The Search For New Farm Safety Net Options Continues

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They came, they talked and they agreed that they still don't have consensus. After a two-day meeting in Washington, DC. on new farm programs, major farm and commodity groups issued a joint statement, confirming their desire to work together and for Congress to write a new farm bill in 2012. But they made no mention of any path forward toward consensus.

If the current schedule holds for writing a bill by mid-summer, which is still a big "if," new options or compromises need to emerge in the next few weeks.

Most major farm organizations and commodity groups agree on one thing: Federal crop insurance should continue to be an important part of the safety net for 2012 and beyond. However, they disagree over whether crop insurance works for all crops and the extent to which other federal farm programs should complement or be integrated with crop insurance in the 2012 Farm Bill's commodity title.

One of the latest proposals comes from Senate Budget Committee Chairman Kent Conrad, D-ND, who has been working on a new commodity title in recent weeks that would, beginning with the 2013 crop year, eliminate direct payments and replace the Average Crop Revenue Election (ACRE) program and the Supplemental Revenue Assistance Payments (SURE) program – after temporarily resurrecting the standing crop disaster program SURE for the 2012 fiscal year.

Some view Conrad's proposal as a way to tailor a program for northern growers that builds on the Aggregate Risk and Revenue Management (ARRM) program sponsored last year by Senators Sherrod Brown, D-Ohio, John Thune, R-SD, Dick Durbin, D-IL, and Richard Lugar, R-IN as well as the Ag Risk Coverage program, offered by Ag Committee Chairmen Stabenow and Lucas in their supercommittee package last fall. But they question whether Conrad will also be able to convince some southern growers, who want a separate program for cotton or higher target prices for their specific crops, to go along.

Sen. Conrad's top farm policy aide, Jim Miller, says that the proposal, while still a "work in progress" would "supplement and complement" crop insurance and be a way to address shallow loss concerns when producers lose up to 25 percent of their production. The concept would cover wheat, feed grains, rice, soybeans, upland cotton, minor oilseeds, peanuts and pulse crops for production, price and quality losses. Miller says it's not totally unlike other shallow loss proposals offered.

"We don't want to undermine crop insurance, but it doesn't work in all areas of the country," Miller explained. To participate in what was originally called the "Crop Revenue Guarantee Program" and now dubbed the "Revenue Loss Assistance Program" growers would need to purchase at least a basic level of catastrophic crop insurance (CAT) or Noninsured disaster assistance program (NAP). Payments could be made when the actual crop revenue for all acreage of each eligible crop falls below 90 percent of the historic revenue – subject to a number of triggers and other calculations. The program covers a 25 point band of losses with about 15 points eligible for payment, Miller told Agri-Pulse.

Payment to eligible program participants would be equal to the lesser of 60 percent times the difference between the revenue guarantee and the sum of the actual production revenue plus other revenue, including marketing loan benefits, crop insurance indemnities (net premium), counter-cyclical payments or disaster payments received for the same production year. Eligible acres on a farm are capped by the farm's total base acres.

Miller cautioned that "everything in this concept is scaleable" and might need to be adjusted for budget purposes. Payments limits would be set at $105,000 for all farm program payments.

At the other end of the spectrum is the Systemic Risk Reduction Program (SRRP) proposed by the American Farm Bureau Federation. Their concept is to provide producers with more protection from larger down-side risks while allowing them to deal with the upper end of the risk profile on their own---providing producers with area coverage that is similar to the Group Risk Income Protection (GRIP) policies offered today, but at a minimal charge to the producer.

AFBF's plan would allow producers the ability to purchase an individual crop insurance policy that 'wraps' their core policy and conceivably costs less. Individual crop insurance policies would need to be re-rated – a process that could take years to complete.

Former USDA Chief Economist Keith Collins, who now serves as a consultant to the crop insurance industry, has been reviewing all of the supplemental crop insurance plans and, in a paper written for "Choices" with Harum Bulut last fall, pointed out the pros and cons of several options. One concern is that "guarantees set at high levels to supplement crop insurance, rather than replace it, may generate WTO issues, encourage more risk taking and production, and thus impede production response in excess supply periods. This may be especially true for individual farm plans, which also have moral hazard," they wrote.

"The area plans suffer from basis risk, or imperfect correlation between farm and area yields, potentially paying when a farm has little to no loss and not paying when a farm has a loss. Also, the more the supplemental coverage band overlaps higher levels of crop insurance coverage, the more the supplemental plan will reduce crop insurance demand at the higher coverage levels."

Collins suggests five other options that lawmakers could consider if they are interested in covering more uninsured production – for all crops, rather than just program crops – without developing new supplementary plans. These proposals include the possibility of expanding the maximum crop insurance coverage levels and implementing co-insurance. For example, a producer could buy an 85 percent policy that provides a 90 percent coverage level. Losses in excess of 15 percent would be paid in full, while losses in the 10 percent to 15 percent range would be paid in part, with part of the loss in that layer borne by the producer. Further, the producer could be permitted to select the range of coverage over which coinsurance would apply, for example 65 percent to 85 percent.

Another option would be to provide "disappearing" deductible coverage. "The added payment would cover only a small portion of the deductible for small losses but would completely eliminate the deductible at 100 percent loss. This option would be easy to administer and rate, require no new loss adjustment, but would not cover small losses and could encourage some moral hazard," Collins and Bulut wrote.

It's probably too early to tell which options will make their way into any final farm bill package, but Senate Agriculture Committee Chairman Debbie Stabenow, D-Mich, is willing to give farm and commodity groups more time to make their respective cases.

She's scheduled a series of four farm bill hearings starting Feb. 15 and running through March 21. Little wonder then, that the hearing on Risk Management and Commidities is scheduled for last. Δ

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