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Committee on Agriculture

To Review U.S. Agriculture Policy in Advance of the 2012 Farm Bill

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Mr. Chairman, Congressman Lucas, and Members of the Committee, thank you for this opportunity to testify before you today.

I am testifying not only as a cotton, corn, and grain sorghum farmer from Muleshoe, Texas but also as a crop insurance agent of 32 years.

Currently, I serve as the Chairman of the Crop Insurance Professionals Association, or CIPA. CIPA is comprised of veteran crop insurance agents from across the country, from South Carolina to California, from Texas to Minnesota.

For CIPA agents, selling crop insurance is not just a business. It is a way to serve farmers who also happen to be our friends and our neighbors and whose success is important to the whole community.

I understand that the focus of this hearing is to assess where we are with respect to farm policy – what is working and what is not – in hopes that this will light the path forward for the development and passage of a good Farm Bill in 2012.

I will defer to the other producers who are testifying before you today on what the details of the Farm Bill's commodity title might look like. As a farmer, I have great faith in their leadership. As I said earlier, they are friends and neighbors who I know care deeply about the future of Texas agriculture and the communities that depend on it.

Instead, I want to focus on the role that federal crop insurance plays in the farm safety net today and the role I believe that it could and should play in the future.

On the 8th of April, a *Washington Post* story ran concerning a couple of candidates for Congress who happen to be farmers. They were put in the position of having to defend their participation in the Farm Bill. At the end of that story, one candidate made a statement that I think is very true for our times: he said "I make more off of crop insurance in a bad year than a subsidy will ever pay. But we have to keep a level playing field globally."

I would interpret this statement as saying, federal crop insurance is a lot more important to my operation than the commodity title today, and given the challenges of doing business and a playing field that is tilted against us in many ways, both the farm bill and crop insurance are justified. Giving further witness to the importance of federal crop insurance to producers around the country are the numbers reflecting its growth – nearly $9 billion in indemnities paid to farm families in

2008 and the more than $5 billion paid in 2009. Last year alone, crop insurance had policies in force covering $80 billion in liability – up from $50 billion in 2006.

But, if the testimonial of a farmer-turned-politician and these impressive statistics do not persuade a person on the importance of federal crop insurance to the American farmer, then there is one other tell-tale sign: the fact that critics of U.S. farm policy have turned their guns on crop insurance. To me, that is a strong endorsement of the program.

I can understand why opponents of U.S. farm policy – the likes of the EWG – do not like federal crop insurance. They do not like it because it is easy for taxpayers to appreciate why farmers need insurance. They do not like it because they cannot demagogue pay limits, or shamelessly advertise a farmer's indemnity on their websites. They do not like it because crop insurance is narrowly tailored to producer risks and WTO-legal. And they also do not like it because Congress rightly made crop insurance a permanent law, recognizing that farmers need that stability and peace of mind.

However, in my mind, and I think in the minds of most farmers, these are all compelling reasons why Congress should not just keep a strong federal crop insurance in place, but why Congress should encourage USDA to aggressively build upon it.

As agents, CIPA strongly supports efforts to improve and expand the access to quality coverage for producers under Federal Crop Insurance and to build upon its accelerated record of success since passage of the Agricultural Risk Protection Act of 2000, commonly known as ARPA. To this end, <u>we are persuaded that Congress ought to encourage the Federal Crop Insurance Corporation to set an ambitious goal of ensuring that, within five years, all U.S. producers have the same opportunity to buy affordable access to quality coverage as enjoyed by producers who are today best served under Federal Crop Insurance.</u>

There is no reason why every farmer in this room and every farmer in this country should not be able to buy an 85% revenue policy that is tailored to the risks unique to the crops they grow. There is no legal impediment. There is no shortage of ideas on how to achieve this. All that is lacking right now is the will to make it happen. I would submit to the Members of this Committee that if there was the will to make it happen and the ball was moving in that direction, there would be far less anxiety in this room and around the country concerning what the 2012 Farm Bill might look like.

Toward this end, what are some of the goals that Congress should encourage USDA to set out to achieve?

Well, we know that **improvements to Actual Production History, or APH,** is needed. Producers that have seen rapid technological advances and producers in areas that have experienced multiple year losses need to be able to insure more of the crop they expect to make in any given year rather than be bogged down by an artificially depressed yield for that farm that only exists in some government computer.

Existing APH requirements that often rely on outdated or artificially low yields have left many farmers with what we call a "double-deductible." A double deductible is the difference between what the producer reasonably expects to yield and his or her APH plus the additional minimum 15% deductible required under a policy.

I know that this problem has been around for a long time. But, it is not beyond repair. A CIPA Committee has been working with Professor Art Barnaby of Kansas State on potential solutions to this issue that are both legal and practical. Again, all that is lacking is the will to make it happen. As CIPA agents, <u>we firmly believe that producers ought to be able to insure 85% of what they can reasonably expect to produce based on actuarially reliable data.</u>

In addition to the APH issue, **improvements to the rating of certain crops or practices** should be pursued. For instance, advanced varieties now dominate planted acreage in the United States. That being the case, would not lowering rates generally for these crops be a lot more efficient way of recognizing lower risk than the current piecemeal approach of approving endorsements, a process that seems to be more about seed companies competing for advantage than about helping the farmer.

The benefit to reducing rates is that you are not just making policies more affordable to producers, allowing them to buy higher coverage, but you are also reducing company earnings, A&O, commissions to the agent, and the share of premium costs that the government pays and you are doing so in a way that does not injure crop insurance. Would this not make more sense as a way to reduce costs than what we are currently seeing in the SRA process? Importantly, I am not suggesting that any rerating be a zero sum game where rates of some producers go down while rates for others go up. I think there is an argument to be made that <u>generally rates are just too high and should come down</u>.

As I noted earlier, **improvements to policies for crops that are relatively underserved must be a priority**, whether in the context of improved access to higher coverage levels, greater access to revenue products, or through new policies that better address the unique nature of the perils faced by these crops. To be clear, when I speak of underserved, I am not necessarily talking about some exotic new crop produced in a garden plot in suburban Boston. I'm speaking of any crop where the vast majority of producers are locked into CAT or some other buy-up coverage that is well below the benchmark set by corn and soybeans. <u>There is a success story in the case of corn and beans that ought to be replicated for all crops</u>.

In the past ten years, there has been a significant increase in the quality of coverage for producers of many crops, most notably corn and beans and, to a lesser extent but still meaningfully, for wheat and even cotton. <u>In the next five years, the goal of the Federal Crop Insurance Corporation should be to ensure a similar increase for crops that are still underserved.</u>

Expansion of policies that are working should also be a goal. The Pasture Rangeland and Forage policy, for example, has shown tremendous promise for livestock producers. But it is being withheld from certain areas due to obstacles that are not imposed by Congress.

Development of new products to support the growth of advanced fuels under the new RFS2 regulation just released should also be a priority. The EPA projects over 11 billion gallons of biodiesel from corn stover and switchgrass will help meet the 36 billion gallon mandate for renewable fuels by 2022. If Washington is serious about advanced biofuels, then it needs to move forward in providing risk management tools to farmers who are willing to produce the necessary feedstock.

Use of crop and yield monitoring technology to better assess crops and more narrowly tailor coverages should also be pursued. The West Texas area presents a great example. No doubt flying in you saw the vast circles (center-pivot irrigation systems) that have become the predominant technology for growers to irrigate their crops evenly and efficiently. What you may not know is that under current RMA guidelines, the irrigated circles and the dryland corners have to either be averaged and insured together, or in any case insured at the same level. But with the prospect of modern yield monitors combined with GPS systems, we could and should be able to tailor the crop insurance policies by practice and distinguish the yields accordingly – and that will mean more relevant and more valuable insurance for growers and their lenders who want to hedge the unique risks on different parts of a farm.

Finally, the **streamlining of compliance mechanisms so that integrity is ensured without placing undue burdens on the delivery system or producers** is important. There are lots of examples out there where the private and public sector machinery of crop insurance gets bogged down in costly and cumbersome processes focused more on the *means* of protecting program integrity than protecting program integrity itself. The $100,000 loss threshold for automatic review and the 3 years of data required in the case of a review are good examples. Everybody has noticed the new price paradigm for crops except those involved in writing these rules that only add time and cost to delivery and a delay in indemnities to farmers.

Having said what we believe the role of crop insurance is, can, and should be, I also want to say a few words about **what we think it should not be**. There is a big push from the environmental crowd and from some college professors to thrust farmers into whole farm revenue policies and group risk policies, or maybe a combination of the two. These sorts of approaches may work fine in some academic white paper, but they do not work on the farm. I would offer ACRE, SURE, and AGR as exhibits A, B, and C.

Regarding ACRE, it might be that some of us here in the Bible Belt just have a problem with gambling, especially with taxpayer money, but the whole concept seems wrong to me. Farmers I talk to liken ACRE to buying a lottery ticket and then crossing your fingers that Washington calls the right numbers. You could lose your shirt and receive nothing from ACRE, or you could have a good crop and prices and still receive a government payment. There is not a lot of participation in ACRE in these parts because our farmers cannot afford to gamble like that. But, where there is participation, there are both big winners and big losers in the wager, depending on what you grow and the State you farm in. There is talk about "fixing" ACRE so the wager is made at the county or national level rather than the State level. In my view, speaking to the county level scenario anyway, having had experience with GRIP policies, it is still not ideal. There is no safety in numbers when you are trying to get an operating loan or when you have a loss on your farm. There's just you. The only merit I see in this county-based revenue concept is the legislation that Congressman Neugebauer has introduced which essentially allows producers to buy this kind of coverage – basically GRP or GRIP – as a wrap-around policy on top of coverage that is individualized to your farm. This kind of coverage could help producers in the event of a widespread weather event.

The second example is the whole farm revenue disaster program called SURE. From all we have seen (the FSA is just now working losses from 2008), SURE has not worked very well for farmers except those engaged in monoculture. In this area, that tends to be landlords who may have an old family interest in 160 acres, but not the 2000 acre dryland/irrigated corn, sorghum, cotton, black-eyed pea farmer/stockman who has diversified his risks and actually has a lot of skin in the game. It is ironic that the academic community would want to advance a whole farm revenue concept when that concept actually encourages monoculture. Unlike ACRE, however, I do think that SURE can be fixed to address some of its more serious problems. But, the fixes ultimately involve making a whole farm revenue program less of a whole farm revenue program. And, that is my point: whole farm revenue catches on in Washington because it does not cost much, but it does not catch on out in the countryside because you get exactly what you pay for.

Apart from the discussion about whole farm revenue concepts, let me offer a few suggestions on how SURE could be made to work better for producers if lawmakers opt to extend it:

1) Base the SURE program guarantee calculation on the higher of the crop insurance price election or the target price for the commodity. This would address a major problem that has been unique to cotton and which virtually precludes cotton farmers from getting any assistance under SURE.

2) Strike the counting of 15% of direct payments received from the calculation of farm revenue. The inclusion of this provision disproportionately affects rice producers.

3) Change the definition of "eligible producer on a farm" when assessing losses on a farm-by-farm basis as has been done in past *ad hoc* disaster programs. This fix would address the single biggest problem with SURE which is this: by the time you aggregate everything on a "whole farm basis," the likelihood of receiving any assistance is very small. If you think this sounds expensive, bear in mind that the maximum per unit you could possibly get under *ad hoc* assistance was considerably more than the maximum you would get under SURE – about 30% vs. 10% – though the likelihood of getting something under a unit-by-unit SURE would be greater.

4) Direct USDA to provide producers more timely payments by either: (1) using an estimated national average market price instead of waiting till the end of the marketing year; or (2) direct the USDA to use the crop insurance price election for determining revenue instead of a national average market price. This would certainly simplify the program but also change it to address yield losses (like historical disaster programs) without inviting the anomalies caused by bringing season average prices into the equation. For example, I know an agent in South Carolina dealing with peach farmers who suffered 85% losses but who received nothing under SURE due primarily to this problem. That is not right.

Finally, regarding the third real-life example, AGR, I know that some defense has been offered to explain why so few want to buy this kind of coverage. But, the simple truth is that farmers have voted with their feet. The thing does not pencil out.

Two final thoughts I would offer to the Committee on the subject of what crop insurance should not look like.

First, recognize that regions are different, crops are different, practices are different. As such, it would be a very serious mistake to try to shoehorn all farmers, regions, and practices into one cookie-cutter policy. It will not work. We have seen this in the case of ACRE and SURE which clearly do not work for all regions and crops. We have seen this in the case of rice and specialty crops where policies for corn and beans just do not work. In fact, I am hard-pressed to think of where that has not been the case.

Second, earlier in my remarks, I went into a whole host of reasons why federal crop insurance should continue to be delivered by the private sector and written on private paper. I know that one would not expect to hear anything different from an agent who earns part of his living selling crop insurance. But I can tell you that I hold this sentiment as strongly as a producer as I do an agent and

I believe the vast majority of producers in this room would share this view. Anybody who has waited on an *ad hoc* disaster or SURE payment; anybody who has had their farm payments posted on a scurrilous website; anyone who has faced arbitrary limits on benefits or constantly changing eligibility rules; anybody who has fought and lost a case in the WTO, despite all the facts and evidence; and anybody who has had to go out and put in a crop with no earthly idea what the devil the Farm Bill will look like that will govern that crop – anybody who has faced any or all of these circumstances appreciates a private insurance policy. Maybe the only person who appreciates it more than the farmer is his lender.

Are there problems in federal crop insurance that need fixing? Yes, there are and I have listed just a few. Are the problems frustrating for producers and agents? Give me or any farmer in this room an audience after this hearing and we will be glad to bend your ear on the subject. But, in the end analysis, when all is said and done, none of us would want to – and very few of us could – continue farming without it.

My bottom line for you is this: we have got a good foundation. Much of the serious progress we have made has been made in just the last decade. Do not quit now. Certainly do not turn back. Let us keep moving forward.

Of course, you can hardly talk about federal crop insurance these days without bringing up the Standard Reinsurance Agreement, or the SRA.

I know that there is a great deal of talk about the negotiations going smoothly and that an agreement is nearly at hand. I am here to tell you that that is not the case. A very black and white picture has been painted in this process that would describe the conflict this way: on one side there are those who want cut to company profits and agent commissions and on the other are those who would fight any cuts tooth and nail. That is a misrepresentation.

I do not know of a crop insurance company or an agent who did not enter into this SRA renegotiation expecting and accepting cuts. But nobody in the private sector expected USDA to propose between $6.9 billion and $8.4 billion in cuts when Congress made clear in 2008 that it thought $2 billion in additional cuts was too much.

We went into the discussion believing that there were a couple of reasonable objectives to be met. First, the Congress directed USDA to evaluate the risk sharing involved in crop insurance to make for sure that companies were bearing enough of the risk. Second, USDA was to examine and recommend to Congress some different ways of calculating A&O to avoid peaks and valleys, such as the peak we saw in 2008. What we got was something very different.

On the A&O side, we saw a usurpation of Congressional authority by USDA in its attempt to establish a whole new methodology for calculating A&O. Worse, the new methodology USDA came up with would succeed in eliminating the peaks in A&O by creating a permanent valley, using artificially low and fixed crop reference prices as the ceiling for calculating A&O while providing for no floor. In some cases, the reference price would be as low as 31% below the projected prices for the crop as forecast by USDA and CBO over the next 10 years.

In theory, the new A&O calculations are being pushed to avoid another year like 2008, even though A&O has already dropped by 21% in 2009 and are expected to drop again in 2010, both as a natural consequence of lower crop prices and, thus, lower premiums.

So, the situation of 2008 is already correcting itself. Still, despite our concern that USDA is exceeding its authority under the law and certainly going too far in trying to correct a one-year anomaly, as agents we offered what we thought was a very logical solution to the problem: an A&O reference price band based on a rolling average, taking out the highs and lows. Whether that fair, common sense solution gains any traction still remains to be seen.

But there is little uncertainty about the impact of the A&O proposal currently on the table. A state-by-state glimpse at what happens to A&O speaks volumes. In Minnesota, for example, in 2008 you had $175 million in A&O. That dropped down to $112 million in 2009 due largely to price election declines, volatility factors and the 12% (2.3 point) cut from the farm bill. In 2010, A&O is down again, this time to $101 million, because of the volatility factors and price moderation. For 2011, our best industry analysts believe that A&O number would be reduced again under USDA's plan to $72 million. Now, unlike Texas, Minnesota is a profitable place for companies to do business and, therefore, it is a higher commission State. So, assume for the moment that all the A&O in Minnesota is paid out in agent commissions. With the 80% commission cap being proposed on top of the proposed capped on A&O, the $72 million statewide A&O would translate into a maximum of $57 million that could be paid in commissions in the state – less than one-third of the compensation that was paid to those businesses three years ago, and roughly half of what was paid last year. You don't have to be in the crop insurance business to know what happens when your income stream is cut in half.

The same thing would happen throughout the country. A plain look at the numbers reveals that this is not just a smoothing out of A&O to avoid what occurred in 2008, as has been argued. The numbers uncover the obvious: you cannot cut A&O to such an extent and not expect it to have an impact on private sector delivery, on the service to the farmer, including adjustments. And you cannot cut A&O to such an extent and expect that it will not have an impact on jobs in rural communities. I do not know whether this fact is a consideration in this process but this SRA is going to cost people their jobs.

One of the things that has troubled me so much about this SRA renegotiation is that it has taken on the look and feel of how U.S. farm policy has been debated in recent years. The discussion has really degenerated.

For instance, on facts, USDA points to the increased cost of delivery per policy to justify such deep cuts, citing increased A&O costs while the number of policies has slightly declined, while ignoring the nearly doubling of sales, as measured by premium, over the same period of time. There is an expression here in West Texas that coming close to the truth is coming close, but it is still not the truth. With respect, this handling of facts is something I expect to see from the EWG and that ilk but not from the United States Department of Agriculture.

Remarks made by USDA officials to the House Agriculture Appropriations Subcommittee this year and last year are just as troubling. In defending cuts in premium support to farmers last year, one USDA official stated, "When crop insurance was first issued, it was…something that had to be marketed. It was something that had to be incented. It was something…where producers had to be encouraged to participate. Today, that is not the case. Many banks are now making it a condition of loans." I agree that lenders usually require crop insurance. But I do not believe this requirement somehow eliminates the need to help make premiums affordable to farmers.

This year, in defense of cuts to private sector delivery, a USDA official stated, "And the reality is that most bankers today require crop insurance as a condition of loans, so it's not all that difficult to sell this product." Unfortunately, simply mandating something does not make it easy.

To most of us in the countryside, the magnitude of the cuts proposed to crop insurance and the rough policy used to squeeze out those savings suggest that the motivating factor behind the whole exercise is more about robbing Peter to pay Paul, about using crop insurance dollars to pay for something else. The media reports I have read speculate that the something else is nutrition. If that is the case, then it is misguided and unfortunate. The SRA, at least as it stands, threatens serious injury to federal crop insurance, to the farmers crop insurance serves, and to the men and women who work hard every day to deliver a product that farmers need and their lenders require. It represents a serious setback for the agriculture budget, for crop insurance, the farmer, and jobs in rural communities. It is a setback that I hope never materializes.

In closing, let me say that CIPA stands proudly with our farmers and ranchers who put food on our tables, cloths on our backs, and fuel in our pumps. They deserve a strong safety net. But Congress need not wait for the 2012 Farm Bill to further the cause. We can begin here and now by strengthening federal crop insurance for all our nation's producers.

I would be happy to answer any questions this panel may have.