a higher chance of success. Second, we give the FCIC Board more control over its own agenda. Details of the proposed approach are in my written testimony.

With these changes, we believe it can address national issues such as the adverse shifts in production costs, *i.e.,* energy; declining yields; regional issues such as quality loss and highly tailored coverage for specialty crops; and new generational approaches to crop insurance.

Because we have structured our proposal as a small change to the currently funded 508(h) process and make no changes in the current funding authorization level, we anticipate a zero budget score impact.

Thank you very much for the invite.

[The prepared statement of Mr. Watts follows:]

PREPARED STATEMENT OF TIM J. WATTS, PRESIDENT, WATTS AND ASSOCIATES, INC., BILLINGS, MT

Mr. Chairman:

Thank you for the opportunity to appear before the Subcommittee on General Farm Commodities and Risk Management to present the views of Watts and Associates, Inc. on the Federal Crop Insurance Program and how it can be improved. Watts and Associates, Inc. is a private economic research firm specializing in risk management-based solutions to the problems facing agricultural producers. Not only is Watts and Associates, Inc. one of the most active firms supporting USDA's Risk Management Agency (RMA) and the Federal Crop Insurance Corporation (FCIC) by performing product-related research on a contract basis, but we also have completed significant projects in the farm risk management field for clients ranging from the World Bank, the Governments of Canada and India, to a variety of private sector groups. A list of recent projects is included as part of *Appendix A.*[1]

We believe the United States Federal crop insurance system is one of the best in the world. Based on our experience, we believe strongly that it remains the best option available to protect American farm producers from the uncontrollable risks posed by adverse weather and, increasingly, by adverse movements in commodity prices. As a result, we have applauded Congress's decision, reflected in the Agricultural Risk Protection Act (ARPA) of 2000, to encourage the development and deployment of innovative new insurance products to cover an expanding universe of new crops, new concepts, and new approaches. We encourage you to continue this emphasis in the new farm bill. One of the mandates included in ARPA 2000 that we believe holds particular promise for the future is the so-called "508(h) process" under which private groups—farm organizations, insurance companies, and others—are given the opportunity to present new insurance concepts to the FCIC Board and, if approved, to have them incorporated into the Federal crop insurance system, eligible for subsidy and reinsurance. The private group, in turn, can then be reimbursed for the costs entailed in developing the product and maintaining it.

The 508(h) process, even under its current structure, has had successes, including the introduction of such new products as CRC, Livestock Risk Protection, Livestock Gross Margin, and AGR-Lite. Still, based on our experience working with the 508(h) process as an outside contractor (both as a product developer and as an outside expert reviewer of proposals pending before the FCIC Board), we believe that this program has the potential to produce benefits far beyond its current use. With structural improvements we will outline below, the 508(h) program can become a principal vehicle for producer organizations to take the initiative and the responsibility for resolving many of the chronic issues that have faced the Federal Crop Insurance Program for many years, including, for instance:

—National issues such as the impact on farmers of adverse shifts in production costs, particularly energy, through approaches such as Crop Margin Coverage (a new concept developed by Watts and Associates, Inc.);

—The problem of declining yields from repeated years of uncontrollable losses;

—Regional issues such as the unique problems of quality loss for crops in the Northern Plains, the need for highly-tailored coverage for specialty crops with smaller markets, or for highly-tailored solutions to problems or specialties affecting growers in limited areas; and

—Innovative insurance for livestock risks.

The currently-unused potential of the 508(h) process was dramatized recently in a review by the Congressional Research Service (attached to this testimony as *Appendix B*) which showed that, out of some $80 million made available for reimbursement of research, development, and maintenance costs under 508(h) during the first 6 years of the program, only $8,977,260 were spent for that purpose. The reasons for this under-use of 508(h), we believe, are structural, and can be addressed with carefully designed structural reforms. For instance, the development of a new insurance product—including the development of actuarial rates, underwriting standards, policy forms, marketing plans, and the rest—can be expensive, ranging at the low end from a few hundred thousand dollars for addressing regional quality issues to, at the high end, several million dollars for a new generation approach to commodity crops. Currently, a producer organization undertaking to develop and present a new product under the 508(h) process must shoulder this entire financial burden, and bear the risk of losing the entire investment if the FCIC Board ultimately dis-

[1] *Appendix A* will not be printed, but is available for viewing at *http://agriculture.house.gov/testimony/110/h70514/TimWatts.doc*.

approves the product. It is an all-or-nothing proposition. If controversy arises during the Board's consideration of the product, such as through new issues being raised by outside expert reviewers, the Board's review can be delayed or extended by months or years. For the producer group sponsoring the idea, this means that any potential reimbursement is delayed along with it, causing financing costs to accrue over time.

From the perspective of the FCIC Board, the current 508(h) process poses a host of management challenges. The FCIC Board has a duty to review each proposed new product fully and rigorously based on a number of standards including actuarial and underwriting soundness, marketability, and protection of the interests of producers. Adding to the time and expense of this process is the legal requirement that each proposed new product be submitted for analysis to a minimum number of outside expert reviewers. The FCIC Board itself is given little authority to control its agenda in order to assign scarce resources to those proposals that best fit its overall assessment of program needs.

We at Watts and Associates, Inc., working with our outside counsel, former RMA Administrator Kenneth Ackerman, and after having worked in a producer driven system for product development in Canada, have developed a concept for adjusting the 508(h) process to address both these concerns: to make it more user-friendly to outside producer groups while giving the FCIC Board greater authority to control its agenda. Our proposal is built around the following points and steps (see draft legislative language, attached as *Appendix C*):

1. *Choice:* The developer would choose whether to proceed under:

   a. 508(h) as it currently exists, which would remain in effect as an option, or

   b. The new alternative process outlined below.

2. *Application:* Only producer groups working with developers comprised of individuals with experience in the process, including at least one who has pre-qualified for GSA contract payment rates, would be allowed to use the new process. As a first step, the developer would prepare a concept paper to illustrate design features and limitations of the new approach or tool. Using the existing pool of "experts" approved by the Board for product review, the developer would choose two who would review the proposal and must agree that the concept has merit.

3. *Initial Board Meeting:* After incurring the uncompensated costs associated with Step 2, the producer group and developer would meet with the Board to seek its initial approval to pursue the product. If the Board agrees, then future development costs would be covered by reimbursement at the developer's prequalified GSA rates (proving that the rates have been competitively determined).

4. *Development:* The developer would proceed to develop and complete a draft submission, consisting of all the materials needed to implement the product as described under the current 508(h) regulations and including (a) an opinion from the two expert reviewers as to the soundness of the draft submission and (b) an actuarial certification. The developer would be required to maintain an auditable record of hours billed and costs incurred. If the Board desires an intermediate feasibility step prior to the draft submission, an assessment of feasibility could be inserted at this stage.

5. *Second Board Meeting:* The developer would then present the submission to the Board and the Board would decide whether the product should proceed further. If so, it would appoint three additional experts to review the product in consultation with the developer and the previous experts. In addition, RMA would be asked to provide a formal review of the proposal at this stage. Interaction between the developer and reviewers would be encouraged to facilitate the sharing of ideas and addressing of concerns.

6. *Third Board Meeting:* The Board, based on the final input it receives from the developer and reviewers, would decide whether or not to offer the product to producers. If so, the developer would be responsible for providing materials and working with RMA to facilitate implementation.

7. *Reimbursement:* The developer would apply for reimbursement as per the existing 508(h) process, and reimbursement would be paid at GSA hourly rates multiplied by the lesser of a reasonable number of hours (ascertained by comparison to similar projects) or the actual hours spent by the developer on the product. However, if the Board ultimately deems the product incomplete under Step 5 and the developer fails to correct it after being given an opportunity to do so, development costs to date of discovery would be covered only at 75 per-

cent. If the Board ultimately declines to accept the product under Step 6 for any reason, the development costs to date of discovery would be covered only at 85 percent.

8. *Maintenance:* The developer would be responsible for product maintenance, and its related costs would be reimbursable at the approved GSA rates for a period of 3 years. At the end of the third pilot year, the developer could either surrender ownership of the product to RMA or maintain it and assess a user-fee structure, as under current 508(h) rules.

9. *Funding:* Funding for reimbursement of products under the new alternative process would come from two existing authorized pools: the one for contracted development and the other for reimbursement of private development currently funded at not to exceed $25 million and $15 million annually. Since the funding comes from existing authorized sources, we do not anticipate any budget score attaching to this proposal.

We believe that, with these modest adjustments, implemented under existing funding caps, the 508(h) process could become a prime avenue for agricultural producers, the ultimate customers of this vital government program, to take a larger role in assuring that Federal crop insurance addresses their needs. These changes would also provide the FCIC Board an additional tool for management of the direction of the crop insurance development efforts.

Thank you for this opportunity to present our views to the Subcommittee. We appreciate your consideration, and would be pleased to answer any questions you might have.

APPENDIX B—CONGRESSIONAL RESEARCH SERVICE MEMORANDUM



Memorandum December 12, 2006

TO: House Agriculture Committee
Attention: Tyler Wegmeyer and Clark Ogilvie

FROM: Ralph M. Chite
Specialist in Agricultural Policy
Resources, Science, and Industry Division

SUBJECT: New Crop Insurance Products Since ARPA 2000

The following is in response to your e-mail request for information on new product development within the federal crop insurance program, following enactment of the Agriculture Risk Protection Act (ARPA) of 2000 (P.L. 106-224). All responses to your specific questions were provided by Tim Hoffmann of the U.S. Department of Agriculture's Risk Management Agency (RMA), and his staff. If you have any follow-up questions, please give me a call at 7-7296.

1) "How many new products has the agency approved under the 508(h) process as amended by ARPA 2000, and how much of the funding mandated for spending on research, development, and maintenance costs has gone for this purpose? Of those funds remaining unspent, what has been their disposition?"

According to RMA, eleven new products have been approved by the Federal Crop Insurance Board (Board) under section 508(h) of the Federal Crop Insurance Act, as amended by the Agriculture Risk Protection Act of 2000:

Livestock Risk Protection (LRP)-Swine
LRP-Fed Cattle
LRP-Feeder Cattle
LRP-Lamb
Livestock Gross Margin (LGM)-Swine
LGM-Cattle
Nutrient Best Management Practice
Hybrid Seed Corn Price Endorsement
Adjusted Gross Revenue-Lite
Group Risk Income Protection-Harvest Revenue Option
Coffee Crop and Coffee Tree

RMA reports that the Board has approved and paid research, development and maintenance expenses of $8,977,260 since 2001. The unspent funds were moved or allocated to section 522 funding, where they in general were used for partnerships, education or outreach, or were not used and returned to the program fund for future apportionment by OMB.

2) "How many livestock products has the FCIC approved under the ARPA 2000 authority, and how much of the funds authorized for this purpose have been spent for it by FCIC? Of those remaining unspent, again, what has been their disposition?"

According to RMA, the Board approved six livestock products (see above). LGM and LRP were initially available for slaughter hogs in Iowa only . LRP subsequently expanded to cover feeder and fed cattle in 20 states and slaughter lambs in 27 states. LGM has been expanded to fed cattle in 20 states, LGM-Swine is still only available in Iowa. Developers of these plans have indicated expansion intentions. RMA has spent a total of $6,207,832 for administrative and operating subsidy and producer subsidy since 2002. RMA reports that the unspent remaining funds cannot be used for other purposes; therefore, they were returned to the program fund for future apportionment by OMB.

3) Looking beyond the 508(h) and livestock authorities, how many new products has the FCIC developed and placed into operation using its authority under APRA 2000 to enter into contracts for product development?

Since passage of ARPA 2000, RMA reports that nine new pilot products were developed under contract and placed into operation:

1) Hawaii Tropical Tree Pilot
2) Hawaii Tropical Fruit Pilot
3) Pasture Rangeland Forage (PRF) Rainfall Pilot
4) PRF Vegetation Pilot
5) Florida Fruit Tree Pilot
6) Sweet potato - current version Pilot
7) AGR - current version Pilot
8) Silage Sorghum Pilot
9) Nursery Price Endorsements Pilot

APPENDIX C—PROPOSED LEGISLATIVE LANGUAGE

Expanding the Safety Net: As Approach to Making the 508(h) Process More Friendly to Producer Groups and Developers

Legislative Language

Section 522 of the Federal Crop Insurance Act (7 U.S.C. 1522) is amended by—
(a) Striking subsection (b)(1) and replacing it as follows:

"(b) Reimbursement of research, development, and maintenance costs

"(1) Research and development reimbursement

"The Corporation shall provide a payment to reimburse an applicant for research and development costs directly related to a policy that—

(A) Is submitted to the Board following the procedures of paragraph (7) of this subsection or

(B) Is

(i) submitted to the Board and approved by the Board under section 508(h) of this title for reinsurance; and

(ii) if applicable, offered for sale to producers."

(b) Adding at the end of subsection (b) a new paragraph (7) to read as follows:

"(7) Reimbursement Agreements.

"(i) A person proposing to prepare for submission to the Board under section 508(h) of this Act a crop insurance policy, a provision of policy, or applicable rates of premium, may apply to the Board for a reimbursement agreement.

"(ii) Applications.

"(I) The application for a reimbursement agreement shall consist of such materials as the Board may require, including

(i) A concept paper that describes the proposal in sufficient detail for the Board to determine whether it satisfies the requirements of subparagraph (II) of this paragraph;

(ii) Statements of support from not less than two experts chosen from among experts approved by the Board as qualified to conduct independent reviews under section 505(e) of this Act, stating that the concept is feasible and achievable from an actuarial and underwriting perspective;

"(II) The Board shall approve the application by majority vote if it finds that:

"(i) The proposal—

a. Provides coverage to a crop, hazard, or region not traditionally or adequately served by the Federal Crop Insurance Program;

b. Provides crop insurance coverage in a significantly improved form;

c. Addresses a recognized flaw or problem in the program; or

d. Introduces a significant new concept or innovation to the program.

(II) The applicant demonstrates the necessary qualifications to complete the project successfully in a timely manner with high quality, and has pre-qualified for contract payment rates with the General Services Administration; and

(III) The proposed budget and timetable are reasonable.

"(iii) Agreements.

(I) Upon approval of the application, the Board shall enter into an agreement with the person for the development of a formal submission meeting the requirements for a complete submission established by the Board under section 508(h) of this Act. Payment for work performed under the contract shall be based on rates previously approved by the General Services Administration, or a fixed price based upon those rates, and the limitations of paragraph (6) of this subsection shall not apply. The parties may terminate the agreement at any time by mutual consent. If the agreement is terminated at any time prior to final approval of the submission, the submitter shall be entitled to payment of all costs incurred to that

point, or, in the case of a fixed rate agreement, an appropriate percentage.

"(iv) The Board shall consider any product submitted to it developed under this paragraph under the rules it has established for products submitted under section 508(h) of this Act, except that—

(I) If the Board ultimately finds the submission to be incomplete under its standards for qualifying for outside expert review and the developer has not corrected the submission after being given an opportunity to do so, the payment due to the submitter under the agreement established under subparagraph (ii) shall be reduced by twenty-five percent.

(II) If the Board finds that the submission is complete, but the submission fails to win final Board approval, the amount due the submitter will be reduced by 15 percent.

(III) If the Board approves the submission, the reviewer will be paid 100 percent of the amount due.

(IV) Notwithstanding the limitations of section 505(e)(3) of this Act, the independent experts chosen to conduct reviews of the submission shall include—

(a) The Risk Management Agency; and
(b) The Office of General Counsel."

Mr. ETHERIDGE. I thank the gentleman for his testimony.

I offer each Member 5 minutes of questioning, and the Chair will take the first 5 minutes.

Mr. Kubecka, how does RMA's current method of crop selection for sorghum compare with the previous practice of just setting it at 95 percent of the corn price election, and would going back to that system be worse or better than the current system?

Mr. KUBECKA. I am not completely knowledgeable about exactly how they set it previously. Because, I live on the Gulf Coast, and so insurance is not that important to me directly. But as far as sorghum is concerned, my understanding is that historically it was set at 95 percent.

Now what challenges us is for instance, we are getting a premium for corn, and a lot of it is because of some of the other policies that we have instituted, not necessarily in crop insurance but other marketing efforts and all. So this has been a challenge for the sorghum producers, to understand how the Kansas City office has come up with this percentage. Actually, it is not known. They will not share that knowledge with us. So to compare one against the other, I cannot do it because they have not shared that with us. It is not transparent.

Mr. ETHERIDGE. You are saying it is not an open process?

Mr. KUBECKA. It is not an open process. That is what my understanding is. It raises a broader question then.

Mr. ETHERIDGE. Thank you.

Mr. Chapman, you have heard Mr. Kubecka's testimony about the problem sorghum producers are having with their price selections. In your testimony, you indicate that crop insurance policies for sorghum will work well for sesame.

Given that sesame is not traded on the Exchange, how do you foresee RMA's determining price election for sesame, and could your growers not face some of the same problems that sorghum growers are now facing that we have just talked about? I would be interested in your comments on that.

Mr. CHAPMAN. Well, first of all, all of the sesame that we are growing right now is an nondescent variety, which means you can

combine it. All other sesame is hand-harvested. A Texas company owns the patent on this on nondescent variety, so we are contracting all of our acres through them, so the price part of it is already there. I mean, we are contracting all of our sesame at a particular price, and they are basing their prices on world markets as far as Korea, Japan, India and here in the United States.

Mr. ETHERIDGE. Is that the way all sesame is done? Is all sesame under contract or just what you do in Texas?

Mr. CHAPMAN. As far as I know, it is all under contract.

Mr. ETHERIDGE. So you are saying yours is the only sesame that is harvested by combines?

Mr. CHAPMAN. Yes, sir.

Mr. ETHERIDGE. All the rest of it——

Mr. CHAPMAN. Is by hand. That is correct.

Mr. ETHERIDGE. In the United States or just in Texas?

Mr. CHAPMAN. As far as I know, all of it in the United States is harvested by combine. I mean that is not a descent variety.

Mr. ETHERIDGE. In the U.S.?

Mr. CHAPMAN. Yes, sir.

Mr. ETHERIDGE. Okay. Thank you.

The gentleman from Louisiana, Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Mr. Kubecka, do you see insurance products evolving over time whereby the producer and the refiner of ethanol will combine to create some sort of insurance product? I am just thinking out of the box. We are dealing with a lot of difficult insurance issues here.

Mr. KUBECKA. Personally, I do not see anyone taking over the government's offer. The government is going to offer it first. That is only my personal feeling on it; certainly, I think from a production standpoint, especially in our area. We have had a premium, and sorghum stayed pretty consistent in our area, that corn had moved in because we have had decent prices. We are behind on yield a little bit, but otherwise we are pretty much up there, and I do not see that they would be stepping in to take over the government program, myself.

Mr. BOUSTANY. Mr. Iverson, do you see any potential there?

Mr. IVERSON. Well, one, camelina is an oilseed, not an ethanol product. It would be a biodiesel.

Mr. BOUSTANY. Again, it would be a local market?

Mr. IVERSON. Yes. The ideal thing about camelina is it is a crop that is adapted to the area that is inbetween soybeans and canola. Canola basically does very well in Canada and in some of the higher rainfall areas and irrigated areas in the U.S. Soybeans have to have longer growing seasons than Montana and several mountain states have to offer, and camelina is the only oilseed that we know of that will thrive in a low-rainfall condition.

So, basically, we are looking at the potential for Montana and the inner mountain area to provide feedstock primarily for West Coast markets more than anything, because there is a lot of demand and a lot of potential for biodiesel in Washington, Oregon and California, and we are in an ideal location to supply that market. Also, our feedstock has some very good potential markets in places like Idaho and Utah as well as for livestock in Montana, so the feed-

stock does not have to move very far, and the oil crop is moving toward the West Coast.

Does that answer your question? Is that what you are asking?

Mr. BOUSTANY. Yes. It was kind of a theoretical question. I just wanted to get your perspective on it, and I guess, in your case, the lack of available pesticides is an issue that is hurting you.

Mr. IVERSON. That issue is fairly well solved because we have identified the chemicals that we have and that we need, primarily grass killers because camelina is going to replace a lot of chem fallow and summer fallow and maybe extend some rotations a little bit, but it is going to be involved with wheat and barley. We need to be able to control those grassy weeds at the wheat and barley stands when you are inbetween crops. And we have two chemicals that should be approved through the IR–4 Program next year. We have kind of solved that. That problem is solving itself. We need to solve the Crop Insurance Program.

Mr. BOUSTANY. Thank you.

Mr. Chapman, I was impressed with your testimony on sesame. And obviously, as a cotton and peanut farmer, you got into this to seek tremendous market potential and export potential over time. What is the current production?

Mr. CHAPMAN. Currently, I believe there are between, I think, 13,000 and 20,000 acres in the United States, some of course in Oklahoma, Texas, Arizona, those areas.

Mr. BOUSTANY. Is Texas the only area where it is being harvested by combine?

Mr. CHAPMAN. Well, that is in the United States. You know, most of the sesame goes to this Texas company, and they bred this nondescent variety. It is easily able to go through a combine, and that is what is being produced mostly in the United States.

Mr. BOUSTANY. I see. You went to the FCIC with a proposal, and it was rejected; is that correct?

Mr. CHAPMAN. Yes. They kept telling us that we did not have enough acreage.

Mr. BOUSTANY. Did you make the case about the potential future markets and the potential for an expansion and acreage?

Mr. CHAPMAN. Yes, sir.

Mr. BOUSTANY. They did not buy that?

Mr. CHAPMAN. No.

Mr. BOUSTANY. And that was the only reason for the rejection as far as you know?

Mr. CHAPMAN. As far as I know.

Mr. BOUSTANY. Okay. You threw into that equation also the fact that it would not add additional liability.

Mr. CHAPMAN. Exactly.

Mr. BOUSTANY. Thank you, Mr. Chairman. I have more questions to ask if we have one more round.

Mr. ETHERIDGE. I thank the gentleman.

The gentleman from North Dakota, Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. Iverson, camelina, that sounds like something North Dakota would be very interested in. I have not heard much about it.

Mr. IVERSON. North Dakota is very interested in it. Western North Dakota is working out very well. Any area that is too dry for canola and too cool for soybeans is camelina country.

Mr. POMEROY. How has production accelerated? Is it coming along? Is production exploding? Is it growing nicely?

Mr. IVERSON. Yes. We hoped to have 100,000 acres this year. We only had 50,000 but it is difficult for farmers to start a new crop, and this is the third year of production in Montana. We started out in 2005 with about 500 acres.

Mr. POMEROY. Are you getting enough product to have a biodiesel market for it?

Mr. IVERSON. At this point so far, we are marketing all new oil into the cosmetic market because of the Omega 3 in it and the meal, of course. We are working with different feed markets. We are selling a product that we call Omega Meal™, which is a trademarked term.

Mr. POMEROY. Is this basically a cousin of flax?

Mr. IVERSON. Not really. It is a plant. It is a plant that is similar to mustard and canola, but it has a flaxlike pod, and that is why it is called a "false flax."

Mr. POMEROY. I love your Governor's catchy way of saying things. He says camelina is his new girlfriend.

Mr. IVERSON. Brian is very excited about camelina.

Mr. POMEROY. He is. It has got much more of a ring than saying, "I am nutty about dry beans and lentils."

Mr. IVERSON. The other comment he made is, if he had another daughter, he would name her "Camelina."

Mr. POMEROY. I will look forward to learning more about camelina.

Mr. Watts, essentially, you are saying in your testimony that ARPA has launched substantial innovation, and even more innovation will be launched if inventors or developers do not have to bear all of the cost and all of the risk of getting RMA approval.

Mr. WATTS. Mr. Congressman, yes. We are currently trying to think through the camelina issue along with somewhere in the neighborhood of another 20 specialty crops. At the end of the day, the current system asks either the producer association or the developer or the insurance company that is interested and that is shouldering all of the financial risk. It is the intent to service the needs of public policy and the requests such as organic pecans.

Mr. POMEROY. Are these new areas that need the coverage, that we are hearing from in the prior panel, that you could potentially create things for if you are given an opportunity to by the RMA Board?

Mr. WATTS. That is correct. Our concept provides financial hurdles so we do not create the cottage industry and try to get fleshed-out ideas in front of the Board.

Mr. POMEROY. You have done some very good work in North Dakota in working with North Dakota commodity groups. I appreciated the positive statements you had about crop insurance in your testimony. Are you paying attention to those who are very highly critical of this program as to the industry's bearing no risk and the other criticisms coming at it?

Mr. WATTS. Yes, we have heard some of those criticisms.

Mr. POMEROY. I would really like you to pay a lot of attention to those criticisms and help us put it in perspective. My own thought is that some of these criticisms are based on some favorable loss history of recent years that does not take note of the horrible loss history just a few years earlier. I do not have my hands around the full thrust of the critique. Yet we are going to have to really understand them to make the case back in terms of continuing support for the Crop Insurance Program.

I see my time is up, but I will look forward to working with you on that, Mr. Watts.

I yield back.

Mr. ETHERIDGE. I thank the gentleman.

Mr. Watts, if you have data to share with this Committee as it relates to the question the gentleman from North Dakota asked, the Chair and others would really appreciate a document or something on that because it would be helpful as we move forward.

Mr. WATTS. Thank you, Mr. Chairman.

Mr. ETHERIDGE. If you would do that, I would appreciate it.

The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

A couple of points going back to the panel dialogue with Mr. Watts.

You have heard two panelists here talking about the need to get some kind of Crop Insurance Program so they can expand that program. I have some other commodities that people are thinking about growing. You said that $80,000,000 was authorized for this program, and only $9,000,000 was used. Is that the number? Was that over the 5 year period or what period of time was that?

Mr. WATTS. It was over a 6 year period.

Mr. NEUGEBAUER. So does it make sense then to come up with some kind of a cooperative program where, say, a new producer group just getting started would bring some resources to the table and begin that process? Is there a way along the process where you do not have to go to the very end to say, "we have probably headed in a direction we are not going to be able to get to," and so you can at that point in time cut your losses. Or say this is doing a staging in these studies? Does that make sense to you?

Mr. WATTS. Yes, that makes a lot of sense. In fact, as we thought through this, we were trying to figure out basically if you were going to fail, let us fail early in the process *versus* getting a producer association's hopes up. A lot of investment which somewhat draws the lines between the current administration and the producer association. Maybe the idea has merit, and maybe there are some suggestions along the way that can turn it towards the successful effort *versus* something that has a lot of investment and becomes a failure. We are suggesting more of an iterative process. So the Board has an ability to look at this early on, along with a couple of expert reviewers, to sanction the effort moving forward and to try to, I guess, shut off at the pass the ideas that are never going to make it through the process. *Versus* getting several hundred thousand to a few million invested in it over time and having a lot of emotional investment in that process also. So we have attempted to do exactly what you have suggested.

Mr. NEUGEBAUER. You know, one of the things that is frustrating to me is that, because of the nature of crop insurance, but even with a pilot program as has been requested by Mr. Chapman, we still will be—what—5, or 6 years at the earliest from actually getting any program that would offer crop insurance for sesame.

Mr. WATTS. Yes. Current discussions that I have had places the number somewhere between 5 and 8 years to put the pilot out if it goes through the current contracting process. The 508(h) approach is substantially quicker, and we have attempted to provide some shortcuts, not to integrity, but shortcuts to the process in order to more quickly get to the bottom line of whether it makes sense to move forward or not.

Mr. NEUGEBAUER. If you had the resources and you could take on these two commodities through that program, what would be the earliest date that you would be able to offer crop insurance under that?

Mr. WATTS. Even if you looked at an expedited process you would have to publish, basically, the guidelines in mid-2008, 2009. That is as quickly as you would get a pilot program on the ground even in an expedited system.

Mr. NEUGEBAUER. Has there ever been any thought about looking at a way to come up with a fast-tracking system that would have a more generic policy where some of these commodities line up parallel with other commodities and would be able to get to the market quicker?

I guess the point I am making is, in the world that we live in today, if you have got a company that takes you 4 or 5 years to change your product, you are not going to be around. I mean the only place that works is the government, and obviously it is not working all that well.

So are there some things that we need to look at outside the box of being able to be more reactive to a changing and cultural market in this country as producers are trying to make decisions based on economics and not on programs? I think that is what I heard these two gentlemen talk about. They are trying to figure out how to make money, which is a good thing. How can we get there?

Mr. WATTS. Well, I think there is probably no answer to your question, but I will try to answer it in two parts.

The first one is we hope that we have provided an expedited process, but in moving at the speed of business and handling the tension between the putting out a Congressionally-mandated, actuarially sound product and covering new emerging crops such as camelina and sesame that provides this natural tension. There are some methods out there such as insuring with a proxy crop. In sesame, that could be sorghum. That could be wheat. You could do it at a county level. With camelina, there is potential there, even though it does not have as many similar characteristics as maybe sesame does to sorghum and wheat.

So as we move through those processes, are there ways to level the substantive playing field and not provide an APH-type coverage? Yes. Some of the international community is moving towards that. Does it provide as good a coverage as APH? No. Does it have more basis risk? Yes. So are there some trade-offs that we could make between extremely effective coverage, such as the APH,

and getting something covered quicker? I think the answer is yes. We have actually been working on a product that goes across 200 crops.

Mr. NEUGEBAUER. I will finish, but I would think those two gentlemen sitting to your right would tell you, if you would just get them something so they could leverage that financially by being able to go to a lender and expanding the ability to do that in the interim, it would be a step in the right direction.

I yield back.

Mr. ETHERIDGE. I thank the gentleman.

Before we adjourn, Mr. Watts, you mentioned earlier that there is a slight adjustment. Do you feel comfortable today in telling me what you meant when you said "slight adjustment" or would you rather address that in your written testimony and share it with us a little later?

Mr. WATTS. The "slight adjustment" is that we do not believe that it is appropriate to reduce the effectiveness of the expert review process or to back away from an actuarial sound system. We do believe that there is a way to reduce the timeline associated with new product development and to provide an iterative process between the Board, the developer, and the producer group that has a higher chance of success. We think that is simply a refocus of the construct. If you look at the legislative language, it is not long.

Mr. ETHERIDGE. I hope you will share that with us in the document you are going to send to us what Congressman Pomeroy was talking about.

Before we adjourn, I am going to recognize the gentleman from Louisiana, Mr. Boustany, for closing comments.

Mr. BOUSTANY. Thank you.

Mr. Watts, before we close out, I just wanted to ask. You know, we have to strike a balance with the 508(h) program, and I agree with you that the programs are too high right now, and it is certainly putting a damper on the expansion of the crop insurance safety net, but it is striking a balance.

What do we do to prevent a swing in the other direction whereby you end up spending tax dollars on a bunch of ideas that do not pan out? I read through the information you sent to us in your written testimony, and I have some concern in that regard that we could be spending money on a lot of ideas that do not go anywhere. So do you have other ideas of where you might strike that balance?

Mr. WATTS. Thank you for the question.

I cannot tell you how deeply concerned we are about that particular issue. It would be a shame to, quote, as you said in your opening statement, "to use this to create a new cottage industry." We have seen, as all Members on the Subcommittee have, from time to time ideas that have been put forward that do not have a lot of substance, unfortunately. Is there a process or is there a way to separate the chaff, so to speak.

Is there a process? Is there a way to separate the chaff, so to speak? The process that we have proposed, which we would be glad to have the thoughts of changes, is to create a concept paper. And that concept paper, in order to even be accepted, has to be fleshed out to the point that the concept is understandable. And, second, the two experts out of the existing pool have signed on that this

has the potential to make it through the process, not to change the rigor of the process, which we would be vehemently against that, but to provide a financial and intellectual hurdle.

This is tough stuff to do, to provide a hurdle so we do not put a lot of the chaff in front of the Board, and we believe that that financial hurdle to be shouldered is somewhere between $50,000 and $75,000. We would spend more money than that before we took even a concept to the Board, and shoulder those two extra views that are somewhere between $5,000 and $10,000 apiece and working with the expert reviewers. We are one, and the only thing you have in that business is your reputation. I think the process that we proposed has a hurdle in it to attempt to not have your concern realized.

Mr. BOUSTANY. One quick follow-up. How many competitors do you have to your business in terms of working with producer groups to develop products like this?

Mr. WATTS. It is a very small pool and it is a very small pool internationally within the U.S.

Mr. BOUSTANY. Within the U.S., I mean how many, five? Less than five?

Mr. WATTS. Probably less than five.

Mr. BOUSTANY. Okay. Thank you. Thank you, Mr. Chairman, that is all I have. This was a very good hearing. I want to thank both panels for their testimony and their answers to the various questions we have asked.

Mr. ETHERIDGE. I thank the gentleman.

Let me thank this panel and the previous panel for your time and the work you have put in in getting the testimony ready, for submitting it promptly, and for your testimony today.

Under the rules of the Committee, the record of today's hearing will remain open for 10 days to receive additional material and written responses from witnesses to any questions posed by a member of the panel.

This hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 4:40 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Responses to Questions by Members of the House Agriculture Committee Subcommittee on General Farm Commodities and Risk Management During the May 14 Hearing on Crop Insurance

W. Scott Marlow,
Director, Farm Sustainability Programs,
Rural Advancement Foundation International—USA,
Pittsboro, N.C.

Question. In response to the following question posed by Mr. Etheridge: "Assuming AGR and AGR-Lite could be reformed, could they serve as an effective risk management product for contract producers or do we still need separate policies that can be available for contract farmers?"

Answer. As an income-based product, Adjusted Gross Revenue-Lite (AGR-Lite) could become an effective risk management tool for producers of contract livestock, or other products produced under production contracts. Other than issues of access and simplification that are common to all farmers who apply for AGR-Lite, the Risk Management Agency (RMA) must address issues of eligibility before this program can be used by farmers with production contracts. RMA policies currently require all farmers to possess an ownership share in the livestock or products they are seeking to insure against loss. This determination is an agency regulation, and is not required by statute.

Today most farmers engaged in production contracts cannot claim an ownership share of the products they produce, preventing their participation in the AGR-Lite program. To remedy this result, changes must be made to the program's authorizing language clarifying Congress' intention that income insurance be made available to farmers participating in production contracts not granting them an ownership share of the product.

AGR-Lite could also address potential farmer losses stemming from disasters, including severe weather events, quarantine, disease outbreak or depopulation due to a severe disease outbreak. Historically, agricultural disaster legislation addressing contract livestock losses has been enacted on several occasions. In the aftermath of Hurricane Katrina and the other Gulf Coast hurricanes of 2005, Congress approved P.L. No. 109–148, to address hurricanes in the Gulf of Mexico. P.L. No 109–234, the Emergency Agricultural Disaster Assistance Act of 2006, was enacted into law on June 15, 2006 as Title III of the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recover Act of 2006. The 2006 legislation provided some assistance to contract growers in the form of Livestock Indemnity Payments as well as Emergency Conservation Program cost share assistance for cleaning up debris from poultry barns and/or costs to reconstruct or repair barns if there were uninsured losses. However, assistance from ad hoc disaster programs that may or may not be passed by Congress is no substitute for risk management programs that contract farmers can incorporate in their farm planning on an ongoing basis.

In addition to the risk posed by weather-related disasters, farmers face several levels of risk associated with disease, including the possibility of a disease outbreak on their own farms, and the depopulation that would accompany it. Without an ownership share in the livestock in these events, farmers would not be compensated for that loss without support through subsequent disaster legislation.

Another risk faced by contract livestock producers is the possibility of a disease outbreak occurring on a farm in their region, but not on their farm. In this situation, a farmer could be required to depopulate their farm by state or federal officials, with the accompanying loss of income, but the loss would not be a direct result of a disease outbreak. Once again, without access to AGR-Lite, or other forms of indemnity, the farmers loss would potentially be financially devastating

A third risk is that a disease outbreak, and accompanying loss of market would precipitate a reduction in industry or region-wide production, and that a farmer's production would be reduced, either through company cutbacks or through delays in receiving additional livestock, resulting in loss of income. While income-based crop insurance coverage like AGR-Lite is designed to insure against market losses, there is question as to whether such a cutback in contract production would be regarded as an insurable loss or a change in production capacity, and therefore not insurable. Mortgages for livestock facilities are based on a certain number of flocks or animals per year, and production delays can cause the inability to maintain the flock or livestock numbers required under the mortgage. Although such a shortfall would be directly traceable to the disease outbreak, the shortfall might be classified as a "business decision" on the part of the contracting company, potentially eliminating the possibility of the farmer receiving reimbursement for the loss.

All of the scenarios described above could be effectively addressed through clarification of the definition of insurable loss to include risks associated with disease or bioterrorism, including depopulation by state or local officials and loss of production or market associated with disease or bio-terrorism.

Question. In response to the following request made by Mr. Boustany: "If you could come back to us with some specific recommendations on how to simplify (AGR and AGR-Lite) we would enjoy hearing those recommendations."

Answer. In our experience with farmers who have evaluated AGR-Lite crop insurance for their farms, and in the experience of officials that we have consulted with who have assisted farmers in North Carolina and several other states with this program, there are several aspects of AGR and AGR-Lite that cause difficulty for farmers.

The threshold concern is the inherent complexity in the program. The program requires significant documentation. As a part of the application, the farmer must submit 5 years of form 1040 Schedule F. The farm plan and farm reports can wait until the adjustment process, but this may cause problems, and insurance agents who sell the program often request this documentation at the time of application.

There may be ways to simplify the forms, but the requirement that the farmer demonstrate both historical gross income and the capacity to produce that income during the insurance year cannot be escaped. This issue should be addressed by significant outreach and education, including clear information about required documentation and program specifics.

But outreach and education alone will not solve the difficulties. The number of program participants is declining, suggesting that farmers have used the program and it did not meet their needs. There are several aspects of the program itself and the manner in which the program is being implemented that can be simplified and shifted to correct this problem.

1. Assure access to trained Crop Insurance Agents or provide alternative access to the program. Many farmers seeking information and assistance on AGR-Lite have reported finding it difficult to identify trained insurance agents to assist them in the application process. Many of the farmers with whom my organization has worked received delayed, discouraging or erroneous information as a result of their initial contact. Other areas of the country have also had challenges with identifying trained insurance agents that were both knowledgeable and willing to assist farmers with the application process.

Because AGR and AGR-Lite are critically important programs, and the only programs available to insure a significant percentage of farm income, we believe that in the absence of trained insurance agents within a given county who market this program effectively, the Farm Services Agency (FSA) office of that county should be allowed to provide access to the program, much in the same way that they currently provide access to the Non-insured Disaster Assistance Program (NAP). The FSA administrates NAP in order to assure access to risk management products by farms that are not served by crop insurance, and we believe that they should have the opportunity, determined on a county-by-county basis, to provide AGR and AGR-Lite for the same reason and in the same way.

2. Clarification of insurable income and inclusion of on-farm processing as insurable income. A second source of confusion for farmers is the delineation between the value of the crop as it comes out of the field which determines insurable income, and income attributed to post-harvest processing, which is considered uninsurable. To illustrate, under the current policy standards, if a farmer puts their cabbage in a box for market, the value of that box is not insurable and must be subtracted from the farmer's insurable gross income even if the cabbage is not marketable without the box. To truly work as an effective risk mitigation tool for farmers, income insurance must include the minimal processing such as washing, bagging or boxing that is required to access given markets.

The more complex processing that takes place on-farm, usually by small-scale producers selling to direct markets such as roadside stands or farmers markets, should also be taken into consideration for income determination purposes under the program. Income produced through value-added activities such as turning fruit into jam, vegetables into pickles, or milk into cheese is currently not eligible for consideration under the program. For small-scale producers, this on-farm processing is integral to farm income, and is not a an aspect of production that can be readily removed from income estimates. Farmers should therefore have the opportunity to include this income in their AGR-Lite policy.

3. Require set level of coverage at time of application. An additional complaint we have heard from farmers concerns contracting for a set amount of coverage, only to find during claims adjustment that specific requirements of the program not made clear during application makes them eligible only for a lower level of coverage. The

result is a reduction of payment after the loss to an amount much less than that on which the farmer had relied.

We believe that once the underwriter agrees to a level of coverage during the application process, that level of coverage should not be changed for reasons other than fraud or failure to abide by the farm plan, as long as the farmer has made a good-faith effort to produce the income and has informed the crop insurance agent of necessary changes in a timely manner. The creation of this level of certainty in the contracting process would greatly increase farmer confidence in the program, and would significantly simplify the claims adjustment process.

4. Increase level of coverage. Gross income coverage under AGR-Lite is currently capped at 80 percent coverage (75 percent for producers of a single crop) with 90 percent payment rate, or effectively 72 percent. In an individual crop policy, a 20 or 30 percent loss frequently equals a far smaller reduction in gross income because the farmer will take steps to replace lost income from other crops or enterprises. Therefore individual crop losses addressed by crop specific crop insurance are often less dangerous to the overall financial solvency of the farm. Gross income losses of 20 percent, on the other hand, include all loss mitigation and are frequently devastating. It is therefore necessary for AGR and AGR-Lite to provide higher rates of coverage, preferably as high as 95 percentage coverage with a 100 percentage payment rate, in order to assure farm survival.

5. Include crop insurance and Non-insured Disaster Assistance Program payments in 5 year income average. One of the benefits of the AGR-Lite program is that it can be combined with crop insurance products for specific crops. For instance, a farmer with corn and mixed vegetables that are sold at a farm stand can get APH or income-based crop insurance for his corn, and combine it with AGR-Lite to provide risk management for the rest of his income. However, under current regulations, crop insurance and NAP payments are counted when determining AGR-Lite benefits, but are not used to determine the farmer's 5 year income average. Failure to include insurance and NAP payments significantly reduces the farmer's average gross income, and therefore the farmer's coverage. Crop insurance and NAP payments should either count for both payment and average income determinations, or should count for neither.

6. Strengthen the policy regarding establishing local market value, particularly for direct marketers. Currently, AGR-Lite policies aver that if published prices are not available, then the average price offered by two commercial buyers, one nominated by the policyholder and one by the insurance company, should be used. This should be refined in two ways. First, when local market values are being determined for producers engaged in direct marketing, other local markets and not commercial buyers should be supplying average price estimates. Second, the product value used to estimate the revenue in the producer's intentions report for the current year should be decided at the time the intentions report is filed, otherwise the producer loses the price fluctuation protection afforded by the policy.

7. Definition of 'Animals' needs to be revised to ensure it is inclusive of production agriculture. The current programmatic definition of "animal" is "living organisms other than plants or fungi that are produced or raised in farming operations including, but not limited to, aquaculture, bovine, equine, swine, sheep, goats, poultry, aquaculture species propagated or reared in a controlled environment, bees, and fur bearing animals, excluding animals for sport, show, or pets." The definition should be clarified to ensure that livestock engaged in contract production agriculture falls within the meaning of the term "animals" and is eligible for loss indemnity under the AGR-Lite program.

8. Develop mechanisms to extend AGR and AGR-Lite to new and beginning farmers so they have the opportunity to utilize federal risk management programs. Access to risk management programs is especially important to beginning farmers. USDA already has provisions to support beginning farmers in their lending programs, and risk management is very important for access to credit. Strong consideration should be given to permitting beginning farmers and ranchers to have protection and premium rates established based on information for similar farms that have sufficient historical information to meet the requirements of these insurance plans.

9. Clarify and simplify procedures for documentation of carryover inventory documentation. Carryover commodities still in the production phase present some unique beginning and ending inventory challenges. The inventory rules should be reviewed to ensure the procedures provide clear directions on how to handle these commodities. In addition, clarity should be provided as to whether or not coverage is provided for these commodities including Christmas trees, shellfish, nursery, and livestock.

10. Add a "floor" to the 5-Year income history used to determine coverage levels. Low revenue can reduce the approved AGR to the point where the insurance will

not provide adequate coverage. This is especially important in areas of the country that have seen multiple disasters in the past 5 years. One possibility to address this issue is to maintain the 5 year Schedule F average, but allow up to 10 years if available to decrease the effect of individual disaster years.

