MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

ROLL NUMBER

DESCRIPTION

4005

2003 SENATE AGRICULTURE

SCR 4005

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SCR 4005

Senate Agriculture Committee

❑ Conference Committee

Hearing Date 01/31/03

Tape Number	Side A	Side B	Meter #
1	x		1991 - 4371
1	x		4607 - 4884
Committee Clerk Signature			

Minutes:

Senator Krauter introduced and testified in favor of the resolution. This program will help producers make good business decisions. Farmers are tired of waiting for disaster payments. He handed out some materials from the web site of the Coalition of American Agricultural Producers Cost of Production Insurance Project and a wheat budget input form (attached).

Senator Urlacher asked where the 70 - 90% variable comes in?

Senator Krauter said you have some options in the amount of coverage you choose.

Representative Kerzman testified in support of the resolution. He has been farming since the 60's. This pilot program is a good way to get started insuring the bottom line. What we have now is almost a joke.

Jay Elkin, a farmer and rancher from Taylor, testified in favor of the resolution. (written testimony) He said the Risk Management Agency has shelved this program after spending three million dollars on it. Their reason for shelving the project are lack of producer demand, technical problems and insurance industry concern. Mr. Elkin said Agri Logic says the technical problems are minor and easy to resolve; it is hard to conclude there is no producer demand when the product hasn't been offered to them and the insurance industry concerns could be from a perceived loss of sales, especially hail insurance.

Senator Nichols asked if the tendency would be to go overboard on land or equipment if you could insure their cost or would the program use area averages?

Mr. Elkin said land cost would be an average computed by North Dakota Extension, county by county. Mr. Elkin doesn't know about machinery costs.

Jeff Knutson, representing the Agriculture Commissioner, testified in favor of the resolution. (written testimony) (meter # 3632)

Senator Flakoll asked if forwarding both resolutions (4005 and 4010) would be a mixed message.

Mr. Knutson said the resolutions complement each other and should be passed

Senator Seymour asked who would run the pilot program.

Mr. Knutson said the Risk Management Agency.

Senator Urlacher said all crop involvement must be included in the program.

Paul Jesperson, 4th generation farmer from the Richardton Taylor area, testified in favor of the bill. It is rare for the farming tradition to carry on anymore due to the financial strain of production agriculture. Regarding the scenario of the two durum growers that Senator Nichols posed during the hearing on SCR 4010, Mr. Jesperson said the market will provide the incentive to get the grain harvested in good shape. Mr. Jesperson also agreed with Senator Urlacher that all crops need to be included.

Senator Nichols asked about the cost figures for land and depreciation, would they use average figures for the area?

Mr. Jesperson wasn't sure of the best way to establish the values but if a producer exceeded the average values, he would put himself at risk.

Chairman Flakoll closed the hearing on SCR 4005.

Senator Klein said we have two good resolutions here (meter # 4725) He distributed a comparison of 4005 and 4010. SCR 4005 does not cover land and depreciation costs. We will see how these programs grow together as they move through the system.

It was moved by Senator Klein, seconded by Senator Urlacher and passed on a roll call vote that the Senate Agriculture Committee take a Do Pass action on SCR 4005. Voting yes were Senator Flakoll, Senator Erbele, Senator Klein, Senator Urlacher, Senator Nichols and Senator Seymour. There were no negative votes cast. Senator Urlacher will carry the resolution to the floor.

Chairman Flakoll moved on to other business of the Senate Agriculture Committee.

Date: 1/31/03
Roll Call Vote #: 1

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 4005

Senate Agriculture Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass -

Motion Made By Sen Klein Seconded By Sen Urlacher

Senators	Yes	No	Senators	Yes	No
Senator Tim Flakoll, Chair	✓		Senator Ronald Nichols	✓	
Senator Robert S. Erbele, V. Chair	✓		Senator Tom Seymour	✓	
Senator Jerry Klein	✓				
Senator Herb Urlacher	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Sen Urlacher

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
January 31, 2003 11:05 a.m.

Module No: SR-19-1423
Carrier: Urlacher
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SCR 4005: Agriculture Committee (Sen. Flakoll, Chairman) recommends **DO PASS** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). **SCR 4005 was placed on the Eleventh order on the calendar.**

2003 HOUSE AGRICULTURE

SCR 4005

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 4005

House Agriculture Committee

❑ Conference Committee

Hearing Date March 14, 2003

Tape Number	Side A	Side B	Meter #
1	X		1730-2998, 3250-end
1		X	370-486
Committee Clerk Signature Elizabeth R Lun			

Minutes:**Chair Nicholas**: Opened hearing on SCR 4005

Sen. Krauter: Handed out testimony from a web site. The resolution asks the USDA to implement a cost of production insurance program. This would insure the farm, not just by the bushel. Pilot programs should beginning soon, and they want ND to be a pilot state.

Rep. Mueller: Is this going on anywhere else? Krauter said the pilot program has not started yet.

Jay Elkin (Producer, Taylor, ND): Supports with written testimony. In addition, throughout the meetings they have held, they have had support from the ND Grain Growers, NDFU, NDFB, and SW Grain.

Rep. Belter: Would you envision this is done by area or by farm? Elkin said this is commodity specific and will evolve into a whole farm concept. Rep. Belter then asked how that would work because different farms have different costs of production. Elkin said it is whole farms by acre. Elkin said premiums are based on individual farm costs of production.

Rep. Mueller: But this has to be individualized because you can't spread depreciation between farms. Elkin said that is true. This is no longer a one-size fits all crop insurance. Rep. Mueller then asked if you have to negotiate the premium. Elkin said you have to know your costs. This should make everyone better managers.

Lance Hagen (ND Grain Growers Assoc.): Have grower support because the current crop insurance program isn't working. RMA is not efficient.

Jim Bobb (SW Grain): Supports with written testimony. This is a forward looking product. Gives the ability to cover all crops that are not currently covered by insurance because it is a whole farm concept.

Rep. Boe: What if you get hailed out early in the season? You have to document your expenses. This is for those that want to farm. You have to have inputs. Higher cost producers will have higher premiums. But this does not help those that just want the payments and decide not to plant to get the them.

Rep. Boe: What about early season disasters? Bobb said that 50% is for fixed costs and you can use the rest for variable costs, such as Round-Up.

Rep. Mueller: How would that work? Do you negotiate your premium at the end of the year? If you get hailed early, your costs would change because you don't have spraying or harvest cost. Bobb replied that you select prior to planning. You will not get 100% of the insurance if you do not have 100% of your expenses.

Jeff Knudson (Dept. of Agriculture): Supports with written testimony.

Eric Aasmundstad (ND Farm Bureau President):

Offers soft support because there are still some flaws that RMA (Risk Management Agency) has to work out. This is still crop specific and there is quite a bit of fraud on crop specific insurance. Also realizes you need to start a pilot program to work out the bugs. However, this product won't do much for those in disaster areas because your premiums will be high.

<u>Rep. Nicholas</u>: Do you pick your level of coverage? Aasmundstad replied that you insure your expected gross income. This is not a replacement of federal crop insurance. This is just another insurance tool. Would like a complete overhaul of RMA, but this is a step in the right direction.

<u>Chair Nicholas</u>: Closed discussion on SCR 4005.

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SCR 4005

House Agriculture Committee

☐ Conference Committee

Hearing Date 3---23---03

Tape Number	Side A	Side B	Meter #
ONE		B	
Committee Clerk Signature	Edward D Elifson		

Minutes:

CHAIRMAN NICHOLAS: LETS LOOK AT SCR 4005. WHAT ARE THE COMMITTEES WISHES ON SCR 4005?

REP. MUELLER MADE A MOTION FOR A DO PASS

REP. KELSCH SECONDED THE MOTION.

THE ROLL WAS 11 YES 0 NO 2 ABSENT

CHAIRMAN NICHOLAS CARRIED THE RESOLUTION

CHAIRMAN NICHOLAS CLOSE ON SSCR 4005

SCR 4005
3-21-03

Date:
Roll Call Vote #:

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House AGRICULTURE COMMITTEE

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass

Motion Made By Mueller Seconded By Kelsch

CONSENT CAL

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN NICHOLAS	✓				
VICE CHAIRMAN POLLERT	✓				
REPRESENTATIVE BELTER	✓				
REPRESENTATIVE BOEHNING	✓		Voice		
REPRESENTATIVE KELSCH	✓				
REPRESENTATIVE KINGSBURY	✓				
REPRESENTATIVE KREIDT					
REPRESENTATIVE UGLEM	✓				
REPRESENTATIVE WRANGHAM	✓				
REPRESENTATIVE BOE					
REPRESENTATIVE FROELICH	✓				
REPRESENTATIVE MELLER	✓				
REPRESENTATAIVE ONSTAD	✓				

Total (Yes) 11 No 0

Absent 2

Floor Assignment Nicholas

REPORT OF STANDING COMMITTEE (410)
March 21, 2003 12:11 p.m.

Module No: HR-51-5411
Carrier: Nicholas
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SCR 4005: Agriculture Committee (Rep. Nicholas, Chairman) recommends **DO PASS** (11 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SCR 4005 was placed on the Tenth order on the calendar.

2003 TESTIMONY

SCR 4005

Cost of Production Insurance Defined

What is Cost of Production Insurance?

Several components comprise COP Insurance. Components include: Commodities to be covered, coverage level, costs to be covered, whole-farm or individual commodity coverage...

In the simplest of terms: Cost of Production Insurance is a concept which allows producers of program and specialty crops to insure 70 to 90 percent of actual documented variable costs of production, land, expense, and fixed expenses. Thus, the most that a producer can lose in any one year is 10 percent of these costs and any other costs that are not covered.

The goal of COP Insurance is to provide a safety net for producers that can be delivered at a cost that makes economic sense. Meetings will be held with producers around the country and define the needs of individual commodities as the details of COP Insurance are further developed.

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What commodities are covered?

Under the RMA contract, 12 crops (program and specialty crops) are being researched and a program developed. The commodities listed in the following chart were included in the RMA task order. We are hopeful that additional commodities will be covered by COP Insurance.

Commodities Included in the Cost of Production Insurance Task Order

Almonds	Onions
Apricots	Peaches
Corn	Rice
Cotton (Upland)	Soybeans

Cranberries	Sugarcane
Nectarines	Wheat (No Durum)

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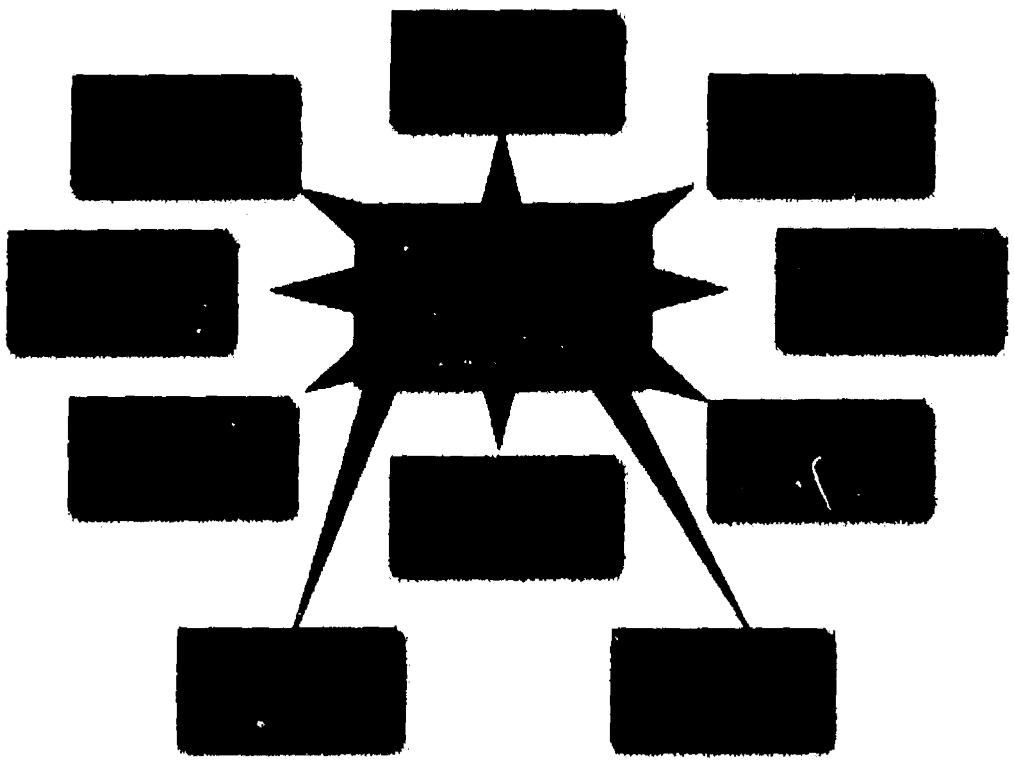
What costs are covered?

Costs to be covered are typically considered variable costs. In addition, a land fee payment, or its equivalent in the case of owned acreage, will be included as a covered cost in the base policy. Other fixed expenses, including depreciation, will be included as covered costs.

Below is a sample of budget categories to be covered as expenses under COP Insurance, and is by no means a complete list.



The inclusion/exclusion of specific fixed costs can have a significant effect on the effectiveness of this program for some producers. Any change in what is included or excluded can have a corresponding effect on the amount of payout and the corresponding premium. Regional meetings will be held with producers, commodity groups, insurance agents, and lenders where they will be able to provide input as to what cost should be covered for their commodity.

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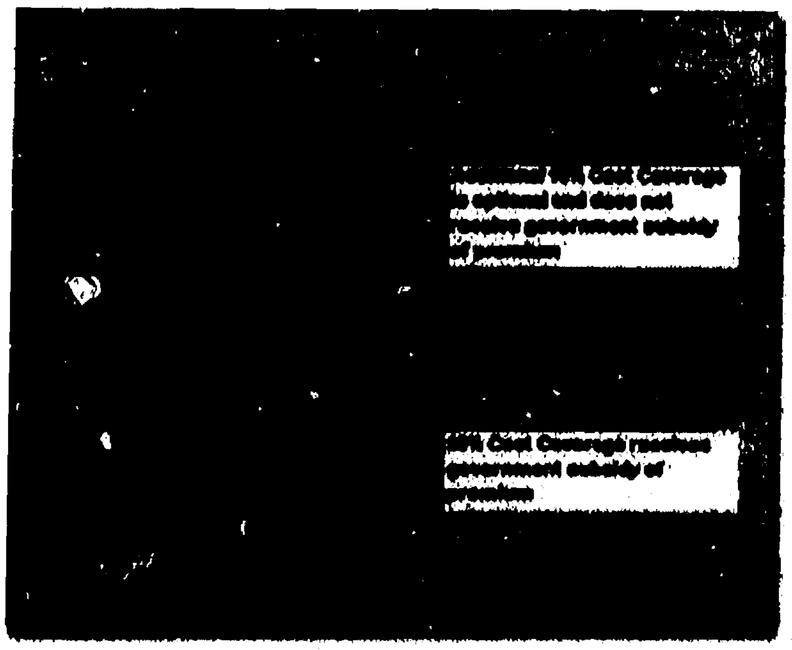
What is considered income?

Income is the monies received from the sale of the insured crop, commodity specific government payments, excluding ad hoc diaster payments (Fixed payments, formerly AMTA payments, are not included), and other allowable sources of income detailed in the crop or special provisions including the value of appraised production and production not sold.

What is the coverage level?

The base coverage percentage will be 70-90 percent coverage level at 5 percent increments. Corresponding lower levels of coverage will also be offered at a reduced premium. It is assumed that there will be government subsidy for the first 90 percent of coverage.



The level of government subsidy may vary but it is anticipated that it may be near 50 percent of actuarially determined premiums. However, Agrilogic, Inc. anticipates the Government subsidy to be at least the same as what is currently offered for the same coverage levels.

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What types of coverage will be made available?

Individual commodity coverage offered will be similar to existing crop insurance plans. The Cost of Production Insurance policy to cover individual commodities will be more risky to the insurance underwriter and thus more expensive to purchase than the whole-farm insurance. Currently, individual crop coverage is being developed. As more crops are included, whole-farm coverage comes close to being a reality.

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How is the Indemnity calculated under Individual Commodity Coverage?

INDEMNITY PAYMENT:

Actual Yield * Price Received + Government Payments - 90% of the Cost of Production

Example 1:

Soybean Income: 20 bushels/acre x $5.00/bu = $100.00/acre
Soybean Eligible Expenses = $115.00/acre
Coverage: 90% of documented cost of production

Indemnity calculation:

$100.00 - ($115.00 x 0.90) = $3.50 per acre indemnity payment

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How much will the premiums be?

The calculation of the premium will be on an individual producer basis. Below, we have included a concept for the calculation of the premium that could be adopted as the COP insurance plan is further developed.

Premium Calculation Concept:

After a base rate for the county has been calculated for a commodity, the premium for an individual producer will then be determined based on similar principals as auto or home insurance.

Items to be used in determining the final premium:

- County acerage yield and variability
- County average profit margin variability
- Producer yield history and yield variability
- Producer documented expenses
- Producer profit margin
- Coverage level elected

Thus we would risk rate each enterprise if individual commodity coverage were selected. When whole farm coverage is selected the risk rating would include the correlation matrix of net returns above variable costs that would be developed for each combination of commodities and would thus lower the costs on a per acre/unit of coverage.

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Send comments, questions, or problems to webmaster.

Wheat Budget Input Form

*** Denotes a required field**
NOTE: For field descriptions please see pages 2-3

State	
County	
Nearest Town	
Budget Year	
Crop	
Fertilizer	
Chemicals	
Seed	
Fuel, Lube, Utilities	
Repairs and Maintenance	
Hired Labor	
Other Labor	
Custom Applications	
Harvesting	
Irrigation	
Other Variable Costs	
Operating Loan Interest	
Land Fees	
Commodity Insurance	*not covered
Capital Replacement	
Other Fixed Expenses	
TOTAL	

ZipCode

Actual Yield Per Acre

1991	
1992	
1993	
1994	
1995	
1996	
1997	
1998	
1999	
2000	

Price per bu
Budgeted Production Units

AgriLogic
PO Box 9990
College Station, TX 77845
Fax: 979-690-2121

Wheat Budget Description and Data Entry Instructions

Field Name	Description	Example
Data Origin	Describes the area that the budget represents	State, District, County, Other State
Crop	Describes the commodity grown	Spring Wheat, Winter Wheat
Fertilizer		Nitrogen, Phosphorus, Phosphate, Potassium, Potash, Lime, etc.
Chemicals	Chemicals used in production	Adjuvants, fungicide, herbicide insecticide, growth regulators
Seed		Seed, plants, replacement trees
Fuel, Lube, Utilities		Diesel, gas, electricity, oil, grease propane, kerosene,
Repairs and Maintenance		Repairs and maintenance of facilities and equipment
Hired Labor	NOT HARVEST OR PACKING LABOR	Operator labor, irrigation labor, spraying, application labor
Other Labor		Owner labor, management fee, unallocated labor
Custom Applications	Includes Labor and Material	Aerial spraying, custom spray, custom fertilizer/lime
Harvesting	Expenses associated with harvest	Chemicals, harvest aids, labor, variable costs associated with harvest equipment (fuel and repair), checkoffs assessments, marketing, commissions
Irrigation		Water charge, irrigation fuel and repair, NOT Labor, levee gate, irrigation supplies
Other Variable Costs	All variable costs that can not be categorized above	Bee rental, supplies, miscellaneous, technology fee, scouting, survey and build levee
Operating Loan Interest Expense	Only include interest on operating expense - Do not include interest on machinery, equipment or land	Interest on preharvest cost

Field Name	Description	Example
Land Fees	Represents a return to ownership of land - can be rental rate or land ownership cost	Cash rent
Commodity Insurance	The amount paid by the producer	Premium for insurance on this commodity **(will not be covered)**
Capital Replacement	Cost to replace capital equipment-typically will be represented by depreciation expense	Implements, tractors, buildings planters, plows, fuel tanks, self-propelled equipment
Other Fixed Expenses	Expenses assigned to the whole farm and not to a particular commodity	Accounting, property taxes, insurance, office, investment repairs interest on real estate, equipment, buildings, organization dues
Price per Bushel	Price received for crop year	$2.75 per bushel
Budgeted Production Units	Represents the yield that the expenses are associated with	50 cwt. per acre

Roger Johnson
Agriculture Commissioner
www.agdepartment.com

North Dakota Department of Agriculture

Phone (701) 328-2231
Toll Free (800) 242-7535
Fax (701) 328-4567

600 E Boulevard Ave., Dept. 602
Bismarck, ND 58505-0020

Testimony of Roger Johnson
Agriculture Commissioner
Senate Concurrent Resolution 4005
Senate Agriculture Committee
Roosevelt Park Room
January 31, 2003

Chairman Flakoll and members of the Senate Agriculture Committee, I am Agriculture Commissioner Roger Johnson. I am here today in support of SCR 4005, urging the United States Secretary of Agriculture to implement a cost of production insurance pilot program.

As a member of the National Association of Departments of Agriculture (NASDA) and Chairman of NASDA's Rural Development and Financial Security Policy Committee, cost of production insurance has been a high priority issue that I have been working on since 1999.

Realizing the need for and advantages of a cost of production insurance program, NASDA and the Farm Credit System contracted with AgriLogic, Inc to research and analyze the concept. An extensive amount of work has been completed on this project with a pilot program proposal covering 12 crops submitted to the Federal Crop Insurance Corporation (FCIC). As of this time and unfortunately, the FCIC Board has tabled the proposal. The Information on this Cost of Production Insurance project can be found online at www.agcop.com

NASDA policy supports cost of production insurance and NASDA recommended that it be a key component of the farm bill. Attached is the section of "*NASDA's 21st Century Farm Policy Initiative*" supporting the development and implementation of cost of production insurance.

I believe that a whole-farm cost of production insurance program could ultimately become a comprehensive low-cost insurance program. The substantially lower risk of insuring the cost of production on the entire farm should reflect reduced premiums in relation to the coverage of individual crops and units.

However, a pilot program covering a limited number of commodities must first be implemented to expand coverage to all crops and possibly livestock before whole-farm policies can be offered. I strongly agree that a cost of production insurance pilot program should be immediately implemented.

Chairman Flakoll and committee members, I urge a do pass on SCR 4005. I would be happy to answer any questions you may have.

Loss Protection: So many factors are out of the control of even the best farm managers. Thus, the farm bill should provide a way for producers of all commodities to limit their losses to no more than 10 percent of their cost of production through a cost of production insurance program.

Environmental Stewardship: The farm bill must consider the financial burdens of environmental compliance and therefore provide incentives and cost sharing opportunities to responsible producers who employ environmentally sound on-farm management practices.

PROVIDING A SAFETY NET FOR PRODUCERS

NASDA's farm income safety net proposal fosters financial viability and maintains planting flexibility through a combination of cost of production-based commodity insurance and counter cyclical price assistance, both of which comply with the United States' commitments under the World Trade Organization. Furthermore, in keeping with the principles outlined above, NASDA's proposal is also designed to be truly a "safety net," under which producers would still be exposed to economic risk, but not ruin. The plan is based on goal of supporting prices at 90 percent of the cost of production. It provides a counter cyclical payment that would be triggered by a price drop below 90 percent of the national average cost of production (1998-1999), augmented with an insurance program that allows producers to re-coup up to 90 percent of their individual cost of production.

By targeting a national average cost of production, the counter cyclical program is truly responsive to the state of the national farm economy. The cost of production insurance allows farmers to address their individual circumstances. And, at the 90 percent level, the marginal costs to the federal government of underwriting the insurance policies are capped in a fiscally responsible manner. Further, fraud and abuse are prevented; farmers would have to lose money, out-of-pocket, to receive a payment; thus the system can't be "gamed." Finally, and perhaps most importantly, the 90 percent level for both the counter cyclical and the cost of production insurance programs wouldn't encourage overproduction of covered commodities.

Cost of Production Insurance — NASDA believes that an effective commodity insurance program, with accountability to the American taxpayer, should be the backbone of commodity support policy. Cost of production-based insurance would provide protection for up to 90% of a producer's documented costs of production. It would add to the existing array of crop insurance products an additional risk management tool that farmers currently do not have. Cost of production insurance coverage provides the participating producer with a true "safety net" allowing him to rest assured that he will have no more than a 10 percent out-of-pocket loss in any given year. Farmers would be individually rated in terms of premium levels; beginning farmers without a production history would receive a greater premium discount.

One of the benefits of cost of production-based insurance is its relatively straightforward structure. A participating farmer would be required to document all production expenses. Then, he would determine his gross income from sales of his crop and any government assistance payments he may have received. If that total income exceeded 90% of his documented cost of production, the producer would receive no indemnity payment. If, due to market conditions, weather, disease, or other events beyond the producer's control, his total gross income is less than 90% of his cost of production, he would receive an indemnity payment for the difference between his actual receipts and 90% of his cost of production.

Although cost of production insurance was included in the Agricultural Risk Protection Act of 2000, NASDA recommends that an additional $1 billion be provided annually to expedite the development of cost of production policies. Initial commodities to be covered by the cost of production policy should include fruits and vegetables, nursery, vineyard, seed and tree crops, livestock and milk. We also recommend that additional premium subsidies be provided to growers of these crops, recognizing the fact that no counter cyclical assistance program exists for them though they are experiencing the same market difficulties as growers of major field crops.

Beginning Farmers — Beginning farmers often have difficulty in securing adequate financing. Start-up farm operations are typically highly leveraged with minimal cash-flow margins. These financial conditions increase risk and loan positions for lenders. The loss risk may also be a deterrent for some to enter the business.

In many cases, beginning farmers do not own farmland. Those who do own farmland often have the real estate financed by one lender and look to another lender for annual operating financing. Operating losses pose the greatest risk for highly leveraged operations since equity in secondary collateral sources is not usually available for the refinancing of operating repayment shortfalls. Cost of production insurance would greatly reduce the risk of operating losses to both beginning farmers and their lenders. Lenders would be much more comfortable and willing to provide adequate operating loans to beginning farmers if a true Cost of production insurance plan were in place to help ensure the repayment ability of the loans.

Counter Cyclical Assistance — NASDA supports efforts to increase baseline agricultural spending over the next ten years in order to provide a reliable and effective safety net. However, we recognize that the U.S. must balance such support with its obligation under the WTO's "amber box" spending classification not to exceed $19 billion. To best accomplish this balance, NASDA proposes a counter cyclical (CC) payment plan for major field crops and milk.

Counter cyclical payments would replace the current system of fixed payments to producers of major field crops that have been supplemented with annual, off-budget *ad hoc* economic disaster payments. Predictable payments would be made at times when market prices are inadequate and would be triggered if prices were below 90% of the average of the 1998 and 1999 economic cost of production. NASDA's members believe government assistance should be counter cyclical in nature to protect producer's incomes when prices are low, yet minimize market distortion and save taxpayers' money when prices are stronger. Counter cyclical payments allow government support to be adjusted quickly, up or down, in response to market conditions. NASDA's counter cyclical program is designed to meet all U.S. commitments under the so-called "amber box" of the WTO. NASDA members remain convinced that this program is a necessary step not only for the economic stability of domestic producers, but to demonstrate to our trading partners that the U.S. is serious about using all the tools available under WTO to, at a minimum, maintain U.S. market share.

The proposed Counter Cyclical Payment plan would...

- **Provide stability by supporting U.S. producers at a sustainable farm revenue;**
- **Be available to producers of corn, wheat, sorghum, barley, oats, rice, cotton, soybeans, and milk;**
- **Consist of both a fixed, and a variable payment;**
- **Replace AMTA payments;**
- **Fulfill all WTO Amber Box commitments.**

TESTIMONY -- SCR No. 4005

I am Jay Elkin. I farm and ranch in southwestern North Dakota, specifically Taylor, N.D. I began my career in production agriculture in 1980. I also experienced my first crop failure, due to drought. Fortunately, the farm program addressed natural disasters at that time. I also had crop insurance, specifically Multi-Peril Crop Insurance (MPCI). In the past 23 years many changes have taken place within my farming operation such as farming practices (no-till), marketing practices (hedging crops, futures, contracting), size of my operation, as well as, the costs of doing business (production related costs). However, a part of my operation has not kept up with the changes I've had to make in order to stay in business. I am still provided with MPCI. MPCI, in my opinion, has not kept up with cost associated with the production of a crop. I, as well as many other producers, have this traditional type of insurance that can no longer be expected to meet the full extent of a producer's needs. I feel that there are too many MPCI plans and that they are not only confusing but simply do not cover losses producers are experiencing, due to natural disasters, low prices, and sky-rocketing production costs.

Senate Concurrent Resolution No. 4005 which asks for the implementation of a cost of production insurance pilot program will send a strong message (to USDA and RMA) that there is a need for reform of insurance provided to Ag producers.

The future of North Dakota, in my opinion, depends greatly upon Ag related industry as well as it's producers. I also believe that production agriculture is the economic backbone for this state and this will continue. But for production agriculture to survive, we need to attract young people back or at the very least, keep younger people involved in agriculture. The only way I see this happening is by lessening the risks associated with production agriculture. The correct type of crop insurance, for my farm operation, is one way by which I can lessen the financial risks associated with Ag production. It is evident that changes are needed in order to attract young people back and into Ag production.

I believe that Cost of Production Insurance will make it easier for a beginning farmer, as well as an established producer such as myself, the ability to show a lending institution debt serviceability due to production costs. Cost of Production Insurance would offer some stability to producers. Producers suffering a loss would no longer be living from disaster bill to disaster bill.

Cost of Production Insurance allows the producer the opportunity to cover a majority of the costs associated with the production of a crop. This concept which was developed by Agrilogic, a private consultant firm, and the Risk Management Agency allows producers the ability to insure up to 90% of one's documented costs, including land and depreciation costs. The producer would be allowed the opportunity to choose his or her level of coverage (similar to hail insurance) not to exceed one's costs associated with the cost of production. The proposed cost of production concept would, I believe, greatly enhance a producer's ability to survive a natural disaster, as well as, low prices while limiting the federal government's budget exposure to agriculture.

The project has been completed and the Risk Management Agency has shelved this project after spending over three million dollars and two years of time developing it. Their reasons are no producer demand, technical problems, and insurance industry concern.

I urge you to support this resolution, for with this resolution, the 58th Legislative Assembly of North Dakota will send a strong clear message to USDA, RMA, and our congressional delegation that it is time for a change. Thank you for your time.

Developed by Agrilogic

Box Butte	Genesee	Bottineau	Collin	Adams
Chase	Livingston	McLean	Cooke	Asotin
Cheyenne	Monroe	Mountrail	Denton	Benton
Clay	Ontario	Renville	Fannin	Columbia
Dundy	Orleans	Ward	Grayson	Douglas
Franklin		Williams	Hunt	Franklin
Frontier		Barnes	Kaufman	Garfield
Furnas		Cass	Archer	Grant
Gosper		Cavalier	Baylor	Lincoln
Harlan		Grand Forks	Cottle	Spokane
Hayes		Griggs	Fisher	Walla Walla
Hitchcock		Nelson	Foard	Whitman
Kearney		Pembina	Hardeman	
Nuckolls		Ramsey	Haskell	
Perkins		Steele	Jones	
Phelps		Stutsman	King	
Red Willow		Traill	Knox	
Sheridan		Walsh	Shackelford	
Webster		Dunn	Stephens	
		Hettinger	Stonewall	
		Stark	Throckmorton	
		Slope	Wichita	
			Wilbarger	
			Young	

SIDE-BY-SIDE COMPARISION OF SCR 4005 AND SCR 4010

	SCR 4005	SCR 4010
1	Is only a pilot program.	Is a full-scale program.
2	Initial phase includes only three crops produced in North Dakota: Corn, soybeans & wheat.	Covers all commodities produced on a farm whether in North Dakota or any other state in the U.S.
3	Covers 70-90 percent of variable costs and 0 percent of fixed costs, thereby providing significant financial risk to producers.	Covers variable and fixed cost, effectively providing a higher level of coverage. Coverage would be based on an individual producer's true, actual, historic and total cost of production.

Roger Johnson
Agriculture Commissioner
www.agdepartment.com

Phone (701) 328-2231
Toll Free (800) 242-7535
Fax (701) 328-4567

Department of
Agriculture

600 E Boulevard Ave., Dept. 602
Bismarck, ND 58505-0020

Testimony of Roger Johnson
Agriculture Commissioner
Senate Concurrent Resolution 4005
House Agriculture Committee
Peace Garden Room
March 14, 2003

Chairman Nicholas and members of the House Agriculture Committee, I am Agriculture Commissioner Roger Johnson. I am here today in support of SCR 4005, urging the United States Secretary of Agriculture to implement a cost of production insurance pilot program.

As a member of the National Association of Departments of Agriculture (NASDA) and Chairman of NASDA's Rural Development and Financial Security Policy Committee, cost of production insurance has been a high priority issue that I and others have been working on since 1999.

Realizing the need for and advantages of a cost of production insurance program, NASDA and the Farm Credit System contracted with AgriLogic, Inc. to research and analyze the concept. An extensive amount of work has been completed on this project with a pilot program proposal covering 12 crops submitted to the Federal Crop Insurance Corporation (FCIC). As of this time and unfortunately, the FCIC Board has tabled the proposal. Information on this Cost of Production Insurance project can be found online at www.agcop.com

NASDA policy supports cost of production insurance and NASDA recommended that it be a key component of the farm bill. Attached is the section of "*NASDA's 21st Century Farm Policy Initiative*" supporting the development and implementation of cost of production insurance, including benefits this insurance product would provide for financing beginning farmers.

I believe that a whole-farm cost of production insurance program could ultimately become a comprehensive low-cost insurance program. The substantially lower risk of insuring the cost of production on the entire farm should reflect reduced premiums in relation to the coverage of individual crops and units.

However, a pilot program covering a limited number of commodities must first be implemented to expand coverage to all crops and possibly livestock before whole-farm policies can be offered. I strongly agree that a cost of production insurance pilot program should be immediately implemented.

Chairman Nicholas and committee members, I urge a do pass on SCR 4005. I would be happy to answer any questions you may have.

Senate Concurrent resolution No. 4005

Mr. Chairman, committee members,

Good-morning my name is Jim Bobb, and I live southeast of Taylor. I'm a sidewalk farmer; I spend my days' as Grain Division Manager for Southwest Grain and my night's grain farming south of Taylor.

I'm here today in support of SCR 4005 and am thankful that the North Dakota legislative assembly has considered encouraging the United States Secretary of Agriculture to implement a cost of production insurance pilot program giving producers such as myself another risk management option.

Why would I believe in cost of production insurance verses the current crop insurance risk management tools? I been very fortunate, in 17 years of farming I have only collected once, in 1988 due to severe drought yet I have continued to carry crop insurance every year.

Each spring as I plan for the up-coming growing season I set a goal to out-produce my past highest yield, with this goal I can assure you that I don't plan on collecting crop insurance, but with this goal I acquire expenses.

I need crop insurance to ease the stress on my lender (it's a requirement I think). The proposed cost of production insurance concept has a built in mechanism to prevent fraud, with a whole farm concept verses current units, lessening the temptation to shift production. Current MCPI and revenue enhancing products have a pre bushel price established multiplied by APH (actual production history) and percentage selection of coverage to determine a gross possible payable, which in recent years have proven to be less than adequate. Cost of Production Insurance would cover up to 90 percent of the producers actual documented cost of producing the crop up to the time a loss is sustained thus giving me the ability to repay my operating and fixed expenditures.

If a pilot program receives acceptance a whole farm concept could be implemented, this would reduce risk that North Dakota producers assume every time a unique or specialty crop is planted before an insurance program is developed.

Premium structure for cost of production insurance is based off of a producers historical costs and loss ratio not against all participants.

In closing I believe that Cost of Production Insurance would greatly enhance my ability to survive a disaster and limit my need for financial relief from the federal government.

Thank-you, for your time.

TESTIMONY-- SCR No. 4005

Mr. Chairman, committee members -- Good morning.
I am Jay Elkin. I farm and ranch in southwestern North Dakota, specifically Taylor, N.D.

Before I begin my testimony on behalf of Cost of Production Insurance, I want to thank the Legislators responsible for putting forth a resolution that I feel is important to Ag producers not only living here in North Dakota but throughout the US, Senator Aaron Krauter, Senator Herb Urlacher, Senator Robert Erberle, and Representative Jim Kerzman. Thank you.

I began my career in production agriculture in 1980. I also experienced my first crop failure, due to drought. Fortunately, the farm program addressed natural disasters at that time. I also had crop insurance, specifically Multi-Peril Crop Insurance (MPCI). In the past 23 years many changes have taken place within my farming operation such as farming practices (no-till), marketing practices (hedging crops, futures, contracting), size of my operation, as well as, the costs of doing business (production related costs). However, a part of my operation has not kept up with the changes I've had to make in order to stay in business. I am still provided with MPCI. MPCI, in my opinion, has not kept up with cost associated with the production of a crop. I, as well as many other producers, have this traditional type of insurance that can no longer be expected to meet the full extent of a producer's needs. I feel that there are too many MPCI plans and that they are not only confusing but simply do not cover losses producers are experiencing, due to natural disasters, low prices, and sky-rocketing production costs.

The future of North Dakota, in my opinion, depends greatly upon Ag related industry as well as it's producers. I also believe that production agriculture is the economic backbone for this state and this will continue. But for production agriculture to survive, we need to attract young people back or at the very least, keep younger people involved in agriculture. The only way I see this happening is by lessening the risks associated with production agriculture. The correct type of crop insurance, for my farm operation, is one way by which I can lessen the financial risks associated with Ag production. It is evident that changes are needed in order to attract young people back and into Ag production.

I believe that Cost of Production Insurance will make it easier for a beginning farmer, as well as an established producer such as myself, the ability to show a lending institution debt serviceability due to production costs. Cost of Production Insurance would offer some stability to producers. Producers suffering a loss would no longer be living from disaster bill to disaster bill.

TESTIMONY-- SCR No. 4005

Cost of Production Insurance allows the producer the opportunity to cover a majority of the costs associated with the production of a crop. This concept which was developed by Agrilogic, a private consultant firm, and the Risk Management Agency allows producers the ability to insure up to 90% of one's documented costs, including land and depreciation costs. The producer would be allowed the opportunity to choose his or her level of coverage (similar to hail insurance) not to exceed one's costs associated with the cost of production. The proposed cost of production concept would, I believe, greatly enhance a producer's ability to survive a natural disaster, as well as, low prices while limiting the federal government's budget exposure to agriculture.

The project has been completed and the Risk Management Agency has shelved this project after spending over three million dollars and two years of time developing it. Their reasons are no producer demand, technical problems, and insurance industry concern.

In February 2002, a committee was organized to inform producers, as well as to inquire, whether these producers had an interest in cost of production insurance. Southwest Grain, at the request of this committee, mailed an interest survey to 1600 producers living in southwest North Dakota. The survey's response was overwhelming.

In June 2002, we invited 60 Ag producers and industry people to a meeting held in Dickinson with Agrilogic. Agrilogic explained the concept that they had developed for the Risk Management Agency. Agrilogic listened to producer and industry concerns and applied this information to the product.

On February 20, 2003, Dan Wogslang, Senator Dorgan's Ag liaison, Agrilogic, ND Ag Commissioner, Roger Johnson, and myself held two meetings involving Cost of Production Insurance. The meetings were held in Jamestown and Bismarck. Both meetings were well attended by producers, insurance agents, and bankers. The majority of those in attendance expressed a need for Cost of Production Insurance.

Senate Concurrent Resolution No. 4005 which asks for the implementation of a cost of production insurance pilot program will send a strong message (to USDA and RMA) that there is a need for reform of insurance provided to Ag producers.

I urge you to support this resolution, for with this resolution, the 58th Legislative Assembly of North Dakota will send a strong clear message to USDA, RMA, and our congressional delegation that it is time for a change. Thank you for your time.