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CHIEF ECONOMIST TELLS SENATE "THERE IS NOW A SOLID SAFETY NET"

On May 23, 2002 Keith Collins, USDA Chief Economist testified before the Senate Committee on Agriculture, Nutrition and Forestry. Below are excerpts from his statement relevant to crop insurance. His entire testimony can be found online at: www.usda.gov/oce/speeches/052302.html.

Crop Insurance. Participation in the Federal crop insurance program has increased substantially since 1998, particularly at coverage levels greater than 50 percent. Supplemental payments provided under the supplemental disaster bills passed in
-continued on page 6

THE NEW FARM BILL--WHAT IF THERE IS RISK?



by Alan S. Walter, Ph.D.
Alan Walter Agricultural Consulting, L.L.C.

A recently retired lawyer friend has a framed cartoon in his home (in the guest bathroom no less) that always amuses me. It shows two farmers with a gentle looking cow in the pasture-one farmer pulling on the ears and the other farmer yanking on the tail. A barrister clothed gentleman is sitting down milking the oblivious cow. The caption on the cartoon is "The Law Suit." The winner, per the perception in this cartoon, seems obvious-as are the losers. The cow seems to be of minor importance. But, the risks in farming can render rapidly delivered surprises.

Congress and agriculture seem to have had a deal since the 1930s: Every few years Congress passes new agricultural support legislation to provide the policy framework for agricultural decision-making for the next several years. After the legislation is passed, the agricultural economy is supposed to move forward with farmers and others in the process making decision for the next several years with a known and stable government policy. The farmers are supposed to focus on responding to economic conditions, the weather, and other factors that are important to agricultural profitability knowing that agricultural programs are set for a few years. However, as we've seen for the past several years, Congress has shown fit to change the farm program at least annually-at the urging of their farm constituents. I have had personal involvement in the process-at an early stage in my career when working for U. S. D. A. as an economist with responsibility relating to analysis and development of farm programs. For a time, I was the expert on peanuts and disaster assistance-a strange
-continued on page 3

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Chief Economist Tells Senate
continued **pgs. 6 & 7**

New Farm Bill- What If There is Risk
continued **pgs. 3 & 5**

Reporting Crop Insurance Fraud..... **pg. 2**

Texas Producer Found Guilty..... **pg. 2**

Brief Updates..... **pg. 4**

Premiums Near \$3 Billion..... **pg. 4**

Drought Map..... **pg. 7**

CIRB Calendar..... **pg. 8**

2003 Annual Meeting Information... **pg. 8**

How To Report Crop Insurance Program Fraud and Abuse

If you suspect fraud, waste, or abuse in the crop insurance program:

call USDA's Office of Inspector General (OIG) toll-free hot line at 1-800-424- 9121, Monday-Friday from 8am-4pm EST, or write USDA's Office of Inspector General (OIG), P.O. Box 23399, Washington, DC 20026 . When calling or writing, include as much detail as you can. If you write and sign your name, let them know if you wish to remain confidential.

WE NEED TO KNOW

Some of you may have noticed that CIRB Notes is now available on-line through the CIRB website www.cropinsurance.org. If you wish to continue to receive a hard-copy, please let us know so that you don't miss an issue.

Texas Producer Found Guilty

A Nolan County, Tex., producer was convicted April 11, 2002, on 22 federal charges involving false crop insurance claims. The producer, Scott Fullwood of Roscoe, Tex., was found guilty on eight counts of making false claim to the Government, four counts of mail fraud, nine counts of making false statements, and one count of conspiracy, according to Assistant U.S. Attorney William B. Mateja.

Risk Management Agency's (RMA) Southern Regional Compliance Office and USDA's Office of Inspector General (OIG) assisted in the U.S. case against the producer. RMA and OIG used boll weevil eradication program records and infrared satellite images of Fullwood's farms in the investigation.

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Member of



Fullwood is the sixth person convicted in connection with crop insurance fraud in the county. All six convictions stem from a case involving insurance adjuster Darren Randell Jeffrey, who pleaded guilty in 2001 to falsifying

appraisals on more than \$700,000 of crop insurance loss claims in 1999 for six cotton and grain sorghum producers. Fullwood's sentencing will take place in about 2 months.

The New Farm Bill- What If There Is Risk? -continued from cover

combination. During my tenure in agricultural policy making and continuing today, a major foundation for the development of agricultural legislation has been the economic baseline-a set of projections on what the agricultural economy might be like for the next few years. Using this baseline, the economists can then evaluate the impact of alternative government policies and programs. The numbers in this baseline-the crop production, prices, farm income and government costs-are critical to the legislation that finally emerges. The Farm Bill is heavily based upon the view about crop supply and demand as expressed in the baseline developed during the legislative process.

The previous comprehensive Farm Bill was passed in 1996 at a time of strong agricultural prices. The legislation reflected optimism for the future-prices were strong and would remain so-was the common view. Provisions were made to lock in direct payments to farms regardless of crop prices, which many assumed (or even concluded through the baseline analysis) entailed little downside risk. A strong U. S. economy as well as a hungry world buying from the U. S. would maintain prosperity.

There was some recognition (Congressman) Pat Roberts' prediction of a safety net worth billions of dollars in special payments he predicted. Net farm income was \$60 billion, even though it had fallen to \$20 billion plus of the \$20 billion plus of the years.

“A question relevant to the crop insurance industry is what are the probable strategies for risk management that emerge with this Farm Bill?”

of the reality of risk as Senator (then Governor) of Kansas was quoted when asked about the safety net. And, many years later, Congress has in fact performed as if the safety net were the safety net. And, many years later, Congress has in fact performed as if the safety net were the safety net. And, many years later, Congress has in fact performed as if the safety net were the safety net.

We now have the 2002 Farm Bill-written at a time of low farm prices and with the baseline projections also reflecting depressed prices with supply and demand conditions continuing on similar to present, but with a degree of optimism. The framework of the legislation is clearly based upon an assumption of relatively weak agricultural prices requiring continued heavy subsidization-what we see now will continue is the view.

The 2002 Farm Bill enacts programs for the major crops that includes three types of support-1). Direct payments that are fixed regardless of prices or the amount of a farm's production; 2). Additional direct payments if prices are below target levels with the payment for a farm again not tied to the amount of a farm's actual production in that year; and, 3). The possibility of payments to bring the effective price up to a minimum on the actual production (the loan deficiency payment--LDP). Perhaps the most complicated farm program ever has emerged with farms having to make decisions about what acreage to use for farm program benefits and whether to update yields.

A question relevant to the crop insurance industry is what are the probable strategies for risk management that emerge with this Farm Bill? If the current expectation of low and stable prices holds, the management strategy for a farm may well be to seek to minimize costs of production (including for crop insurance) while managing the yield risk. The effective price to the farm (market price plus LDP) cannot go much lower, it would seem, so there is little downside price risk. Under this view, there will be limited value in forward contracting minimizing the need for upside price protection. If this viewpoint is the accepted wisdom, farms will be heavier buyers of standard MPC I APH coverage to get the yield protection and possibly to minimize premium some of the more inexpensive revenue products-such as RA without harvest price option.

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Briefly

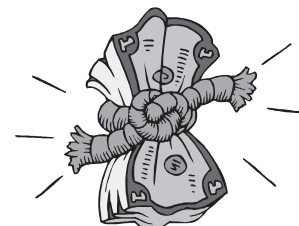
Revised Market Price Elections - The Risk Management Agency revised market price elections for some crops to reflect changes in the loan rates with the 2002 Farm Bill. Producers who previously purchased crop insurance policies that are affected by the revisions will be given the option of paying a higher premium for the higher price election. See chart below:



2002 Crop Insurance Price Elections Increases

Soybeans from \$4.92 to \$5.00 (per bu.)
 Grain Sorghum from \$185 to \$1.92 (per bu.)
 Oats from \$1.30 to \$1.35 (per bu.)
 Cotton from 50.0 to 52.0 (cents per lb.)
 Sunflowers from \$9.30 to \$9.60 (per cwt) Wheat, Corn, Feed Barley and Rice were not revised

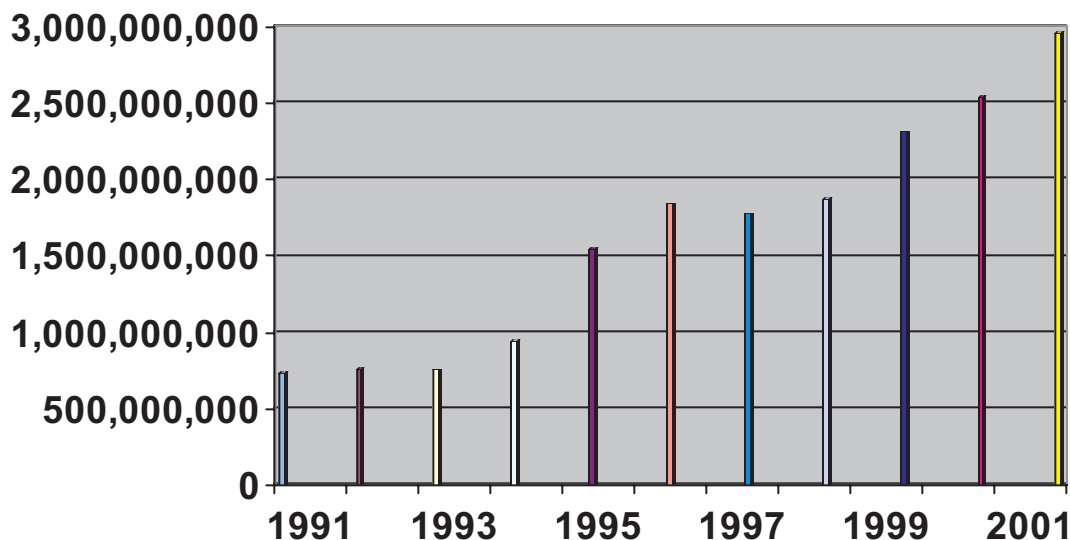
Farm Income to Take Dip in 2002 - According to *Doane's Agricultural Report*, "the timing of government payments outlined in the new farm bill suggests a \$3 billion to \$4 billion decline in payments to farmers in this calendar year. Most of the decline will be apparent in September and October." Doanes goes on to say that "cattle, hogs and milk prices are all down significantly from last year . . . This combination could cause a drop in net cash farm income of \$4 billion or more. However, larger government payments with the new farm law will boost income in 2003."



Drought to Perist in West and South - NOA forecasts through August predict that drought which has plagued the much of the west and southern states will likely persist through August. Some relief expected in other hard hit areas such as the northeast.
See drought map on page 7

Total Federal Crop Insurance Premiums Near \$3 billion

As evidence that farmers are utilizing crop insurance to a help manage their risks, there was a total of nearly \$3 billion in premiums in 2001. The increase can be attributed to a number of factors - increased farmer confidence in the program, effective company marketing and a sizeable increase in the premium subsidy.



NOT SO LONG AGO . . .

From time-to-time we'll share some pictures of past CIRB events. Here are this issue's submissions.



Roger Swartz (left) prepares to testify on behalf of CIRB at February '01 House Agriculture Committee Hearings.



CIRB members posed for this February '00 with Senator Pat Roberts (D-KS). Former Roberts constituent Oscar Dearnorff was offered the "seat of honor" as the Senator leans on the chair. Others pictured are (from left to right) Paul Horel, Richard Bill, Senator Roberts, Larry McKean, Bill Rutledge and Jane Shey.



Shawn Simpsen (left) and John Rahman smile for the camera at a cookout for the CIRB Executive Committee at last summer's meeting in Oregon. Judy Rahman and Lorraine Simpsen shared the cool summer evening with spouses.

-continued from page 3

But, is the agricultural economy certain to persist with low prices? Is volatility a possibility? The group of economists that I worked with in the 1970s took the view after careful study that the norm in agriculture is volatility—periods of tight supplies and strong prices followed by the opposite. Nothing has convinced me yet that the shared viewpoint of this group of economists was fundamentally in error.

An observation of supply/demand conditions suggests that it would not require a crop disaster anything near as severe as 1988 or 1993 to change the supply/demand situation for most of the major crops. With even a modest drought or with an international shock that led to strong export demand, the stocks of the major grains would be reduced to a level that would result in bullish pricing. This switch in directions for the agricultural economy could occur relatively quickly.

The crop insurance agent could find the next few years a challenging time. An immediate problem is that they could be competing for time to meet with a farm against the people that operate the farm programs. Then, when they meet with the farmer, what is the customer need? A first need will be for information. The most valued agent will be prepared to explain the insurance choices and how to manage risk considering both crop insurance and the farm program. Under current conditions, the agent may be helping the farmer decide towards lower insurance premium choices. However, the situation could change rapidly so the agent may within a year have to work with the farm manager to move towards a more sophisticated risk management strategy with higher premium levels. The agent and the insurance company that understands the farm programs and the agricultural economy will be providing a significant value added to the customers.

It also should not be ignored that the underlying volatility in agriculture has implications on a crop insurance company's management of its own risk. There is potential for a company's results to be substantially impacted by a weather event at home or to some extent abroad. There still is substantial risk in agriculture—even a potential for the lawyer in the cartoon to be kicked by the gentle cow.

CHIEF ECONOMIST TELLS SENATE "THERE IS NOW A SOLID SAFETY NET"

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late 1998 and 1999 provided additional premium subsidies for producers who purchased higher levels of crop and revenue insurance. The Agricultural Risk Protection Act of 2000 increased subsidy levels for all levels of coverage and for all insurance products.

As a result of increased subsidies, enrollment in the crop insurance program rose from 182 million acres insured in 1998 to almost 212 million in 2001, a 17 percent increase. Over 80 percent of eligible acreage was estimated to be enrolled in the program in 2001. Along with an increase in participation, producers also purchased insurance at higher coverage levels. Liability increased by 32 percent over the same period to \$36.7 billion. Premiums increased from \$1.9 billion in 1998 to almost \$3 billion in 2001, an increase of almost 58 percent.

The appendix table shows participation in the Federal crop insurance program for wheat and barley producers in the top ten wheat and barley producing states in 2001. Participation is above 90 percent of eligible acreage in Montana, North Dakota and Minnesota, and above 80 percent of eligible acreage in South Dakota, Nebraska, Colorado and Kansas. Participation rates appear somewhat lower in Oklahoma and Texas, but this likely reflects the fact that some of the planted wheat reported by USDA is used for haying and grazing and not intended for grain harvest. Participation among the top ten wheat states is lowest in Washington, reflecting the relatively low participation rate among white wheat and other specialty wheat producers.

Participation among barley producers in 2001 reflects a similar geographic pattern, with participation rates highest in Montana, North Dakota, Minnesota and Colorado. Participation is less than 60 percent of insured acreage in Idaho, Washington, California, Oregon, Wyoming and South Dakota.

Over the 1998-2001 crop years, crop insurance paid out almost \$9.6 billion in indemnity payments. Texas producers were the largest recipients, receiving almost \$2 billion in indemnity payments over the period. North Dakota was second at \$1.1 billion, followed by California with \$461 million, Minnesota with \$449 million and Georgia with \$423 million. Not surprising, payments generally tended to be highest in those states with the highest participation rates. As participation has increased and producers have increased coverage levels, indemnities have increased as well. In 2001, crop insurance indemnities were a record \$3 billion with almost \$500 million paid to Texas producers.

Noninsured Crop Disaster Assistance Program (NAP). NAP provides crop loss protection for growers of many crops when crop insurance is not available. This program covers noninsurable crops and planting prevented by natural disasters. Eligible crops include commercial crops and other agricultural commodities. Also eligible for NAP coverage are controlled-environment crops (mushrooms and floriculture), specialty crops (honey and maple sap), and value loss crops (aquaculture, Christmas trees, ginseng, ornamental nursery and turfgrass sod).

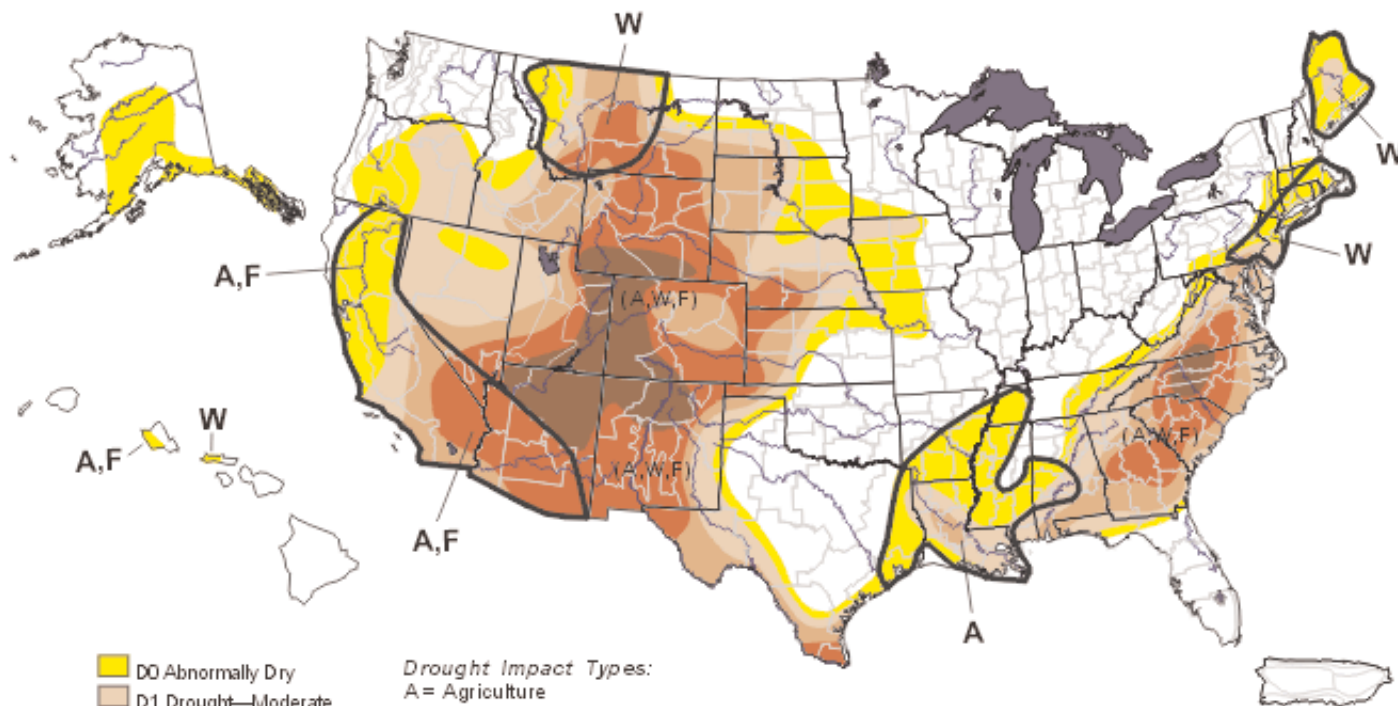
Prior to 2001, producers qualified for payments under NAP if there was at least a 35-percent crop loss in the disaster area and an individual producer's loss exceeded 50 percent of the expected yield. The area trigger was eliminated under the Agricultural Risk Protection Act of 2000 beginning with the 2001 crop and commodity coverage was expanded under NAP. To be eligible for payments under NAP for the 2001 and subsequent

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crops, the natural disaster must have either reduced a producer's expected production by more than 50 percent or prevented the producer from planting more than 35 percent of the intended crop acreage. The NAP payment is determined by multiplying the production loss in excess of 50 percent by 55 percent of the average market price for the commodity. Payments are factored down if the producer was prevented from planting the crop or the crop was not harvested.

In FY 2000, \$34 million were paid to producers under NAP. Reimbursement for crop losses increased to \$63 million under NAP in FY 2001. The President's Budget for FY 2003 projects payments under the NAP, as modified by the Agricultural Risk Protection Act of 2000, will increase to \$149 million in FY 2002, to \$190 million in FY 2003, and stabilize at about \$200 million annually thereafter. The increase in projected outlays under NAP reflects the elimination of the area loss trigger and the expansion of NAP coverage to more crops.

U.S. Drought Monitor July 9, 2002 Valid 8 a.m. EDT



- D0 Abnormally Dry
- D1 Drought—Moderate
- D2 Drought—Severe
- D3 Drought—Extreme
- D4 Drought—Exceptional

Drought Impact Types:
 A = Agriculture
 W = Water (Hydrological)
 F = Fire danger (Wildfires)
 — Delineates dominant impacts
 (No type = All 3 impacts)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://drought.unl.edu/dm>



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CIRB CALENDAR

2002

July 23- 25	Congressional Contact Meetings	Washington, DC
Aug. 13-15 & 27-29	Congressional Contact Meetings	Washington, DC
Sept. 10-12 & 24, 25	Congressional Contact Meetings	Washington, DC
Sept. 15-18	NAMIC Annual Convention	San Diego, CA
Sept. 16-17	NAMIC Crop Insurance Conference	San Diego, CA

2003

Feb. 23-26, 2003	CIRB Annual Meeting	Rio Rico, AZ
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2004

Jan. 24-28, 2004	CIRB Annual Meeting	San Diego, CA
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Rio Rico is the Next Destination!

CIRB's 2003 Annual Meeting is just around the corner, so start planning your trip now! Rio Rico Resort and Country Club offers a quiet southwestern atmosphere overlooking the lush green Santa Cruz River Valley. The surrounding countryside has many historic sites and wildlife preserves.

For those looking for the outdoors...Rio Rico Resort has many recreational amenities- an 18 hole Robert Trent Jones, Sr. designed golf course, the Rio Rico Stables, four lighted tennis courts, a large heated swimming pool and exercise facilities.

This year we are planning some fun receptions to go with the look and feel of Arizona. (Be prepared to wear jeans and casual shirts for at least one.) We also encourage everyone to bring their spouses and enjoy your time in Arizona. We look forward to seeing each and everyone of you this year!

Registration material soon to come.

Rio Rico Resort website: www.rioricoresort.com