



Searching for better risk management?

House version of new farm bill missed several opportunities

By Sara Wyant, Editor, Agri-Pulse

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As members of Congress held hearings last year in preparation for writing a new farm bill, one of the themes heard most often was the need for a stronger safety net. Producers wanted better tools to deal with natural disasters and volatile price swings. Among other things, they said that crop insurance should be fixed to deal with multiple years of shallow losses and declining production history.

Rep. Randy Neugebauer (R-TX) developed a plan that would have allowed producers to buy supplemental coverage above traditional policy levels and serve as a personalized disaster plan. Under current law, farmers can buy either an individual yield or revenue policy that provides coverage based on their Actual Production History (APH) and actual yield. Another option is to purchase a Group Risk Plan (GRP) policy based on expected county yields and actual county yields. Neugebauer's proposal would combine these two existing risk management tools and allow farmers to buy a portion of a GRP policy in addition to their base APH yield or revenue policy.

“This crop insurance proposal takes disaster assistance out of the unpredictable political process and provides producers with a dependable risk management tool that will help them rebound from the effects of natural disasters such as drought,” said Neugebauer when he introduced the measure.

Kansas State's Risk Management Expert Dr. Art Barnaby thought the concept had “great promise” because the proposal would have offered “a lot of additional protection without a lot of additional government cost.”

The supplemental coverage effectively was a standing disaster program that House Agriculture Committee Chairman Collin Peterson had said was one of his priorities, explains Barnaby. “However, the supplemental was not “free” for participants. Farmers had to choose to add the supplemental coverage and pay their share of the premium. The primary difference between crop insurance and disaster aid is the government pays 100% of the ‘premium’ for disaster aid. Unlike disaster aid, there is no per acre cap on the benefits.”

Changes dropped

Yet, despite efforts to include these kinds of “fixes,” the final package approved by the House of Representatives last month contains nothing new to deal with disaster assistance or crop insurance. Neugebauer’s plan, which was approved by the full House Agriculture Committee, was dropped in the dark of night as part of a series of last minute deals to secure additional votes from urban Democrats. The House approved a farm bill last month, largely along party lines, by 231-191.

In the end, the biggest changes made in crop insurance were to cut subsidies to the industry in order to generate billions in funds for other parts of the farm bill. Provisions which could have led to lower premiums for traditional crops were not included. In some cases, producers will end up paying more for the same products. Here’s an overview of some of the last-minute changes:

- The Administration & Operating (A & O) reimbursement rate for crop insurance companies would be cut 2.9 points for all products beginning in the 2009 reinsurance year, with additional cuts after 2012.
- The Group Risk Income Protection (GRIP) and Group Risk Plan (GRP) subsidy would be cut 4-5% by level. In addition, there would be a new subsidy structure for area revenue plans and area yield plans.
- Catastrophic crop insurance (CAT) administration fees would be doubled to \$200 per policy from \$100
- Non-Insured Crop Disaster Assistance Program (NAP) administrative fees doubled from the current levels of \$100 per crop per county or \$300 per producer per county.
- The Risk Management Agency’s funding for new product development reimbursement and contracting risk management education would be reduced from \$50 to \$30 million.
- Elimination of the Premium Reduction Program (PRP). All rebates and discounts would be prohibited except good farmer experience discounts and the ability of cooperatives to pay for CAT policies for its members in states where rebating is legal.
- The timing on A & O, underwriting and farmers’ payment of premiums would change
- The loss ratio would be lowered to 1.0 from 1.075
- The additional five percent premium that had been added in committee for organic crops was eliminated, while language for research, development and reporting requirements for organic contracts was included.
- A sesame insurance pilot program was included.
- Funds were reauthorized for FCIC for data mining in an attempt to curb additional waste, fraud and abuse.

More to come?

Senate Agriculture Committee Chairman Tom Harkin says he may be looking for similar cuts in crop insurance to fund the Senate's version of a new farm bill. However, markup is not expected to start until mid-September and no specifics have been offered yet.

For his part, Chairman Peterson plans to keep digging into this subject. Shortly after the House approved a new farm bill, Peterson met with Risk Management Agency officials.

“Now that the House Agriculture Committee has the farm bill passed and is waiting on the Senate, we won't be sitting around,” he said during a recent conference call. “We'll be getting to work on oversight, as we said we would. We'll spend August looking into crop insurance and getting on solid ground so everyone can agree on the facts and implications of the changes in the farm bill. It's fair to say none of us are totally sure if the number is right. Crop insurance comes up for authorization next Congress. The work we're doing now will be the foundation for reauthorization next year.

“There are folks that think we ought to look at the whole system and potentially change the structure. I'm not sure I'm there yet, but there are people looking into it,” he added.

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