



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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TO: Board of Directors
Federal Crop Insurance Corporation

July 19, 2001

FROM: Phyllis W. Honor /s/ *Phyllis W. Honor*
Acting Manager

SUBJECT: Board Memorandum No. 619
Docket No. CI-ORGANIC-FP-01-1
Continuation of Insuring Organic Farming Practices by Written Agreement for
the 2002 Crop Year

There is submitted for your consideration for approval or disapproval the subject docket authorizing or not authorizing the Federal Crop Insurance Corporation (FCIC) to insure by written agreement organic farming practices for all insurable crops in all areas for the 2002 crop year with continuation into future crop years based on the results of the collection of organic farming data from crop years 2001 and 2002 by the Risk Management Agency (RMA) and the impending Economic Research Service (ERS) study.

Approval of this docket will continue to provide crop insurance coverage through the 2002 crop year to those producers who grow their crops using organic farming practices while the RMA and ERS continue to collect, study, and analyze organic farming data on insuring crops grown under organic farming practices.

It is necessary for the Board of Directors to select one of the following options to either approve or disapprove Docket No. CI-ORGANIC-FP-01-1.

RESOLVED, That Docket No. CI-ORGANIC-FP-01-1, Exhibit No. 2054, authorizes the Risk Management Agency (RMA) to continue to insure by written agreement organic farming practices for all insurable crops in all areas and the Board shall monitor the situation through regular updates by RMA.

OR

RESOLVED, That Docket No. CI-ORGANIC-FP-01-1, Exhibit No. 2054, is disapproved on the basis that section 508(a)(3)(A)(iii) of the Federal Crop Insurance Act (Act), which includes recognized organic farming practices as a good farming practice for all insurable crops and areas, should not be implemented at this time on the basis that there is insufficient information upon which to determine that the program is operating in an actuarially sound manner as required by sections 506(o) and 508(d) of the Act.

"For Official Use Only" and "Secure Storage Required" Provisions Expired on: 07/19/01

FCIC Docket: CI-ORGANIC-FP-01-1

Continuation of Organic Farming
Practice by Written Agreement -
2002 Crop Year

V

Voted on by the Board of Directors on: July 19, 2001

Continuation of Organic Farming Practices
By Written Agreement for the 2002 Crop Year
Docket No. CI-ORGANIC-FP-01-1

SUMMARY

If approved by the Board, this docket will authorize the Risk Management Agency to provide insurance coverage by written agreement on all crops grown using organic farming practices in all areas where an organic farming practice is recognized as a good farming practice for that crop for the 2002 crop year only.

FOR FURTHER INFORMATION CONTACT:
Diana Moslak, (202) 720-2832

Continuation of Organic Farming Practices
By Written Agreement for the 2002 Crop Year
Authorization for Approval or Disapproval
Docket No. CI-ORGANIC-FP-01-1

A - INTRODUCTION

1. Purpose

Questions have arisen as to whether or not RMA should continue to implement section 508(a)(3)(A) (iii) of the Federal Crop Insurance Act (Act), because the Risk Management Agency (RMA) may have insufficient data on organic farming to include organic farming practices in the Federal Crop Insurance Corporation (FCIC) definition of good farming practices. If approved by the Board, this docket will provide the authority for the FCIC to continue to provide coverage by written agreement for crops grown under an organic practice for the 2002 crop year with continuation subject to the results of the RMA and Economic Research Service (ERS) studies.

II Justification

Section 508(a)(3)(A) (iii) of the Act requires FCIC to include recognized organic farming practices in its definition of good farming practices for all insured crops and areas; however, there may be insufficient data currently available to FCIC on which to offer an actuarially sound insurance offer. A decision by the FCIC Board of Directors is necessary to either continue to offer this coverage while data is collected and analyzed or to discontinue the offering of such coverage until such data is collected and analyzed to determine actuarially sound prices and rates for organic crops.

III. Background

Section 123 of the Agricultural Risk Protection Act of 2000 (ARPA) amended section 508(a)(3)(A)(iii) of the Act to include organic farming practices in its definition of good farming practices. On January 17, 2001, RMA issued Manager's Bulletin No. MGR-01-004, which recognized organic farming practices as good farming practices. This bulletin was effective for crop year 2001 crops with a March 15, 2001 sales closing date. Areas and crops with sales closing dates before March 15, 2001, were not included in this provision.

On March 15, 2001, the Organic Crop Insurance Underwriting Guide for the 2001 and Succeeding Crop Years (FCIC Directive FCIC-24140) was issued which provided guidelines and procedures to assure the uniform delivery of organic insurance coverage via written agreements to producers of crops produced under organic production

practices. RMA approved written agreements for 110 producers on twenty different crops. Additional data will be available after acreage reports are processed.

Price elections or dollar amounts of insurance are the applicable price elections or dollar amounts of insurance for the crop shown on the actuarial documents. The premium for the conventional practice or type determined by the policy and actuarial documents is multiplied by an organic premium factor of 1.05, which applies to both certified organic acreage and transitional acreage insured under a written agreement. Questions have been raised about the adequacy of RMA data on organic farming, particularly the basis used to determine the premium factor of 1.05 and price elections and dollar amounts based on the actuarial table for the crop and type. RMA has entered into an agreement with the ERS to conduct a study of the issues impacting the development of risk management products for producers of organically grown commodities. RMA will also use the limited experience available through the written agreements issued for 2001 crops to further augment its data and knowledge of this insurance offer.

RMA has received calls in support of continuing to implement section 508(a)(3)(A)(iii) of the Act from the following organizations or offices:

- Staff in the office of Senator Charles E. Schumer (D New York);
- Staff in the office of Senator Patrick J. Leahy (D Vermont);
- National Campaign for Sustainable Agriculture;
- National Organic Standards Board (on USDA Advisory Board);
- Minnesota Department of Agriculture Organic Task Force and Organic Trade Association.

Ms. Liana Hood of the National Campaign for Sustainable Agriculture stated that organic farming has been one of the most successful activities for small farmers who are currently under stress because of recent market pressures for organic products. Larger farms are also entering the organic market and are putting additional stress on these small farms and creating a greater need for them to have additional risk management tools. Mr. Jim Riddle, a certified organic inspector and representing the National Organic Standards Board and the Minnesota Dept of Agriculture Organic Task Force, added that while he understands the need for more data, it would be a mistake to discontinue coverage now that it has been offered. It would not be fair to the 110 producers insured in 2001 and would send the wrong message to all organic growers.

B - AUTHORIZATION

I. General

Section 508(a)(3)(A)(iii) of the Federal Crop Insurance Act (Act) includes organic farming practices as good farming practices.

II. Program Description

As authorized in section 508(a)(3)(A)(iii) of the Federal Crop Insurance Act, good farming practices provides coverage of production losses when organic insect, disease, and weed control measures are used and such measures are not effective. Price elections or dollar amounts of insurance are the applicable price elections or dollar amounts of insurance for the crop shown on the actuarial documents. The premium for the conventional practice or type determined by the policy and actuarial documents is multiplied by an organic premium factor of 1.05.

III. Operating Provisions

Manager ' s Bulletin MGR-01-004 authorizes RMA to use written agreements to insure organic farming practices as good farming practices. The Organic Crop Insurance Underwriting Guide for the 2001 and Succeeding Crop Years (FCIC Directive FCIC-24140) designates requirements for certified organic and transitional acreage, deadlines and documentation requirements, reporting requirements, and loss adjustment instructions. It also provides definitions, exhibits, and terms and conditions for insurance. The Crop Insurance Handbook and the Written Agreement Handbook contain further requirements related to written agreements in general.

MGR-01-004 was effective for crop year 2001 crops with a March 15, 2001 sales closing date. Areas and crops with sales closing dates before March 15, 2001, were not included in this provision. To insure organic farming as a good farming practice, producers must request a written agreement from a crop insurance agent. The request is then sent by the insurance provider to a RMA Regional Office in a timely manner. Producers must also obtain written certification of the organic farming acreage from a recognized certifying agency.

IV. Administration

If approved by the Board, FCIC will offer reinsurance for policies on organic practices under the same terms and conditions as conventional practices on other insured crops. If disapproved by the Board, RMA will issue a Manager's Bulletin suspending the current program until there is sufficient data on which to base an actuarially sound insurance offer.

5. Effective Date

This docket will become effective upon signature by the Chairman of the Board.

VI. Classification

This program docket is for official use only.

VII. Availability of Funds

The costs associated with this policy change cannot be determined at this time.

VIII. For Official Use Only Designation

The "For Official Use Only" designation of this docket will terminate upon approval of this docket by the Board.

RESOLUTION

RESOLVED, That Docket No. CI-ORGANIC-FP-01-1, Exhibit No. 2054, authorizes the Risk Management Agency (RMA) to continue to insure by written agreement organic farming practices for all insurable crops in all areas and the Board shall monitor the situation through regular updates by RMA.

Adopted by the Board of Directors on: July 19, 2001

/s/ Diana Moslak

Diana Moslak, Secretary

Federal Crop Insurance Corporation

[SEAL]

Approved by:

/s/ Keith Collins

Keith Collins

Acting Chairman of the Board

07/19/01

Date