

**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 October 9, 2003, in room 104-A, Jamie L. Whitten Federal Office Building, U.S. Department of Agriculture, Washington, D.C. The public was invited to attend the Open Session portions of the meeting.

Meeting  
October 9, 2003

The meeting was called to order at 8:35 a.m., in Open Session.

Present were Keith Collins, Chief Economist, USDA and Chairperson; J. B. Penn, Under Secretary, Roger Swartz, Susan Fitzsimmons, John Askew, Frank Jones, Tim Kelleher, and Chris Watt, constituting a statutory quorum; Ross Davidson, Manager, FCIC; FCIC; Byron Anderson, Secretary; and Vondie O'Conner, Deputy Secretary.

Call to Order  
Open Session

Also present were Floyd Gaibler, and Butch May, Farm and Foreign Agricultural Services (FFAS); David Grahn, and Don Brittenham, Office of the General Counsel (OGC); Alan Ott, Tim Witt, Ron Lundine, Tom Worth, Maurice Nelson, Eric Edgington, Bill Zillman, Brent Doane, and Raegan Weber of the Risk Management Agency (RMA); Jerry Oswalt, Ray Young and Ron Rahjes, Coalition of American Agricultural Producers; Representative Rodney Alexander, LA 5<sup>th</sup> District; Peter Conroy, Office of Rep. Alexander; Bob Odem and Randal Johnson, Louisiana Department of Agriculture and Forestry; Robbie Minnich, National Cotton Council; Stephen Fredrichs, Rain and Hail; Sarah Tyree, Agrilogic; Elizabeth Haws, American Association of Crop Insurance; John Riley, US House Agriculture Committee; Linda Vickers, Wells Fargo; Todd VanHoose, Farm Credit Council; Martha Schober, Office of Communications, USDA; Jacob Roche, Office of Representative Chris John, 7<sup>th</sup> District of Louisiana; Johnny Broussard, Office of Senator John Breaux, (Louisiana); Jason Schendle, Office of Senator Mary Landrieu, (Louisiana); John McGregor, Office of Representative Soloman Ortiz, 27<sup>th</sup> District, Texas; E. Wade Wilson.

Present

David Grahn read a recitation to all members of the Board.

Recitation

The FCIC Board Minutes from the July 31 – August 1 meeting were read, a motion to approve the minutes was made and seconded and the

Dispense with  
Reading – Minutes

Board unanimously approved the minutes.

Accepted

Chairman Collins led a brief discussion on the need to expand the FCIC pool of expert reviewers who are required to consider proposals submitted to the Board. The Chairman read the names of the proposed expert reviewers and then read a motion calling for the approval of the reviewers. The motion was seconded and during a brief discussion, Vondie O’Conner stated that all three of the proposed expert reviewers were qualified. The resolution was approved unanimously.

Approval of Resolution expanding pool of expert reviewers.

Chairman Collins initiated a discussion on the Cotton Cost of Production (COP) product that was pending before the Board. The Chairman stated that he would like to provide some background on COP to the Board and that he would like David Grahn (OGC) to address the legal issues associated with COP, and RMA to provide a summary of the expert reviews received on COP as well as a summary of RMA views on COP. Chairman Collins stated that at the end of the presentations he would like to have a discussion of the issues. At the end of the discussion, it is the Chairman’s intention to offer a resolution because he felt it was important to have the FCIC Board act on the COP product submission today.

Discussion of Cotton Cost of Production (COP)

In discussing the background on COP, Chairman Collins stated that COP was an FCIC product and, therefore, the consideration of COP is a public process and that a full and open discussion is required, unlike a private submission where many aspects of the problem must be kept confidential. The Chairman stated that the effort of the FCIC to explore a COP plan of insurance was directed by the Agricultural Risk Protection Act of 2000 (ARPA). In 2001, after a competitive process, the Risk Management Agency (RMA) selected a contractor, Agrilogic, Inc., to develop a COP plan of insurance. The development process has been extensive, and the proposed product has received much attention by the FCIC Board of Directors (Board). Thus far, approximately \$3.5 million has been spent by the FCIC on the research and development of this product. It is the Chairman’s view that the COP product submission pending before the Board is not a COP product but a hybrid product. The Chairman is concerned that the public does not understand the dimensions of the product.

Chairman’s comments on COP Background

David Grahn (OGC), stated that section 522 (c) (9) of ARPA provided the authority and the requirement for the FCIC to enter into a contract for the research and development of a COP product. Grahn stated that it was implicit that once the research and development was complete, the product would be submitted to the FCIC Board for consideration. He also stated that the FCIC Board should consider if the product is beneficial to producers. Actuarial soundness in a requirement for all product pilots

OGC Concerns

and OGC is concerned that COP has not been sufficiently developed based on comments made by RMA and expert reviewers. For these reasons, the Office of General Counsel believes that much more legal work is necessary before this product could be made available to the public. Ross Davidson added that several program integrity issues also need to be considered.

RMA staffer Ron Lundine then provided the FCIC Board with a slide presentation summarizing the comments of the six expert reviewers. He stated that five of the six expert reviewers have considered COP twice.

Following Ron Lundine's presentation, RMA staffer Tom Worth provided the FCIC Board with a slide presentation summarizing the actuarial implications of COP. RMA staffer Nelson Maurice followed with a slide presentation on COP underwriting issues.

The FCIC Board asked questions and engaged in a discussion on issues raised in the three presentations. At the conclusion of the discussion, Chairman Collins summarized the developments of COP and conclusions resulting from the presentations. He stated that the Board, RMA, and six independent experts in actuarial science and underwriting reviewed the proposed COP product during 2002. That process identified a number of concerns with the product, and the Board decided to continue product development. A final submission was presented to the Board in the summer of 2003, and the Board, RMA, and six independent experts again reviewed the revised COP proposed product. After evaluating all of the reviews, the Board concluded that there are several advantages and disadvantages to the COP product. The advantages of COP include:

- COP uses individual farmers' cost of production data innovatively to: determine a revenue guarantee, limit liability by capping covered expenses to what has been incurred at the point that the crop is destroyed, and permit increased coverage for unexpected cost increases.
- This product also protects against price declines below the loan rate, requires enterprise units which can reduce program abuse, and uses farmers' actual prices to determine revenue to count, which can address quality and basis risk.

Despite these positive aspects of the proposed COP product, the Board, RMA and most of the independent expert reviewers found fundamental problems with the product. For example, four of the six independent reviewers recommended rejection of the COP product, and the two reviewers who supported the product had a variety of concerns that needed to be addressed before they would consider approval. The

Summary of Expert Reviews

Summary of RMA Actuarial Concerns

Board Discussion and Chairman's Comments

problems identified through the Board's review process included:

- The use of each producer's estimated yield variance to establish a rate. This method was determined likely to be inaccurate for many producers and variable from year to year and across locations. Producers in similar situations could face different rates, and such disparate rate treatment would not be in the best interests of producers.
- It was also found that the process for setting base county rates and the level of rates compared with other insurance products would likely lead to adverse selection problems.
- The complexity of the COP product, the record keeping requirements for producers, insurance companies, and RMA, and the cost of delivery were identified as serious concerns because of the undue burden imposed on the program and its participants.
- The complexity of the COP product, its delivery costs, as well as the current 94 percent participation rate by U.S. cotton producers in the five existing cotton insurance products, all raise serious issues regarding the marketability of the proposed COP product.

Another set of concerns identified was the failure of the COP product to provide

- The benefits many producers are likely to expect. For example, because covered costs are limited by a producer's expected gross income, many producers may not have their full production costs covered in years when prices were low.
- In addition, the feature that limits indemnity payments to costs incurred up to the time the crop is destroyed may result in many producers receiving an indemnity that is a small percentage of their expected income.

Because of these and other concerns, to go forward with this COP product would require further research expenditures and use of RMA resources. These added costs would come at a time when the FCIC has underway scores of pilot projects and research and development studies, many initiated as a result of ARPA, that are being completed and must be considered for approval for sale to U.S. producers.

Based on this evidence, the FCIC Board of Directors voted unanimously to disapprove the COP product.

Chairman's  
Concluding  
Comments

Board Vote

The Board will ensure that the COP product and all expert reviews are available to the public (on the RMA website) so that others may use this material to possibly develop a more workable COP product. The Board continues to search diligently for innovative risk protection products that meet the needs of farmers and ranchers that are actuarially appropriate and promote program integrity.

Directions from the Board

There being no further business to come before the Board, the meeting adjourned at 11:27 a.m., to meet again on October 29, 2003 in Washington, D.C.

Adjourn

October 9, 2003

*/signed/*  
\_\_\_\_\_  
Byron Anderson, Secretary  
Federal Crop Insurance Corporation