

**Testimony of Bing Von Bergen on Behalf of the National Association of Wheat Growers**

**Before the Subcommittee on General Farm Commodities and Risk Management**

**Hearing to Review Farmers' Views on the Effectiveness and Operations  
of the Federal Crop Insurance Program**

**April 22, 2009**

Chairman Boswell, Congressman Moran and Members of the Subcommittee, my name is Bing Von Bergen, and I am a wheat producer from the great state of Montana. I am the president of Montana Grain Growers Association and serve on the Board of the National Association of Wheat Growers (NAWG), a federation of 20 state wheat grower associations.

First let me thank you for holding this hearing. We very much appreciate the work of this Subcommittee and your ongoing efforts to provide effective and affordable crop insurance for our nation's farmers. I appreciate this opportunity to offer NAWG's thoughts on behalf of wheat growers on the effectiveness and operations of the federal crop insurance program.

**Importance of Crop Insurance to the Wheat Industry**

Crop insurance is a critical risk management tool for wheat producers. According to the Risk Management Agency (RMA), in 2008 nearly 49 million acres – or 77 percent of the country's total wheat acres – were covered by one of the various available forms of federal crop insurance.

In Montana, 89 percent of wheat acres were insured in 2008 according to RMA statistics. In Kansas, 87 percent of wheat acres were insured and in North Dakota, 95 percent. These high percentages illustrate the breadth of use of this vital program and speak to the importance of the largest single part of the federal safety net for agriculture.

In the diverse basket of federal farm safety net programs, crop insurance is one of the most reliable and imperative for wheat producers. The marketing loan and counter-cyclical programs provide little utility to our members as loan rates and target prices are well below the current costs of production. The direct payment is the most dependable and World Trade Organization (WTO) compliant of the three traditional Title I programs and it is the only one of the three currently providing support to our producers. However, it is under increasing fire for reductions. In this context, it is clear why federal crop insurance remains a high priority for our industry due to its dependability and effectiveness as a risk management tool.

Federal crop insurance plays a critical role in the lives of our producers and in rural America. But, because of its complexity, few understand the program well. Consequently, it is necessary to demystify what crop insurance actually accomplishes and defend its critical importance.

Crop insurance has traditionally played a key role in protecting against losses related to disasters such as drought or flooding. Beyond that, it provides a stable income environment for producers and families willing to face the challenge of production perils to feed our nation and the world. Stable farm income equates to stability for rural communities—dollars earned in farming are spent and re-spent throughout the economy. Another critical role of crop insurance is to provide the risk management protection that producers must have to obtain operating credit. This is particularly

critical in this recession-threatened banking industry climate since many producers find it impossible to get a farm operating loan if they cannot demonstrate adequate coverage to their lender.

### **Budget and Standard Reinsurance Agreement Considerations**

Considering the many producer and societal benefits of crop insurance, we are concerned about recent proposals that advocate cutting funding for the federal crop insurance program. The cuts outlined in the President's fiscal year 2010 budget proposal are particularly disconcerting as they could harm or inhibit producer participation in the program. Additional cuts beyond those that were already made in the 2008 Farm Bill are not necessary and may jeopardize the capability of the partnership between the federal government and the private insurance industry to effectively deliver risk protection to our members.

If producers are forced to pay higher premiums for the same coverage due to additional cuts in subsidies, producers may rethink buying crop insurance. Particularly in parts of the country facing higher levels of risk, such as Kansas, Montana and North Dakota, the cost of crop insurance is already extremely high. For example, my federal crop insurance premium represents 10 to 15 percent of my total crop input cost and, with hail insurance, my premiums rise to 20 to 30 percent of my input costs. For wheat growers already facing increasingly narrow profit margins in this climate of lower commodity prices and continued high input costs, any increase in crop insurance expenses resulting from a reduction in the crop insurance subsidy would have a dramatic impact on funds available for family living costs.

For these reasons, we were very pleased to see the House Agriculture Committee state opposition to reconciliation instructions or assumed savings from agriculture in the FY2010 Budget Resolution, including crop insurance, in your Views and Estimates letter presented to the House Budget Committee this year.

We also recognize that the 2008 Farm Bill authorized the renegotiation of the Standard Reinsurance Agreement (SRA), the contractual agreement between RMA and approved insurance providers. Though we recognize the need to maximize the efficiency of this program, we also caution the Administration from making changes for purposes of cost savings that would jeopardize either producer or private industry participation in the program as both are vital to its effectiveness as a risk management tool for producers.

### **Crop Insurance Improvements**

The federal crop insurance program has been enhanced substantially over the years to meet the evolving needs of producers. Congress, in partnership with RMA and private industry, has done a laudable job in improving the program and tools available to producers since passage of the Federal Crop Insurance Act of 1980. For example, in 1997 Congress and the Administration worked together to equip the program with the nation's first farm revenue protection feature, offering our wheat growers the first ever revenue component in crop insurance. The revenue protection component has been a great asset to wheat producers and more and more producers are using it as a safety net.

Like other important tools on the farm, farm programs also need periodic maintenance and "sharpening" to extend their useful life, utility and effectiveness. I ask the Subcommittee to

consider five additional areas that the wheat industry has identified for further improvement, listed in no particular priority order:

- Erosion of Actual Production History (APH)
- RMA audit procedure adjustments
- Revision of quality loss adjustment factors
- Separation of crop practices and classes of wheat
- Acreage reporting requirements

### ***Erosion of Actual Production History (APH)***

The nation's wheat growers know all too well the effects of prolonged drought or other disaster conditions. Each year of crop failure reduces a farmer's APH, eroding the safety net provided by crop insurance. NAWG has continued to explore remedies to this and urges a prompt solution.

One solution may be to allow the producer to use either his or her previous APH or the current county yield, whichever is higher. We would also recommend replacing the 60 percent factor with the coverage percentage purchased by the insured. For example, a producer with 70 percent coverage would use a yield plug of 70 percent times the higher of his or her APH or county T-yield.

Another APH-related issue we would like to see addressed is to allow loss protection and production history adjustments for mechanical fire losses. Currently, if a producer experiences a mechanical fire he or she will get paid nothing for the crop and production will be recorded as zero for that year, becoming a part of the production record. This situation distorts actual production history and double-penalizes producers already injured financially by a mechanical fire. A solution would be to use a T-yield or APH yield for purposes of the production record in the event of a mechanical fire loss.

Lastly, we support the option of a new landowner or operator using the APH yield from the previous operator regardless of acreage in that county. The size of a grower's operation or the size of an expansion should have no bearing on what makes sense to use for a proven yield.

### ***RMA audit procedure adjustments***

NAWG has a number of concerns with the way in which RMA audits are triggered. NAWG supports equitable and timely adjustments in RMA audit procedures including those outlined below.

- Raise the \$100,000 automatic indemnity audit trigger to a more realistic number to account for high national average commodity prices. The \$100,000 automatic indemnity audit trigger was put into place when the price of wheat was between \$3 and \$4 per bushel. It is unrealistic to keep the trigger at \$100,000 when the price guarantee has increased to \$8 per bushel, for example. We believe the audit trigger should increase proportionately with the guarantee.
- Limit audits to the year in question. Currently, crop insurance audits cover a three-year period. Limiting audits to the year in question would provide a more accurate reflection of the audit need. Additional years may be scrutinized in the event that irregularities occur.

***Revision of quality loss adjustment factors***

RMA currently relies on a set of Discount Factor Charts to determine appropriate production adjustments for quality losses out of the control of the farmer, including charts for test weight, grades of No. 5 or sample grade, defects, smutty and vomitoxin. However, RMA compensation for discounts in many cases is not commensurate with the actual discounts taken at the elevator. For example, in years of excessive moisture farmers may take heavy discounts at the elevator for low falling numbers – a quality loss that is not accounted for in RMA discount factor charts.

NAWG would like to see RMA adopt a method to adjust discounts for quality factors such as test weight, falling numbers and deoxynivalenol (DON) that are not adequately covered by the Discount Factor Charts but are typical in the marketplace on a periodic basis. NAWG has begun to work with RMA to seek a solution and we would hope that Congress would support these efforts.

***Separation of crop practices and classes of wheat***

Wheat growers are required to use the same insurance product (Revenue Assurance, Crop Revenue Coverage, etc.) for both irrigated and non-irrigated crops in the same farm. However, the risks faced by growers utilizing these different crop practices are very different. NAWG believes there should be a way to recognize the different risks associated with different cropping practices and allow producers to tailor the tools available to their respective risks. In other words, irrigated and dryland production acres should be allowed to carry different insurance products on the same farm or unit.

Farmers may plant continuous crop winter wheat in the same unit as summer fallow wheat. In that instance, this farmer should be allowed to claim a loss on the continuous crop in the event of a loss, regardless of the production on the summer fallow.

In addition, producers should be allowed to insure winter wheat and spring wheat as separate crops. Producers may have a different production guarantee for spring wheat versus winter wheat, but they are bound by the same coverage type and level for both.

***Acreage reporting requirements***

The Farm Service Agency (FSA) and RMA have agreed to use the same acreage reporting date (varying only by region) but this has not yet been implemented. We hope that the Subcommittee would join us in encouraging RMA and FSA to implement this in a timely fashion, enabling producers to report to the agencies more accurately, thereby eliminating acreage reporting errors and discrepancies between the two agencies.

In addition, FSA and RMA should work together to share acreage and production data to alleviate duplicate reporting requirements on the part of producers. A unified network programming system such as a Comprehensive Information Management System (CIMS) or a hardcopy paper filing system between the two offices would alleviate potential errors related to double paper acreage filing systems and would reduce the duplicate reporting burden on producers.

***Other issues***

- Use of NASS data for indemnity calculations: Wheat producers have experienced frustration with regard to the use of data from the National Agricultural Statistics Service (NASS) for

calculation of producer indemnity payments under GRP or GRIP policies. Data gathered by NASS through phone interviews and mailed surveys is not credible data for the purpose of calculating insurance payments. In some counties, the use of NASS data as compared to actual FSA data can end up resulting in significant losses of indemnity payments due to data discrepancies.

- Continuous crop winter wheat coverage on expiring Conservation Reserve Program (CRP) acres: A large number of CRP acres are set to expire in the next few years. In order to seed these acres to winter wheat in the year that they are released dictates that the winter wheat acres be classified by RMA as continuous crop winter wheat. However, many of these expiring CRP acres are located in areas that do not have continuous crop winter wheat coverage. We urge RMA to allow growers in these areas to receive a percentage of their summer fallow winter wheat guarantee so that these acres can be insured.

### **Conclusion**

NAWG continues to work with Congress, RMA and private industry to seek further improvement to this vital program. We greatly appreciate the role you play in defending the viability of and funding for crop insurance.

Mr. Chairman and members of the Subcommittee, our wheat producers thank you for this opportunity to testify on the effectiveness and operations of the federal crop insurance program. The NAWG leaders, staff and I stand ready to respond to any questions you have.