
2002
NASDA's Farm Policy Initiative

Working Document

on

RISK MANAGEMENT

NASDA Mid-Year Meeting
March 3-6, 2000

U.S. Agriculture Profile	Opportunities	Constraints	Tools to Succeed (Policies/Options)
RISK MANAGEMENT			
<p><i>Public Safety Net</i></p> <p><i>*multi-tiered or targeted?</i></p> <p><i>Committee(s) Assigned:</i></p> <p><i>Risk Management Task Force of the Rural Development & Financial Security Committee</i></p> <p><i>Issues:</i></p> <p><i>Income Security</i></p> <p><i>Disaster Assistance</i></p> <p><i>Price Protection</i></p> <p><i>Small vs. Large</i></p>	<p>Improve producer ability to weather price fluctuations</p>	<p>Commodity/ Price-based policies</p> <p>Small vs Large</p> <p>Finite \$\$ available</p> <p>Landowner vs renter equity/ fairness</p> <p>WTO legal?</p>	<ul style="list-style-type: none"> • Counter-cyclical assistance • AMTA • Farmer minimum wage • Supplemental Income Payment (S.I.P.) • “Green” payments • “SAFE” Program • “Compensation” for unfunded mandates • Disaster assistance trust fund • Protection for Tenants and Sharecroppers (12.6) • Producer Security Warehouse/ Dairy (12.9) <p>12.6 PROTECTION FOR TENANTS AND SHARECROPPERS</p> <p>Land is being diverted to other uses, such as pine plantations, and producers are unable to acquire adequate land for crop production. Immediate steps should be taken to protect the rights of tenants and sharecroppers’ availability to land previously rented or cropped, and eligibility for transition payments where they have established crop production bases on lands owned by others.</p> <p>12.9 PRODUCER SECURITY</p> <p>Warehouse Regulation—NASDA believes that the USDA should cooperate with the state departments of agriculture in the regulation of agricultural commodities’ warehouse activities to provide producers with the best protection possible while subjecting the industry to the minimum amount of regulatory oversight necessary at the least cost to the taxpayer.</p> <p>National Dairy Producer Security—The establishment of a dairy industry security reserve fund would help to protect American dairy producers from losses resulting from bankruptcy of a processor/handler. This fund could be funded through assessments on processors not to exceed two cents per hundredweight. Producers who suffer a loss because of the bankruptcy of their processor/handler could make a claim against the fund for unpaid milk shipments to that handler.</p> <p>NASDA believes that the absence of adequate protection in many states, together with the confusion that is created for processors who have operations in several states with a variety of different producer security laws, requires that this problem be resolved at the federal level.</p>

U.S. Agriculture Profile	Opportunities	Constraints	Tools to Succeed (Policies/Options)
<p>Private Sector Tools</p> <p>Committee(s) Assigned:</p> <p><i>Risk Management Task Force of the Rural Development & Financial Security Committee</i></p> <p><i>Marketing & International Trade Committee</i></p> <p>Issues:</p> <p><i>Futures, Options (Cargill A plus)</i> <i>On Farm Storage</i> <i>Perishable Agricultural Commodities Act</i></p>	<p>Innovation</p>	<p>equity/fairness</p>	<ul style="list-style-type: none"> • Futures, Options, Contracts (Hedge to Arrive, Cargill Aplus) • Subsidize on-farm storage • Perishable Agri. Comm. Act - PACA (11.4)
<p>Crop Insurance</p> <p>Committee(s) Assigned</p> <p><i>(Risk Management Task Force of the Rural Development & Financial Security Committee)</i></p>	<p>Coverage of Livestock and Specialty Crops</p> <p>Affordable Coverage</p> <p>Increased government share of risk.</p>	<p>Potential loss of \$6 billion in budget authority</p> <p>Gaming of the system</p> <p>Administration of crop insurance programs.</p>	<ul style="list-style-type: none"> • Cost-of-production (COP) (AgriLogic Concept) vs. Traditional Programs • “FPIC re-insurance” • Farm Income and Production Stability (12.8) <p>12.8 FARM INCOME AND PRODUCTION STABILITY</p> <p>Risk management encompasses education, marketing, and primarily crop insurance programs. Covering production costs and ensuring a minimum price are two elements to consider in a crop insurance/risk management proposal. As farmers are exposed to unpredictable and unusual risks, it is</p>

U.S. Agriculture Profile	Opportunities	Constraints	Tools to Succeed (Policies/Options)
<p>Issues:</p> <p><i>Affordable Whole Farm Cost of Production Insurance Re-insurance Farm Income and Production Stability First Time Farmers</i></p>			<p>essential that a crop insurance/risk management plan cover, at a minimum, the input cost of production to a producer. In addition, the federal government should ensure the stabilization of prices received by farmers while at the same time ensuring that such stabilization of prices does not distort production levels. Major, sustained low price levels cannot be protected against with an insurance program that is required to be actuarially sound. Price protection must be provided by separate farm policy. Substantial federal support to producers must be provided during low price periods.</p> <p>Crop Insurance —</p> <p><u>Coverage:</u> Crop insurance coverage must be meaningful and comprehensive. At the same time, premiums must not be cost prohibitive for producers. While current federal policies give producers more flexibility in making production decisions, alternative and non-traditional crops have and will continue to proliferate and must be included in crop insurance coverage. Crops currently not insured and non-traditional crops should be covered by crop insurance. A crop insurance program should be designed to promote innovation and alternative crops. Additional resources will be necessary to aggressively expand insurance coverage to all crops and livestock. Premium subsidies should be higher for higher levels of coverage and lower for lower levels of coverage, encouraging producers to carry more coverage.</p> <p><u>Prevented Planting:</u> The restriction on prevented planting eligibility for land with a “pre-existing condition” of more than two years is unreasonable in cases of standing water. Determinations of whether prevented planting due to wet conditions is pre-existing or a new occurrence of the same problem is extremely difficult to verify and administer with consistency. The restrictions of these provisions should be relaxed so producers are not unduly penalized by being determined ineligible for prevented planting coverage.</p> <p><u>Participation:</u> Federal assistance should be contingent upon a producer’s participation in the crop insurance program. Crop insurance should be mandatory in order for producers to receive assistance. Crop insurance must provide meaningful coverage and provide incentives for farmers to purchase the insurance.</p> <p>An appropriate role for the producer, the federal government and private insurers must be</p>

U.S. Agriculture Profile	Opportunities	Constraints	Tools to Succeed (Policies/Options)
			<p>established. Primary delivery of catastrophic (CAT) crop insurance should be through the Farm Service Agency. Buy-up coverage should be available through insurance companies, in conjunction with federal government underwriting and subsidies. Premiums must be affordable and should provide incentives for producers to carry higher rather than lower levels of coverage. Crop insurance programs should be developed on a regional and/or state basis. The states should have a role in crop insurance programs as they are uniquely positioned to handle the administration of the federal portion of the crop insurance program. To improve efficiencies, the USDA and state departments of agriculture should consider cooperative agreements where appropriate.</p> <p>Additional elements of a crop insurance program to consider are whole farm revenue insurance and long-term reserve accounts. Whole farm revenue insurance would allow producers to purchase insurance guaranteeing a certain percentage of revenue for the whole farm. It would provide protection against unavoidable losses of production and low prices. Long-term reserve accounts are a way for farmers to save, on a tax-deferred basis, during good times for poorer years.</p> <p>Disaster Situations — Disaster situations in agriculture are inevitable. The challenge for lawmakers and the federal government is to develop a program or plan to lessen the impact of such disasters. However, until crop insurance/risk management programs are established that are capable of totally replacing ad hoc disaster assistance, producers and the federal government should have a consistent way of coping with disasters. Federal disaster assistance should not undermine the intent of crop insurance programs. NASDA supports planning for emergencies involving states, together with any legislative changes. NASDA further recommends that the Federal Emergency Management Agency (FEMA) be given agricultural emergency authority to react to agriculture disasters with expediency as they are accustomed to dealing with other emergency situations.</p> <p>Many areas of the country have been impacted by disaster situations and have experienced significantly reduced yield guarantees and/or increasingly higher premiums. In some cases, yield guarantees have been severely impacted by disease and insects even though areas might not have received disaster declarations. The result is that multi-peril crop insurance has become an ineffective risk management tool for these farmers.</p> <p>NASDA believes the USDA and the United States Congress should review the effectiveness of risk</p>

U.S. Agriculture Profile	Opportunities	Constraints	Tools to Succeed (Policies/Options)
			<p>management tools and explore all options to provide farmers with improved risk management tools. NASDA would recommend that years for which disaster declarations have been made and/or where prevented planting has occurred shall be excluded when calculating APH yield.</p> <p>Education — Education is an important component of any risk management plan. The USDA should educate producers and lenders about risk management strategies.</p> <p>The Risk Management Agency’s dairy options pilot program concept should be expanded to other traded commodities. By combining crop insurance and risk management tools, farmers can develop a total risk management plan. This approach enables a farmer to move into a more market-oriented world.</p> <p>First-time Farmers — As the average age of the American farmer rises, Congress must find ways to attract younger farmers into the business. Without a generation to pass the farm onto, the United States leaves itself vulnerable. Possible incentives are lower farm revenue insurance premiums, targeted risk management programs, and tailored training and education programs. Free CAT coverage is offered to limited resource farmers and a greater premium subsidy should be provided for the beginning farmers. The federal government should provide incentives for increased participation by younger generations.</p>
<p>Information Access</p> <p>Committee(s) Assigned:</p> <p><i>Marketing & International Trade Committee</i></p> <p>Issues:</p> <p><i>Access to Technology</i> <i>Funding for Service</i></p>	<p>Internet Access</p> <p>Government Assistance for technology to rural areas</p>	<p>Lack of funding for technology to rural areas.</p> <p>High cost for delivery of service.</p>	<ul style="list-style-type: none"> • Rural Development (internet access, weather forecasting, economic data and farm definition in 2000 census) • Education • Effective price discovery mechanism

U.S. Agriculture Profile	Opportunities	Constraints	Tools to Succeed (Policies/Options)
<i>(Special Committee?)</i>			