

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

4010

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2003 SENATE AGRICULTURE

SCR 4010

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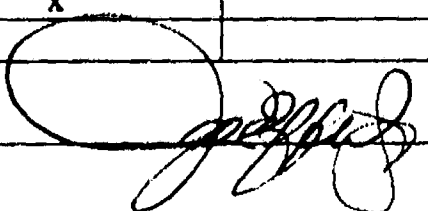
2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SCR 4010

Senate Agriculture Committee

☐ Conference Committee

Hearing Date 01/31/03

Tape Number	Side A	Side B	Meter #
1	x		32 - 1957
1	x		4007 - 4606
Committee Clerk Signature 			

Minutes:

Chairman Flakoll opened the hearing on SCR 4010. All members were present.

Senator Klein introduced and testified in favor of the bill. (written testimony) Farmer Assurance is a crop insurance program developed in North Dakota by Kevin Black, Paul Thomas and Steve Metzger that mirrors the whole-farm cost of production insurance that is mentioned in the resolution.

Paul Thomas, Northern Canola Growers Association, testified in favor of the resolution.

He distributed copies of the Farmer Assurance crop insurance program that they developed and has been endorsed by the Northern Canola Growers Association. They believe they have developed a cost of production insurance program that still allows efficiency in farming. They feel cost of production insurance is essential for agriculture to stop the dependence on disaster programs and payments. In talking with lenders, they also think this program would have a dramatic impact on the availability of credit to new and beginning producers.

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Senate Agriculture Committee  
Bill/Resolution Number SCR 4010  
Hearing Date 01/31/03

Senator Urlacher asked if the program is focusing on limited crops?

Mr. Thomas said this program covers all farm production and doesn't have anything to do with what crop you are producing. If variable and fixed expenses aren't met by gross sales, this program kicks in, no matter what crop you are raising.

Senator Urlacher asked if they are using university cost figures for production costs?

Mr. Thomas said they would work with the farm business management program under the vocational education program through the state that has been tracking actual costs for the last 20 years. You would have to prove actual expenses for that year.

Senator Seymour asked where the money would come from for the program?

Mr. Thomas said there would no longer be multi-peril crop insurance, there would no longer be a government farm program with direct payments or loan deficiency payments, there would only be this program.

Senator Klein asked if it looks dry in the spring and you fudge on your inputs you aren't going to be able to cheat on the insurance?

Mr. Thomas said that is correct. Insurance would only cover actual expenditures.

Senator Klein asked if we would be taking the Scottie Pippens and the Ted Turners out of the farm program.

Mr. Thomas said the program does limit off farm income to \$100,000.

Senator Nichols asked if the producer would have to provide some very detailed expense information?

Mr. Thomas said yes, they see a role for the farm service agency staffing changing to enable help for producers in tracking their annual costs.

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Senate Agriculture Committee

Bill/Resolution Number SCR 4010

Hearing Date 01/31/03

Senator Nichols said with his experience with crop insurance, whenever we come up with a good plan, a few individuals abuse the program. Do you feel this program would provide protection without abuse and still provide an incentive for good management practices.

Mr. Thomas said they really feel this program takes the abuse out of the program.

John Mittleider, North Dakota Farm Bureau, testified in favor of the resolution. Three years ago, the North Dakota Farm Bureau started working on a cost of production insurance program and did not get as far as the Canola Growers. They think the program developed by the Canola Growers includes many of the concepts the North Dakota Farm Bureau supports. The current crop insurance program doesn't serve the needs of farmers. Again this year, we are back looking for disaster aid because the crop insurance program isn't working. Representative Goodley, from Virginia, Chairman of the US House Agriculture Committee has said one of his three top priorities this year is to reform crop insurance so this is a very timely resolution.

Senator Klein asked if the current program covers all crops?

Mr. Mittleider said the current program does not.

Senator Nichols posed a scenario where two durum farmers from the same area with a forecast for rain or fog for the next several days. One farmer spends some money to get the crop off and dry and gets \$4/bu. The other says he has crop insurance and takes his time getting the crop off, its quality declines and he gets \$1.25/bu.

Mr. Mittleider said the second farmer's costs would be less than the first. The other issue is this is not a revenue product, it is a cost product. He also does not want to cover 100% of cost, it is important to leave some risk out there.

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Bill/Resolution Number SCR 4010  
Hearing Date 01/31/03

Jeff Knutson, representing the Agriculture Commissioner who is in Washington, DC, testified in favor of the resolution. (written testimony) (meter #1561)

Mark Sitz, a farmer and representing the North Dakota Farmer's Union, testified in favor of the resolution. This program addresses the cost of production in a viable way.

Chairman Flakoll closed the hearing on SCR 4010.

It was moved by Senator Nichols, seconded by Senator Erbele and passed on a roll call vote that the Senate Agriculture Committee take a Do Pass Action on SCR 4010. Voting yes were Senator Flakoll, Senator Erbele, Senator Klein, Senator Urlacher, Senator Nichols, and Senator Seymour.

No negative votes were cast. Senator Nichols will carry the resolution to the floor.

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

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

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 4010

Senate Agriculture Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Sen Nichols Seconded By Sen Erbele

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 Nichols

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

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10/23/03  
Date

**REPORT OF STANDING COMMITTEE (410)**  
January 31, 2003 10:59 a.m.

Module No: SR-19-1422  
Carrier: Nichols  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**  
**SCR 4010: Agriculture Committee (Sen. Flakoll, Chairman) recommends DO PASS**  
(6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SCR 4010 was placed on the  
Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

SR-19-1422

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2003 HOUSE AGRICULTURE

SCR 4010

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 4010

House Agriculture Committee

☐ Conference Committee

Hearing Date March 14, 2003

Tape Number	Side A	Side B	Meter #
1		X	1036-2170
Committee Clerk Signature <i>Elizabeth R. Green</i>			

Minutes: **Chair Nicholas:** Opened hearing on SCR 4010

**Eric Aasmundstad (ND Farm Bureau):** There is abuse in the current crop insurance program.

There is a need to revamp the system, which the Secretary of Agriculture is in favor of. This covers every crop in every state because it is intended for your whole farm, not based on crops.

This is based on revenue. The key is this is insurance for the whole farm cost of production.

RMA and Doug Hagel think this will be 3-5 years out.

**Rep. Belter:** Can they make this better than the Farm Bill? Aasmundstad said this is a simple concept. If this is developed and utilized, there will be no need for countercyclical payments in the farm bill.

**Rep. Onstad:** Do you anticipate your costs? Aasmundstad said that they key is participation in order to spread the risk throughout the country.

**Paul Thomas (Northern Canola Growers):** Supports. This is a step in the right direction for crop insurance. The concept is well worded.

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Date

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House Agriculture Committee  
Bill/Resolution Number 4010  
Hearing Date March 14, 2003

**Jeff Knudson** (ND Dept. of Ag): Supports with written testimony. Offered an amendment, which is attached to testimony. However, the Dept. will support with or without the amendment.

**Chair Nicholas:** Closed hearing on SCR 4010

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10/23/03  
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SCR 4010

House Agriculture Committee

☐ Conference Committee

Hearing Date 3---21----03

Tape Number	Side A	Side B	Meter #
ONE		B	
Committee Clerk Signature <i>Edward D. Ellyson</i>			

Minutes:

CHAIRMAN NICOLAS: WE WILL LOOK AT SCR 4010.

AMENDMENTS WERE PRESENTED AND ADOPTED

CHAIRMAN NICHOLAS ENTERTAINED A MOTION.

REPRESENTATIVE KELSCH MADE A MOTION FOR A DO PAS WITH  
AMENDMENTS.

REPRESENTATIVE POLLERT SECONDED THE MOTION.

A VOICE VOTE WAS TAKEN WHICH PASSED.

CHAIRMAN NICHOLAS ENTERTAINED A MOTION A MOTION ON THE SCR

REPRESENTATIVE POLLER MADE A MOTION FOR A DO PASS.

REPRESENTATIVE KELSCH SECONDED THE MOTION

THE ROLL WAS TAKEN. THERE WERE 11 YES 0 NO 2 ABSENT

CHAIRMAN NICHOLAS CARRIED THE SCR. CHAIRMAN NICHOLAS CLOSED.

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10/23/03  
Date

33053.0101  
Title.0200

Adopted by the Agriculture Committee  
March 21, 2003

**House Amendments to SCR4010 - Agriculture Committee 03/21/2003**

Page 1, line 1, replace "adopt" with "adequately fund and the Secretary of Agriculture to expeditiously implement and expand"

Page 1, line 19, replace "adopt" with "adequately fund and the Secretary of Agriculture to expeditiously implement and expand"

Renumber accordingly

1 of 1

33053.0101

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Date

SCR 4010  
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 Amend

Action Taken 1

Motion Made By KELSON Seconded By POLLERT

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

Total (Yes) 11 No 0

Absent 2

Floor Assignment NICHOLAS

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10/23/03  
Date

SIR 4018  
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

AS Amended

Action Taken

DO PASS

Motion Made By

POLLERT

Seconded By

KELSCH

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

Total (Yes)

11

No

0

Absent

2

Floor Assignment

REP. NICHOLAS

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10/23/03

**REPORT OF STANDING COMMITTEE (410)**  
March 24, 2003 8:34 a.m.

Module No: HR-52-5484  
Carrier: Nicholas  
Insert LC: 33053.0101 Title: .0200

**REPORT OF STANDING COMMITTEE**

**SCR 4010: Agriculture Committee (Rep. Nicholas, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (11 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SCR 4010 was placed on the Sixth order on the calendar.**

Page 1, line 1, replace "adopt" with "adequately fund and the Secretary of Agriculture to expeditiously implement and expand"

Page 1, line 19, replace "adopt" with "adequately fund and the Secretary of Agriculture to expeditiously implement and expand"

Renumber accordingly

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2003 TESTIMONY

SCR 4010

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*Senator Klein*  
*4010*

**Problem:** Today's federal crop insurance program is woefully inadequate as producers must suffer substantial commodity losses before insurance kicks in. Furthermore, losses of quality are seldom covered under the current federal crop insurance program. Successive years of natural disasters have proven the inadequacy of our current federal crop insurance program. As a result of the current program's inadequacies, we now find ourselves once again fighting for a disaster aid package that, by all appearances, will be too little too late.

**Program highlights:**

1. Would be based on an individual producer's actual historic cost of production.
2. Would cover all commodities produced on a farm.
3. Would provide for coverage across the entire farm and end unit designations.
4. Every commodity in every county in the country would be eligible for coverage.
5. Federal government would subsidize the producer's premium at the current subsidy rates.
6. Each producer will be individually rated in determining his/her premium costs and indemnity payment.
7. The maximum exposure in any one year is a percentage of the individual producer's actual historic cost of production.
8. Gross income would be defined as all money received from the sale of commodities, any government payments and any carryover inventories.
9. Cost of production would be defined as variable plus fixed expenses. Variable expenses include items such as seed, fertilizer, chemicals, fuel, hired labor, repairs and maintenance. Fixed costs would include items such as depreciation and land expenses.

**Program benefits:**

1. Would end the need for federal disaster relief.
2. House Agriculture Committee Chairman Goodlate (VA) has stated one of his three priorities for the current legislative year will be to reform crop insurance so the timing of this resolution is appropriate.
3. Would provide capital preservation, establish a permanent safety net and encourage opportunities for beginning farmers and small, medium and large established producers.

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Date

# Farmer Assurance

Developed by:

Kevin Black, Glenfield, ND 701-674-3188  
kjblack@daktel.com

Assisting Developers:

Paul Thomas, Bismarck ND 701-355-4330  
pthomas@ndpci.com  
Steve Metzger, Carrington, ND 701-652-2951  
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*Farmer Assurance is a draft document. This concept is being refined constantly to ensure its success. Your comments and suggestions are appreciated and welcomed. Please direct your correspondence to Kevin Black or Paul Thomas.*

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## Farmer Assurance

### Objectives

Farmer Assurance will:

- ☐ Maintain planting flexibility
- ☐ Protect a farmers breakeven cost in a counter cyclical fashion
- ☐ Be based off of gross expenses not acres or crops
- ☐ Stabilize farm income and numbers
- ☐ Be WTO legal
- ☐ Make it possible for beginning farmers to compete for existing resources

### Introduction

The Freedom to farm bill was a noble step in freeing producers in their ability to make planting and marketing decisions. Farmer Assurance builds upon these concepts and ensures a counter cyclical safety net mechanism that is efficient and effective. Farmer Assurance seeks to solve production agriculture's problem of not only inadequate price support but also provides an effective mechanism for dealing with crop and or quality losses due to any number of factors.

The Government has created farm programs that would protect the farmer and consumer interests. The role of government in securing an adequate choice of food that maintains superior health and nutrition attributes is a key focus for the coming century. Farmer Assurance not only supports farms, rural communities and an abundant food supply but also ensures that the food supply continues to measure up to the nutritional quality of past and current choices. This new tool is offered to the farmer, from the government and is called Farmer Assurance.

Farmer Assurance will eventually evolve to not only replace traditional farm program payments and disaster packages, but also the current federal crop insurance subsidized policies. Existing entities involved with the implementation of these current programs will find welcomed employment in administering, enforcing and educating producers on Farmer Assurance.

Farmer Assurance is thought of from the realistic realities of how the producer's financial system works. This program is designed to be extremely efficient. New technologies such as the internet will an instrumental role in reducing paper work and expenses involved with administering farm programs. A producer will be assured each year that no matter what the weather or market does, their variable expenses will not exceed their revenue and that a reasonable amount of money will also be available for a return to labor.

Producers will carry responsibility for maintaining and increasing production and management efficiencies. Producers will be required to create annual business plans that include marketing and production goals. Along with goals, producers will also be challenged to outline the steps they intend to take to reach those goals.

Farmer Assurance does not insure crops, yield, base, or price. Program benefits are tied to the farmer operator not the landowner. Farmer Assurance ensures lender

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security, as well as provides for renewed optimism in rural areas in need of profitable farms. Finally, the new deal has many built in provisions to discourage and avoid abuse.

### Specifics

#### Accounting for revenue and expenses

Though preliminary budgets are required to obtain insurance, a farmer only actually receives insurance on actual costs incurred. If inputs are reduced, then revenue coverage is reduced to match those input costs. Also, established input cost levels will prohibit agriculture suppliers from artificially inflating product costs.

Farmers Assurance is an all inclusive farm program. Different from past farm programs, this program is based on a producer's gross expenses, not their crop production. A farmer must keep an accurate set of farm expenses and farm income each year. This accounting system must be maintained on an accrual basis versus cash. Eligible expenses will include all expenses except land and machinery principal payments. Unsold production will be quantified and a value given it equal to the average marketing price of the product for that year as determined by the Secretary of Agriculture.

The expenses charged for production will be limited to a range of reasonable levels for each crop in different regions of the US. Reasonable levels will be determined by the Secretary of Agriculture using Land Grant University data, Farm Business Management and Extension data and other means as deemed reasonable by the Secretary of Agriculture.

The first year's expenses will be equal to the average of the last three year's expenses per acre per crop to avoid any abuse of expense categories. The Secretary of Agriculture will create a scale to determine the level of eligible compensation a producer will be able to receive in ensuring that their revenue will cover their expenses.

#### Guaranteed Labor Return

The farm unit is evaluated by gross farm expense to determine the level of labor expenses that will be eligible to each producer. Labor is guaranteed to be equal to a percentage of the gross farm expenditures as determined by the Secretary of Agriculture, up to a maximum of \$40,000 per head of household.

#### Policing

Random audits will be conducted on a producer's charged expenses compared to the reported revenue. These records will also be cross-referenced with IRS tax reports.

USDA will train its existing FSA, RMA and NRCS field staff in the area of agronomy, farm accounting, insurance and marketing to be available for assistance with the implementation of this program and to be a resource for producers. These three agencies will be gradually reduced to a minimum number of employees and all located under one department.

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### Cost

Producers will be required to pay a premium to participate in the program. This premium will be equal to a fee per acre and per animal unit as determined by the Secretary of Agriculture.

### Eligibility Requirements

- ☐ Must be actively involved with the production of produce, grains or livestock and must be a primary decision maker in the management decisions that occur in the business.
- ☐ Producers must derive a majority of their income from their farming business.
- ☐ Mandatory program.
- ☐ Producers must annually attend classes on farm management as well as soil, livestock and or crop management to maintain eligibility in this program.
- ☐ To be eligible for payments you must be listed on your IRS form as the head of the household.

### Trade Implications

Farmers Insurance is WTO legal. These payments will fit into the green box since they will not influence farmer's production decisions.

### Conclusion

Although production of individual crops is not influenced, production is still important. Without a valid attempt at production, a producer will not be eligible to be guaranteed his return to labor payment.

The concept of guaranteeing the breakeven level of the farmer is generic for all crops and farming practices. With the help of land grant colleges and USDA Extension data banks a farm program can be effective in sustaining a viable producer based food supply chain. The farm producer, not the landlord or crop or grain company, will be the soul recipient of direct farm program benefits and insurance.

Taking the emphasis away from the crop specific programs will bring realistic marketing patterns to the system. Farmers will be concerned with crop rotations and breakeven prices not LDP or insurance windfalls. To bring some sensible long-term stability to the farm program we must think in terms of a producer orientated program that insures they will stay on the farm.

Farmer Assurance will make a complex program simple, affordable and most of all effective to the farm producer. It takes advantage of existing personal employed within USDA, prevents abuse and is applicable to all involved in production agriculture.

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Operator's signature

10/23/03  
Date

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Bismarck, ND 58505-0020

**Testimony of Roger Johnson  
Agriculture Commissioner  
Senate Concurrent Resolution 4010  
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 4010, urging Congress to adopt whole-farm cost of production insurance that is based on a producer's actual production history.

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. Information on this Cost of Production Insurance project can be found online at [www.agcop.com](http://www.agcop.com)

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Operator's Signature

*Deanna Hall*

Date

10/23/03

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 21<sup>st</sup> 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 compared 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.

Because a cost of production insurance pilot program must first be implemented and SCR 4010 and SCR 4005 compliment each other, I also support SCR 4005. I strongly agree that a whole-farm cost of production insurance program should be immediately adopted by Congress.

Chairman Flakoll and committee members, I urge a do pass on SCR 4010. I would be happy to answer any questions you may have.

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**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.

## SIDE-BY-SIDE COMPARISON 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 <u>all</u> 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 <u>and</u> 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.

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Roger Johnson  
Agriculture Commissioner  
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Testimony of Roger Johnson  
Agriculture Commissioner  
Senate Concurrent Resolution 4010  
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 4010, urging Congress to adopt whole-farm cost of production insurance that is based on a producer's actual production history.

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. Information on this Cost of Production Insurance project can be found online at [www.agcop.com](http://www.agcop.com)

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I believe that a whole-farm cost of production insurance program could ultimately become a comprehensive low-cost insurance program, which could be expanded to cover all crops and livestock.

Although cost of production insurance was included in the Agricultural Risk Protection Act of 2000, NASDA recommended that an additional \$1 billion be provided annually to expedite the development of cost of production policies. Section 10006 of the Farm Security and Rural Investment Act of 2002 also requires the Secretary of Agriculture to submit a report to the House and Senate agriculture committees on progress made in research and development of risk management products including cost of production insurance.

Because the FCIC has yet to implement a cost of production insurance pilot program, I strongly support SCR 4005. To further strengthen the message of support for cost of production insurance development, I also support this resolution. However, since cost of production insurance is already included in federal legislation, I am offering a suggested amendment urging Congress to fully fund and request that the Secretary of Agriculture expeditiously implement and expand whole-farm cost of production insurance. A proposed amendment is attached.

Chairman Nicholas and committee members, I urge a do pass on SCR 4010. I would be happy to answer any questions you may have.

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PROPOSED AMENDMENTS TO SENATE CONCURRENT RESOLUTION NO. 4010

Page 1, line 1, replace "adopt" with "adequately fund and the Secretary of Agriculture to expeditiously implement and expand"

Page 1, line 19, replace "adopt" with "adequately fund and the Secretary of Agriculture to expeditiously implement and expand"

Renumber accordingly

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