TITLE X
MISCELLANEOUS

SUMMARY OF MISCELLANEOUS TITLE REFORM

Recommendations In Brief

Improve risk management tools for farmers by creating a supplemental insurance program. Increase the efficiency and effectiveness of the crop insurance program. Revise dairy assessment requirements to create a more fair system.

Problem

Risks related to weather patterns and natural disasters are inherent to farming, creating the need for protection. Crop insurance provides this protection, but farmers have voiced concern about crop insurance deductibles and premiums being too high.

For example, Ricky from Alabama said, "While most producers realize that no one should be guaranteed a profit, we do see the need for real crop insurance reform that will give good business men the tools they need to manage the unique risk involved in agricultural production…. (crop insurance was) too expensive at adequate coverage, too many producers were left out, and there was still too much room for fraud." And Gary from Kansas agreed, "The crop insurance program definitely needs revamping. Most insurance programs, such as health or home insurance, reimburse the insured for most of the costs associated with a tragedy. Crop insurance, in no way, provides this insurance, and this became very evident with our continued drought here."

Additionally, certain statutory requirements of the crop insurance program have put its future integrity and actuarial soundness in question. For example, the law requires no further adjustments to the standard reinsurance agreement and mandates an expected loss ratio designed to ensure indemnities paid out exceed premiums paid in.

Crop insurance fraud and abuse continues to be a serious concern. An expansion of program compliance and data mining activities is needed to appropriately identify and sanction "bad actors" who are abusing the program. The law also prohibits certain existing funding sources from being used on high priority crop insurance needs such as program compliance efforts and research on existing crop insurance products. Jocie from North Dakota said, "A crop insurance program that provides risk management and revenue protection…is an important part of any farm bill."

Finally, dairy promotion and research assessments are currently collected on domestic products from the 48 contiguous states, but are not collected on dairy production from Alaska, Hawaii, and Puerto Rico. This domestic inconsistency has prevented dairy assessments from being collected on imported dairy products, putting domestic dairy products at a disadvantage compared to their imported counterparts.

Recommended Solution

The Administration is recommending several additions to Title X of the farm bill – entitled “Miscellaneous.” Following is a list of the major components of the package.

Subtitle A – Crop Insurance

1. Allow farmers to purchase supplemental insurance that would cover all or part of their individual policy deductible in the event of a county or area wide loss. This proposal would increase the Administration’s commitment to crop insurance by $350 million over 10 years. (For further information, see the proposal entitled “Crop Insurance Supplemental Deductible Coverage” on pages 151 – 153.)
2. Reduce the expected loss ratio for the crop insurance program from 1.075 to 1.00. (For further information, see the proposal entitled “Revise Crop Insurance Expected Loss Ratio” on page 154.)
3. Allow private crop insurance companies direct access to data mining information that reveals potential fraud and charge a user fee for this access. (For further information, see the proposal entitled “Access to Crop Insurance Data Mining Information” on pages 155 – 156.)
4. Allocate up to $10 million in annual funding to strengthen crop insurance compliance efforts. (For further information, see the proposal entitled “Strengthen Crop Insurance Program Compliance” on pages 157 – 158.)
5. Provide the Federal Crop Insurance Corporation (FCIC) broader authority to contract for research and development to improve existing crop insurance programs. (For further information, see the proposal entitled “Crop Insurance Research and Development” on pages 159 – 160.)
6. Provide the authority for USDA to renegotiate the financial terms of the Standard Reinsurance Agreement once every 3 years. (For further information, see the proposal entitled “Crop Insurance Standard Reinsurance Agreement” on pages 161 – 162.)
7. Implement a series of crop insurance reforms to increase program participation, reduce the need for ad hoc disaster assistance programs, and control program costs. (For further information, see the proposal entitled “Increase Crop Insurance Participation While Controlling Program Costs” on pages 163 – 164.)

Subtitle B -- Marketing

1. Enable the collection of research and promotion assessments on imported dairy products, as called for in the 2002 farm bill, by requiring these assessments on a consistent basis domestically. (For further information, see the proposal entitled “Ensuring Fairness of Dairy Research and Promotion Assessments” on pages 165 – 166.)
2. Re-authorize and expand the Organic Certification Cost Share Program and provide funding for organic farming research and comprehensive market price information gathering. These organic farming initiatives total $61 million in additional funding over 10 years. (For further information, see the proposal entitled “Organic Farming Initiatives” on pages 166 – 167.)
3. Utilize an additional $2.75 billion of Section 32 funds over ten years to specifically purchase fruits and vegetables for the National School Lunch Program and other nutrition programs. (For further information, see the proposal entitled “Increase

Purchases of Fruits and Vegetables for Nutrition Assistance Programs” on pages 168 – 169.)

CROP INSURANCE
SUPPLEMENTAL DEDUCTIBLE COVERAGE

Recommendation in Brief

Allow farmers to purchase supplemental insurance that would cover all or part of their individual policy deductible in the event of a county or area wide loss. This proposal would increase the Administration's commitment to crop insurance by $350 million over ten years.

Problem

During USDA's Farm Bill Forums, producers expressed concern that crops with high premiums and significant deductibles leave producers with unacceptable risk management options. Jayme from North Dakota said, "Modifying the crop insurance program to account for regional disasters may be able to help beginning farmers through their most difficult challenges."

Producers can minimize deductibles by purchasing higher coverage levels (lower deductibles) but they face significantly higher premiums as a result. For some farmers, the deductibles on their crop insurance policies might exceed their profit margin. For example, the smallest deductible offered on USDA individual coverage crop insurance policies is 15 percent, meaning that a 15 percent loss must be incurred and absorbed by the producer before any indemnity is paid.

Loren in Kansas said, "I think that less subsidy should go to the type of crop insurance that the farmer has to verify yields, and more to the group risk and GRIP type policies."

Recommended Solution

The Administration proposes to amend the Federal Crop Insurance Act to allow the USDA crop insurance program to offer a new insurance option. This supplemental coverage would pay some or all of a grower's individual deductible if the producer is in a county that has suffered a high rate of loss. The sum of the indemnities payable under the individual and the group deductible policies could not exceed the value of the crop. This supplemental deductible coverage would function similarly to existing policies such as the Group Risk Plan (GRP) and the Group Risk Income Protection (GRIP). The supplemental policy would be offered at several coverage levels such that all or only a portion of the deductible would be covered.

Deductibles require producers to share in the risk of loss, thus encouraging them to operate their farms using best management practices. However, an individual producer's activity has little impact on countywide losses. Therefore, by triggering the supplemental deductible coverage based on county or area-wide losses, the integrity of the Federal crop insurance program is maintained. The supplemental deductible coverage is not paid in the event of individual substandard farming practices.

The Supplemental deductible coverage would strengthen the safety net provided by crop insurance by providing full coverage in the event of area-wide disasters. For example, if a producer selects 65 percent coverage under an individual policy and purchases supplemental deductible coverage, the producer could be compensated for 100 percent of his or her loss in the event of a devastating drought.

The threshold at which the supplemental insurance would be activated is a county-wide loss of 10 percent or more. When the loss under the group policy is sufficiently large, the grower's deductible would be completely covered, resulting in 100 percent of losses being covered. No existing crop insurance policy offers 100 percent coverage.

This approach would help to address the "hole in the safety net" that exists due to the fact that current crop insurance products fail to cover crop losses that are less than the size of the deductible. Supplemental deductible coverage, combined with changes in the crop insurance program designed to increase participation (see "Increase Crop Insurance Participation While Controlling Program Costs") and the counter-cyclical revenue payment program (see "Revenue-Based Counter-Cyclical Payment") will help eliminate the need for costly supplemental disaster assistance that potentially undermines crop insurance participation.

In addition, the proposal will help to address the concerns producers raised about high premiums for higher levels of coverage. Because an area-wide event is necessary to trigger the supplemental deductible coverage, the premium would be substantially lower than the premium for higher levels of standard coverage.

Background

Basic Federal crop insurance is designed to address two types of risk: 1) localized risks of a specific producer's farm, such as an excessive rainfall or other natural disaster and 2) risks that cause widespread production losses, such as a county-wide drought.

A deductible on individual coverage in crop insurance provides an incentive to mitigate losses and protect program integrity. However, it creates a gap in the protection offered by the program. Allowing farmers to purchase a supplemental group deductible policy, for which the insured cannot control the loss outcome, would provide more comprehensive coverage of risks. At the same time, it would avoid the incentive problems that true 100 percent individual coverage would entail.

Under the Administration's proposal, if the county yield is at or below 70 percent of the county average, producers would receive a payment equal to 100 percent of the loss not covered by the crop insurance payment under their individual policy. If the county yield is between 90 and 70 percent of the county average, the producer would receive a proportional amount of the loss not covered by the crop insurance payment. And if the countywide loss is less than 90 percent, no deductible payment would be triggered. Producers would also receive whatever indemnity is triggered under the individual policies as well; thus under a complete loss scenario, producers would receive 100 percent indemnity for their losses.

Looking at some specific examples, assume a producer takes advantage of this proposal and purchases both an individual yield policy and a supplemental deductible option based on county yield. For every one percentage point indemnity calculated under the county yield policy, the producer would receive a payment equal to 5 percent of the loss not covered by a crop insurance payment. If the county yield is 80 percent of the expected yield, the county yield would be ten percentage points below the county yield indemnity trigger of 90 percent, and the producer would receive a payment under the county yield policy equal to 50 percent (10 times five percent) of the loss not covered by the crop insurance payment. Under this same scenario, if the county yield fell to 70 percent of the county average, the policy would cover 100 percent of the uncovered loss, and if the county yield fell to 86 percent of the county average, the group policy would pay 20 percent of the uncovered loss.

REVISE CROP INSURANCE
EXPECTED LOSS RATIO

Recommendation in Brief
Reduce the expected loss ratio for the crop insurance program from 1.075 to 1.00.

Problem
Sections 506(o) and 508(d) of the Federal Crop Insurance Act mandate that the expected loss ratio for the crop insurance program should be not greater than 1.075. Consequently, an assumed underwriting loss is built into the budget for the crop insurance program, bringing into question its actuarial soundness.

Recommended Solution
The Administration recommends a revision of the expected loss ratio in the Federal Crop Insurance Act downward from 1.075 to an actuarially balanced level of 1.00. This policy change will reduce the budgeted cost of the crop insurance program and ensure a more actuarially sound.
Program changes in recent years have moved the program steadily toward an expected loss ratio of 1.00. The recommended change will ensure actuarial integrity in the program, thus encouraging continued participation by producers and private insurance companies.

Background
Expected loss ratios are simply the projected indemnity claims paid out by the insurance program divided by the insurance premium paid into the program (both producer and government portions of the premium). During the 1990's, the Federal Crop Insurance Act was revised to require the crop insurance program to operate with an expected loss ratio of not greater than 1.10 by 1995 and 1.075 by 1998. Consequently, the USDA assembled an 'Actuarial Blueprint' of changes to the program in order to improve actuarial performance. These measures included:

- Improved analysis of loss experience, resulting in general premium rate increases.
- Reduced yield guarantees for new producers who do not produce documentation of their past yield performance.
- The development of a taxpayer identification database that allows RMA to better track producers and their loss performance. This helps to prevent growers with poor loss experience (and high premium rates) from leaving the crop insurance program and then re-entering as a different entity with more favorable premium rates.
- Reviewed the language of crop insurance policies in order to clarify definitions, tighten underwriting rules, and clarify loss adjustment standards so that inappropriate indemnity payments are avoided.
- Increased the emphasis on program compliance and fraud prevention.

- Required Federally-reinsured crop insurance companies to retain more of the insured risk so that they have a clear incentive to assure the integrity of the crop insurance program.
- Expanded participation in the crop insurance program through improved marketing and the development of new products, allowing the crop insurance program to better diversify its risk, resulting in more stable actuarial performance.

ACCESS TO CROP INSURANCE DATA MINING INFORMATION

Recommendation in Brief
Allow private crop insurance companies direct access to data mining information that reveals potential fraud and charge a user fee for this access in order to fund improvements to the data mining system.

Problem
Fraud and abuse continue to be a serious concern for USDA and the crop insurance program. USDA uses computer technology to identify "bad actors" who may be abusing the program. These data mining activities have yielded significant results with an estimated $456 million in savings from crop years 2001- 2006. However, crop insurance companies, who share in the responsibility of identifying fraud and abuse, have only limited and often untimely access to this data.

Enhancements to the data mining system would further improve the ability of USDA and the crop insurance companies to expose fraud and abuse, but such enhancements require funding. Currently, USDA has no statutory authority to establish a fee system that would allow crop insurance companies to share in the costs associated with this shared benefit.

Recommended Solution
The Administration proposes enabling USDA's Risk Management Agency (RMA) to allow private crop insurance companies to directly query data mining information that reveals potential crop insurance fraud and abuse. Companies would be allowed to query information related only to their respective clientele. In order to fund enhancements to the data mining system, the Administration also proposes requiring RMA to charge a user fee for this service.

Background
USDA has developed an extensive and successful data mining capability that is currently used to identify potential fraud and abuse in the program. The Department has also identified a number of other uses for this capability such as underwriting assistance and program analysis.

The crop insurance program is delivered to producers through a complementary relationship between the government and the private sector. Some of these private insurance companies have requested the ability to directly query this system to assist in their own fraud detection programs. The companies could also use this information to assist with its own program underwriting and risk retention formulations.

USDA's data mining effort utilizes a contractor to build a data warehouse and develop queries to identify anomalies in the program. These anomalies are then vetted to determine if they result in fraud or abuse. This program has been very successful in maintaining program integrity. Additional uses of this system for program analysis allow

USDA to study program performance and make rate recommendations to strengthen financial results and improve program performance.

Private crop insurance companies must have a program compliance function to participate in the program. The companies can use this data mining system to target its resources to areas with the highest probability of uncovering program abuse.

This information could be a valuable tool to assist private crop insurance companies in determining what level of risk they will take on policies they sell and service. Improved underwriting analysis could lead to additional profits for the companies, which could be used to share the cost of the data mining system through payment of the proposed user fee.

STRENGTHEN CROP INSURANCE PROGRAM COMPLIANCE

Recommendation in Brief

Allocate up to $10 million in annual funding to strengthen crop insurance compliance efforts.

Problem

Crop insurance fraud and abuse impact farmers and ranchers who buy the insurance, taxpayers who support government's share of the program and insurance companies that help underwrite the program. When fraud occurs, all of these groups share the resulting increased costs of such abuse.

Over the past 20 years, crop insurance program participation has doubled to 1.3 million policies, the amount of coverage provided has quadrupled to $50 billion, and the program has expanded into new models of insurance, such as revenue coverage and group coverage policies. While crop insurance has grown exponentially, funding for compliance activities has not significantly changed. The program is expanding beyond the ability of the current compliance technology and staff to maintain effective oversight and identify, assess, and correct program violations.

Recommended Solution

The Administration recommends redirecting up to $10 million annually to improve the integrity of the crop insurance program. This proposal would permit the use of existing funds, authorized by Section 522(e) of the Federal Crop Insurance Act, to increase compliance personnel, increase training, and expand and add analysis tools to make the compliance program more efficient and effective.

This funding would be used to strengthen the Risk Management Agency (RMA) compliance program, including identifying and utilizing innovative compliance strategies and technologies. For example, satellite imaging is currently only used as part of prosecutions to validate fraudulent program reporting. This additional funding would be used to expand this technology for detection and prevention in addition to deterrence. This additional funding would be used to expand this technology for detection and prevention in addition to deterrence. In addition, the funding can be used to support data mining efforts through development of the Comprehensive Information Management System (CIMS).

RMA would also use this funding to expand the use of other methods to identify and deter fraud and abuse in the crop insurance program. The Compliance Division would initiate training in Geographic Information Systems and other information technologies to improve data gathering and analysis. Limited training resources have restricted access to these tools and other technologies. Additionally, there is a critical need to place approximately 30 more compliance staff in the field.

Background

RMA's Compliance Division is responsible for identifying cases of non-compliance, recovering funds on behalf of the government, referring cases for criminal prosecution when appropriate, and adjusting the program to correct identified vulnerabilities. Currently, the RMA Compliance Division has a staff of approximately 100 people to monitor 1.3 million crop policies with a combined liability, or risk, of nearly $50 billion. RMA uses data mining to identify policies and policyholders whose program experience appears inconsistent with their peers. Currently, the compliance staff is unable to investigate all of the results rendered by the data mining activities. The compliance staff must also assist in criminal prosecutions, investigate complaints, and conduct random reviews to assess program performance.

Section 522(e) of the Federal Crop Insurance Act provides $15 million annually to reimburse the research and development costs and cover maintenance costs of private submitters of approved insurance products and $25 million annually to carry out research and development for states that are underserved, states that have low participation, or for underserved agricultural commodities, including specialty crops. Funds not used for these purposes may be used for partnerships with public and private entities to increase the availability and use of risk management tools by producers. Each year, a substantial portion of the $40 million has not been used for the primary intended purposes of research contracting and reimbursement of research costs for privately submitted products. These funds have been redirected for use in other approved activities. The Administration is proposing that these funds instead be redirected to focus specifically on crop insurance compliance.

CROP INSURANCE RESEARCH AND DEVELOPMENT

Recommendation in Brief

Provide the Federal Crop Insurance Corporation (FCIC) broader authority to contract for research and development to improve existing crop insurance programs.

Problem

Section 522(e) of the Federal Crop Insurance Act provides $15 million annually to reimburse the research and development costs of private submitters of approved insurance products and $25 million annually to carry out research and development for states that are underserved, states that have low participation, or for underserved agricultural commodities, including specialty crops. FCIC insures over 360 commodities not considered as underserved or specialty crops, and many states are not considered underserved due to high participation levels. Funds not used for these purposes may be used for partnerships with public and private entities to increase the availability and use of risk management tools by producers. Each year, unused funds have been directed toward risk management partnerships to the point that the Risk Management Agency is stressing its limited resources to manage these partnerships.

Meanwhile, FCIC needs to continually evaluate and improve its existing programs, including contracting for reviewing of actuarial rating methodologies, analyzing program performance, improving existing coverage, and including quality coverage, to assure these programs continue to meet the risk management needs of producers. With ever-changing agronomics, crop varieties, genetic improvements, and alternative uses of many traditional crops, FCIC has many research and development needs to maintain and improve its many existing insurance programs to ensure their effectiveness. Meeting the ever-changing needs of agricultural producers cannot be fully accomplished due to the limitations on contracting authority and available funding provided by Section 522(c) and 522(e) of the Act.

Recommended Solution

The Administration proposes amending section 522(c) of the Federal Crop Insurance Act to provide greater flexibility and broader authority for using the available $25 million for contracting to maintain and improve existing risk management products. Another provision within 522(c) would provide the additional contracting authority, while still ensuring adequate funding for low participation states, low participation commodities, and specialty crop producers. This proposed solution would provide FCIC with the contracting authority and funding necessary to 1) continually review, evaluate, and improve its existing programs to keep pace with technology, changing farming practices, alternative crop uses, and genetically modified crops, and 2) provide improved coverage for added value commodities and food grade quality crop production.

Background

The Agricultural Risk Protection Act of 2000 provided significant funding to FCIC for contracting for research and development and prohibited FCIC from doing its own research and development. However, the authorities and funding provided were limited and targeted to underserved states, commodities, and specialty crops. These limitations and the prohibition on research and development do not provide FCIC the authority and available funding to contract for research and development to evaluate and improve many of its existing risk management programs. This recommendation would give FCIC the flexibility and financial capabilities to maintain and improve existing risk management programs for American agricultural producers, while still remaining diligent in addressing the needs of specialty crop producers.

CROP INSURANCE
STANDARD REINSURANCE AGREEMENT

Recommendation in Brief

Provide the authority for the USDA to renegotiate the financial terms of the Standard Reinsurance Agreement no more than once every 3 years.

Problem

The Agricultural Research, Extension, and Education Reform Act of 1998 contained provisions that prohibited changes to the financial terms of the Standard Reinsurance Agreement. The Agriculture Risk Protection Act of 2000 (ARPA) provided authority for USDA to renegotiate the financial terms once between 2001 and 2005. USDA did renegotiate the terms in 2004 with the new Standard Reinsurance Agreement implemented in 2005. USDA now is prohibited from making any further changes indefinitely. These financial terms include critical program cost components, such as the administration and operating cost allowance provided to the reinsured companies for program delivery expenses and risk sharing formulas that establish underwriting gains and losses. As the participation levels change and crop programs are adjusted to improve their financial performance, corresponding changes are necessary to ensure a balance of potential gains and losses between the reinsured companies and USDA.

Recommended Solution

The Administration recommends providing legislative authority for USDA to renegotiate the SRA financial terms and conditions once every three years. It is critical that USDA have the ability to adjust the Standard Reinsurance Agreement in response to the changing environment of the program. For example, the crop insurance program participation has grown significantly since the implementation of ARPA. Producers utilized the new subsidy rates to purchase crop insurance for the first time or purchase higher levels of coverage than they had in the past. These higher participation rates have resulted in more stable program performance. In addition, the inception of the catastrophic level of insurance has the effect of improving program financial performance far more than originally anticipated. As a result, the reinsured companies have enjoyed historically large underwriting gains in the last two years of the program. However, due to the statutory prohibitions in the adjustment of the financial terms and conditions, USDA cannot rebalance the risk sharing provisions to ensure that taxpayer investment is well utilized.

This provision would also permit the renegotiation of the SRA if the reinsured companies experience an unexpected adverse impact. For example, if a drastic change was made to the subsidy rate for catastrophic coverage and a large movement of growers exited the program, companies would find themselves in a negative situation that would be difficult to mitigate due to the prohibition on changes to the SRA.

Background

The Risk Management Agency enters into a SRA with private insurance companies that sell and service the crop insurance program. The companies are provided with options to cede risk from individual crop insurance policies to USDA prior to inception of insurance coverage. In essence, these private insurance companies share in the risk of the program with the Government. They have the opportunity for profit and the opportunity to suffer financial losses. The specifics of how the risk is shared are contained in the financial terms of the SRA. Historically, the USDA has renegotiated the reinsurance terms with the private industry on an as needed basis. However, that situation was changed in the Agriculture Research, Extension, and Education Reform Act of 1998, and USDA is now prohibited from negotiating changes to the SRA.

INCREASE CROP INSURANCE PARTICIPATION WHILE CONTROLLING PROGRAM COSTS

Recommendation in Brief

Implement a series of crop insurance reforms to increase program participation, reduce the need for ad hoc disaster assistance programs, and control program costs.

Problem

The Federal crop insurance program has been amended over the years to help farmers deal more effectively with the effects of natural disasters and to reduce the need for ad hoc disaster assistance. While program participation and coverage levels purchased by farmers have increased, Congress has still provided ad hoc disaster assistance. Since 2000, over $10 billion has been provided in ad hoc disaster assistance, indicating further program changes are needed to obviate the need for such assistance. As Gene from Nebraska suggested, "Require nationwide participation by all ag producers in the crop insurance program. The goal here is to eliminate all crop disaster programs."

As program participation has grown, the administrative and operating expense reimbursements paid by the Federal Crop Insurance Corporation (FCIC) to the reinsured companies to cover their costs of program delivery have also increased. During 2000-2005, administrative and operating expense reimbursements averaged over $700 million per year. In addition, underwriting gains by the reinsured companies have increased dramatically in recent years. Underwriting gains averaged $430 million annually during 2000-2005 and exceeded $940 million in 2005. In addition, the government subsidizes about 60 percent of producer premiums. These large and growing costs have raised concerns about the high level of program costs per dollar of assistance provided to producers.

Recommended Solution

Implement a series of Federal crop insurance program reforms including:

1. Require program crop producers to purchase crop insurance at additional levels of coverage to be eligible for benefits under farm price and income support programs.
2. Reduce premium subsidies by 5 percentage points for coverage levels of 70 percent or below and 2 percentage points for coverage levels of 75 percent or higher.
3. Reduce the imputed premium on catastrophic coverage (CAT) by 25 percent and charge an administrative fee equal to or greater than $100 or 25 percent of the new, reduced imputed premium, with a maximum fee of $5,000.
4. Reduce the administrative and operating expense reimbursement to the reinsured companies by 2 percentage points for all policies other than CAT policies.
5. Increase the net book quota share (USDA FCIC's share of risk on premiums currently retained by the companies) from the current 5 percent to 22 percent and provide a ceding commission to the reinsured companies of 2 percent of premium.

Background

Currently, participation in the Federal crop insurance program is voluntary. This proposal would require producers of program crops to purchase crop insurance that covers 50 percent or higher of the expected market value of their crop or lose farm program benefits. Producers now can voluntarily buy CAT coverage for an administrative fee, with the FCIC paying a 100-percent subsidy on the CAT premium. CAT covers 50 percent of yield and 55 percent of the market price, which is equivalent to 27.5 percent of the producer's expected value of production. Under this proposal, a producer would have to purchase at least 50 percent coverage on yield and 100 percent coverage on market price, which would be equivalent to covering 50 percent of the expected market value of the crop. Requiring participation at additional levels of coverage, in combination with the Supplemental Deductible Coverage option also being proposed on page 6-7 under this title, would greatly mitigate any need for ad hoc disaster assistance.

Premium subsidies currently vary from 67 percent at lower levels of coverage to 38 percent at higher levels. Reducing the subsidy level by 5 percentage points on lower coverage levels and 2 percentage points on higher coverage levels, as proposed, would still leave government subsidy levels quite high. In addition, a producer choosing to reduce coverage levels could still achieve protection from the higher deductible by purchasing the new Supplemental Deductive Coverage option.

Program costs under CAT coverage have been low, so reducing the imputed premium would bring the premium in line with actual losses. Charging 25 percent of the imputed premium for CAT coverage would only affect nonprogram crop producers who choose CAT coverage, since program crop producers would be required to buy higher levels of coverage. Since some very large producers have been purchasing CAT at the current low-level fee of $100 per crop per county, charging a premium-based fee reflects a more appropriate sharing of risk between the producer and the government.

Reducing the administrative and operating expense reimbursement to the companies and raising the net book quota share would reduce the expected gains received by reinsured companies, which have been substantial in recent years. The current reimbursement rate is 7 percent of premiums for CAT policies, 24.5 percent for higher levels of coverage, and 20.8 percent for revenue policies with coverage levels of 75 percent or less. Each of these levels, except for CAT policies, would be reduced by 2 percentage points. Expense reimbursement would also be reduced 2 percentage points for revenue policies with coverage above 75 percent and for group risk and other policies as well. The increase in net book quota share effectively means reinsured companies would have to reinsure 22 percent of their retained premium with FCIC rather than with private companies. This would enable FCIC to attain any underwriting gains or losses on this business that otherwise would have accrued to the companies. In return, FCIC would pay the companies a commission, similar to what companies receive when they reinsure their risk in private reinsurance markets.

ENSURING FAIRNESS OF DAIRY RESEARCH AND PROMOTION ASSESSMENTS

Recommendation In Brief

Enable the collection of research and promotion assessments on imported dairy products, as called for in the 2002 farm bill, by requiring these assessments on a consistent basis domestically.

Problem

The 2002 farm bill amends the National Dairy Promotion and Research Program to collect assessments on all imported dairy products similar to the current assessments levied on domestic dairy products. This provision also requires USDA to consult with the United States Trade Representative (USTR) to ensure that this requirement is consistent with the international trade obligations of the Federal government.

During this consultation, an issue was identified that requires statutory changes to address. Current law allows domestic dairy assessments to be levied only in the 48 contiguous states, exempting Alaska and Hawaii, as well as Puerto Rico. U.S. trading partners have claimed this limitation treats domestic industries more favorably than importers, thereby violating U.S. trade obligations. This unanticipated issue has prevented the implementation of dairy import assessments, as suggested in the 2002 farm bill.

As Larry at the Virginia Farm Bill Forum contended, policy-makers “should implement the collection of Dairy Promotion and Research check-off dollars on imported dairy products. The production of Alaska and Hawaii make up 0.00014 of the total U.S. production.” Greg from Utah called for, “…the total enforcement of the dairy check-off dollars for imported dairy products…Right now we've got an uneven playing field in that area.”

Recommended Solution

The Administration proposes amending Subtitles B and C of the Dairy Production Stabilization Act of 1983 to ensure that dairy promotion and research assessments apply to Puerto Rico, Hawaii, and Alaska. This proposal would change the definition of United States in this Act to be consistent with the definition used by USTR and our trading partners, which includes all 50 States, the District of Columbia, and Puerto Rico. This policy change will allow dairy research and promotion assessments on imports, as envisioned in the 2002 farm bill, without concern of potential World Trade Organization disputes.

Background

Section 1505 of the Farm Security and Rural Investment Act of 2002 amends the National Dairy Promotion and Research Program, authorized by the Dairy Production Stabilization Act of 1983, to provide for an assessment to be collected on all imported dairy products to fund research and generic advertising and promotion activities. The

level of assessment would be equivalent to 15 cents per 100 pounds of farm milk, the rate currently paid by dairy farmers located in the 48 contiguous states. Section 1505 also requires the consultation with USTR.

ORGANIC FARMING INITIATIVES

Recommendation in Brief

Re-authorize and expand the Organic Certification Cost Share Program and provide funding for organic farming research and comprehensive market price information gathering. These organic farming initiatives total $61 million in additional funding over 10 years.

Problem

There is increased demand for organic supply and more farmers are interested in transitioning from traditional farming to organic farming but barriers exist. The requirements to be certified organic are lengthy and can be quite costly, especially for small farmers. In addition, a key deterrent to transition is the lack of solid production and market data to inform farmers, processors, wholesalers and retailers about the supply of key organic commodities and pricing data for those commodities.

Organic food consumption now constitutes about 2.5 percent of the food market. Retail organic sales are currently at $15 billion and growing by about 15-20 percent annually. U.S. sales of organic food and fiber now constitute one of the fastest growing segments of U.S. agriculture.

Organic farmers, just like traditional farmers, are also looking for opportunities in the global market place. More and more trading partners are seeking organic certification recognition to gain access to the U.S. organic consumer market.

Finally, with rapid growth in the organic market comes an inevitable increase in the number of alleged violations – many due to lack of knowledge about the program and the regulations. But a growing number are due to willful attempts to circumvent the regulations to capture profits at consumers' expense. In some cases, the regulations themselves appear insufficient to support enforcement activity. To address these problems, gaps in the regulations must be addressed and compliance and enforcement activity must be increased.

Recommended Solution

The Administration proposes enhancing the role of U.S. organic production agriculture and organic markets through the following authorities:

1. Increase the cost share program from the current 15 states to all 50 states and permit producers and handlers to be eligible. Increase cost share reimbursement from $500 to $750 maximum or 75 percent of costs incurred, whichever is lowest. This provision is helpful to small organic farmers who have trouble with the cost of the certification. The program should be authorized to expend up to $5 million annually in mandatory funding.

2. Reauthorize and fund data collection to identify and publish organic production and market data initiatives and surveys. Additionally, authorize and fund comprehensive price reporting. Organic farmers and those wishing to transition into organic farming lack solid production and market data about the supply of key organic commodities as well as pricing data for these commodities. Conventional farmers have access to USDA data which they can use to plan crop plantings and make marketing decisions. Similar data is not available to organic farmers. The farm bill should authorize $1 million in mandatory funding to be available until expended for this data collection and publication.
3. Invest an additional $10 million in mandatory funding to be available until expended for organic research. This new funding would focus on conservation and environmental outcomes and new and improved seed varieties especially suited for organic agriculture.
4. Eligibility for the proposed enhanced Environmental Quality Incentives Program (EQIP) cost-share assistance would include a broad range of land uses including organically farmed land. (For further information, see the proposal entitled "Environmental Quality Incentives Program" on pages 43 – 45.)
5. Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities. Organic agriculture would be allowed to compete for Market Access Program funding to help develop and increase the organic export market. (For further information, see the proposal entitled "Enhance the Market Access Program" on pages 69 – 70.)

Background

The National Organic Program (NOP) originated with passage of the Organic Foods Production Act of 1990. The NOP regulations provide voluntary, uniform marketing standards for the production and processing of organic products that are to be labeled as "100 percent organic," "organic," or "made with organic ingredients," based on their final organic ingredient content. Essentially, the standards are a set of sustainable agricultural production and processing practices, using little or no chemicals, synthetics, irradiation, genetically modified organisms, or sewage sludge. All operations must be certified, by an accredited USDA certifying agent – a private entity licensed by USDA that verifies that each operation is producing to the NOP standards. Products that meet the standards are eligible to apply a USDA seal, for "100 percent" and "organic" (95 percent) content product. Additionally, the Certification Cost Share Program helps defray the cost of annual organic certification, particularly important to smaller producers and processors. Current NOP resources include an annual budget of approximately $2.3 million.

INCREASE PURCHASES OF FRUITS & VEGETABLES FOR NUTRITION ASSISTANCE PROGRAMS

Recommendation in Brief

Utilize an additional $2.75 billion of Section 32 funds over ten years to specifically purchase fruits and vegetables for USDA's domestic nutrition assistance programs**,** including the National School Lunch and Breakfast Programs, The Emergency Food Assistance Program, and other commodity distribution programs.

Problem

The most recent Dietary Guidelines for Americans recommends increasing fruit and vegetable consumption to 4-½ cups per day for a reference 2,000-calorie diet, yet research shows that average consumption of fruits and vegetables among the adult population is 2 to 2-1/2 cup equivalents per day and among school children is approximately 2 cup equivalents per day. Consumers commonly note that they limit consumption of fruits and vegetables because they are perceived to be expensive, time consuming to prepare and perishable. USDA nutrition assistance programs reach one in five Americans. Therefore providing readily accessible servings of fruits and vegetables to low-income populations and schools could significantly increase overall consumption and improve health.

Additionally, five program crops (rice, cotton, wheat, corn and soybeans) continue to receive the vast majority of Federal agriculture assistance even though U.S. specialty crop production is now equal in value to U.S. program crops. In fact, 60 percent of U.S. farmers and ranchers do not receive direct cash support from the farm bill, simply because they do not raise a program crop. These specialty crop producers face the same weather and other production challenges as their program crop counterparts.

This equity issue was raised at farm bill forums across the country. For example, James of New York testified, "Historically, the farm bill has benefited a small but crucial group, farmers. However, by supporting expansion of…(fruit and vegetable purchases), we have the unique opportunity to use the 2007 farm bill to directly and positively impact the health of our children and begin to reverse a dangerous trend toward obesity."

Recommended Solution

The Administration proposes to increase Section 32 purchases of fruits and vegetables by an additional $200 million in fiscal year 2008, $225 million in FY 2009, $250 million in FY 2010, $275 million in FY 2011, and $300 million in FY 2012 and thereafter above the last five-year annual average level of approximately $291 million.

Under this proposal, USDA would survey the National School Lunch Program and other nutrition assistance programs to determine which traditional fruit and vegetable products

are most in demand. USDA intends that this additional money be used to purchase products that are currently provided to all nutrition assistance programs.

USDA would also consider offering value-added items to schools if there is demand. Some of the products USDA might offer include fruit cups, juice boxes, ready-to-eat fresh-cut vegetables in bags, and ready-to-eat fresh-cut fruits in bags. Fresh-cut vegetables and fruits provided by this proposal would support schools' efforts to increase the utilization of salad bars.

Background

The Agricultural Risk Protection Act of 2000 provided USDA $200 million in funding for the support of fruit and vegetable markets. Most of this funding went to food banks and other feeding programs, in addition to schools. This proposed purchase program would operate in much the same manner.

Purchasing traditional fruit and vegetable products also supports domestic markets, and helps reduce surplus inventory by producers. When balancing purchases of lower cost traditional items with purchases of higher cost value-added items, USDA is better able to support producer markets while providing products most attractive to school children to increase their consumption.