Iowa's Tom Latham questions Sec. Vilsack on crop insurance plans

By Jon H. Harsch

Washington, Feb. 24 – Calling the federal crop insurance industry "very, very important for a state like Iowa," Rep. Tom Latham (R-IA) said it's even more important "for the farmers themselves to be able to manage their risk."

In a House Appropriations Agriculture Subcommittee hearing Wednesday, Latham voiced his concern that "it looks like over five years you're planning on cutting about $7 billion out of about $20 billion" in crop insurance subsidies. He said he's also concerned about possible USDA plans "about taking over risk management, away from the private sector like with direct student loan programs."

Vilsack replied that "our preference, Congressman, is to work with the industry, recognizing the important role that the industry plays in this part of our safety net. But I think we also want to make sure that as we work with the industry, we do it in a fair way to all, to the farmers, the producers obviously, to the agents, to the insurance industry, but also to the taxpayers."

Waving a chart, Vilsack said "You're seeing dramatic increases in the amount of profits both on the agents' and the insurance companies' sides even though we're selling about 200,000 fewer policies than we sold in the year 2000. So we have to rebalance this." He said that USDA is in the process of negotiating a new agreement with the insurance industry and that "We have made a recent second proposal to the industry in an effort to try to respond and listen to the concerns that they have raised and we've made several adjustments." He said the rebalancing is needed to reduce taxpayer costs while at the same time both protecting "the capacity for producers to have this risk management tool" and also making crop insurance available "on a fair basis to some producers who right now under the current system are not treated fairly."

Vilsack said that an independent study carried out for USDA "indicated that what we're proposing is somewhere in the neighborhood of 12% return on the investment for the industry as opposed to a 16% return. We think that's fair."

In his prepared testimony for the hearing, the Secretary explained that USDA's proposed new Standard Reinsurance Agreement (SRA) includes these six primary objectives:

- Maintain producer access to critical risk management tools,
- Realign administrative and operating subsidies paid to insurance companies closer to

actual delivery costs,

- Provide a reasonable rate of return to the insurance companies,
- Equalize reinsurance performance across states to more effectively reach under-served producers, commodities and areas,
- Enhance program integrity, and,
- Simplify provisions to make the SRA more understandablde and transparent.

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