

MINUTES
OF THE
MEETING OF THE BOARD OF DIRECTORS
OF THE
FEDERAL CROP INSURANCE CORPORATION

A meeting of the Board of Directors (Board) of the Federal Crop Insurance Corporation (FCIC) was held on December 18, 2006, in Room 108-A of the Jamie L. Whitten Federal Office Building, Jefferson Drive, Washington, D.C. The public was invited to attend the open session portion of the meeting.

Meeting
December 18,
2006

The meeting was called to order at 4:00 p.m. EST in open session.

Call to Order

The Chairman requested Board members to introduce themselves. Present or participating by phone were Keith Collins, Chief Economist USDA and Chairperson; Floyd Gaibler, Acting Under Secretary Farm and Foreign Agricultural Services (FFAS); Bill Classen (phone); Tim Kelleher (phone); Frank Jones (phone); Mike Pickens (phone) and Luis Monterde (phone), constituting a statutory quorum; Eldon Gould, Manager, FCIC; and Brent Doane, Secretary, FCIC and James Callan, Deputy Manager, FCIC .

Present

Also participating were David Grahn, Kim Arrigo and Don Brittenham, Office of the General Counsel (OGC); William Murphy, Alan Ott, Savonne Caughey, Tim Witt (phone), Kent Lanclos (phone), Tom Worth (phone), Rodger Matthews (phone), Mary Alonzo (phone) Karen Barnard (phone), Velerie Eddelman (phone) and Bridger Roy of the Risk Management Agency (RMA); David Graves, American Association of Crop Insurers; Stephen Frerichs, Rain and Hail; Mark Rokala, Cornerstone Government Affairs and Kent Wilson, Crop Insurance Research Bureau.

David Grahn read the recitation to all members of the Board to advise the Board of its responsibilities in representing the interests of the FCIC and USDA. No issues were identified that would require recusal of any members of the Board for this meeting.

Recitation

A motion was made and seconded to dispense with the reading of the Minutes and to approve the Minutes of the meeting of the Board held on November 16, 2006.

Dispense with
Reading –
Minutes

The motion carried. (Exhibit No. 2875)

Approved

Kent Lanclos, RMA, provided the Board with a history of the Florida Fruit Tree program and coverage for Asiatic Citrus Canker (ACC) and explained that the hurricanes of 2004 and 2005 spread ACC to a much greater extent than anticipated. As a result, in January 2006 the tree eradication program was abandoned and Florida ceased issuing "removal orders", leaving destruction of infected

Florida Fruit Tree
– Asiatic Citrus
Canker

trees to the discretion of growers. The citrus industry is now adopting an ACC management posture utilizing chemical applications, windbreaks, etc. to mitigate the harmful impacts of ACC. Although ACC does not immediately kill the tree, over a long period of time, ACC may increase the variability of production and may eventually kill the tree. Under a management strategy, citrus growers will likely remove trees when they are no longer productive (e.g., old) or when there are better uses for the land (e.g., commercial/residential development). However, in both situations, citrus growers will be removing trees at their discretion.

Mr. Lanclos presented the Board with three options for dealing with ACC in the 2008 and subsequent crop years.

OPTION 1:

Remove ACC as a covered cause of loss in the FFT policy, for both processed and fresh fruit, beginning with crop year 2008.

OPTION 2:

Revise ACC coverage to treat it as a chronic disease, recognizing that industry, Florida Division of Plant Industry (DPI), and the Animal and Plant Health Inspection Service (APHIS) efforts will be directed towards managing the disease instead of its eradication. The insured would not be required to obtain a negative (disease-free) ACC Underwriting Certificate as a condition of insurance eligibility or, conversely, to waive ACC coverage. Rather, the insured would be paid only for infected trees as identified by the grower and confirmed by the approved insurance provider (AIP). This would represent a further modification of the coverage beyond those changes made by the Manager's Bulletin, which requires a negative ACC Underwriting Certificate to obtain insurance, and pays for destruction of trees both infected by and exposed to ACC. The indemnity would be a flat dollar amount, which would be set as a percentage of the published tree reference price and would not be tied to the level of coverage chosen by the insured. This would compensate the grower for a percentage of the costs of tree removal and replacement. ACC coverage would not be available on CAT policies.

Option 3:

Retain ACC coverage as it is currently offered, as amended by the upcoming Manager's Bulletin, which extends the time allotted to obtain the negative ACC Underwriting Certificate and requires AIPs to verify and issue Destruction Certificates.

Following the presentation, the Board's discussion regarding the three options focused on the changing conditions and strategies for management of the disease. It was noted that a significant problem with Option 2 was that there was no longer a requirement for

certification that the grove was disease free before insurance attached. Option 3 was a concern because there was no guarantee that DPI would continue to issue certificates assuring the grove was disease free, and instead, that responsibility would eventually fall to the AIPs.

Additionally, DPI was not able to guarantee that in the future, they would be able to offer destruction certificates. Here again, the responsibility for issuing the certificate would fall to the AIPs.

The Board also noted that under either Option 2 or 3, there was an enhanced risk for adverse selection and moral hazard because the grower would control when to report a loss for ACC and could elect to report the loss when the productive cycle of the tree was almost over and it would have been replaced even if it had not been diseased.

Mssrs. Classen and Kelleher expressed particular concern for the potential of adverse selection and moral hazard. Mssrs. Monterde and Pickens expressed concern regarding the insurability and rateability of this policy.

Tom Worth of RMA estimated that rates for the FFT policy would drop by approximately half if ACC was not covered in the policy.

Following the discussion and based upon the concerns expressed, the Chair offered the following resolution, which was seconded, for adoption:

RESOLVED, that pursuant to the information contained in Docket No. CI - Florida Fruit Tree Pilot Program - 06-01, Exhibit No. 2876, as well as other related materials that may have been submitted to the Board for consideration and discussion on this matter, the Board approves the changes to the Florida Fruit Tree Pilot Insurance Program that will remove Asiatic Citrus Canker coverage for the 2008 and succeeding crop years, with reinsurance, risk subsidy, and administrative and operating subsidy in amounts and under such terms and conditions as determined appropriate by the Manager as authorized under section 522(c) and 523(a)(4)(b) of the Federal Crop Insurance Act, AND BE IT FURTHER RESOLVED, That the Board delegates to the Manager the authority to make such technical policy changes as are necessary to make the policy legally sufficient.

Approved

Prior to voting on the resolution, Dr. Collins urged the Board and RMA to keep an open mind in the future to options that may be proposed to address ACC.

The Board voted to approve the resolution. (Exhibit 2876)

Chairman Collins then thanked the Board members and staff for their participation and efforts.

There being no further business to come before the Board the meeting adjourned to meet again January 25, 2007 in Washington, DC.

December 18, 2006 /signed/
Brent Doane, Secretary
Federal Crop Insurance Corporation