Forging a New Direction in U.S. Farm Policy

2007 National Farm Security Act

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Farms 4,000 acres corn & soybeans with his wife Mary and son Brad

Leadership positions:

- **NCGA Corn Board**
- **NCGA Ethanol Committee vice chairman**
- **NCGA Research and Development Action Team**
- **NCGA Finance Committee**
- **Corn Board Liaison to the Biotechnology Working Group**
- **Kansas Corn Commission**

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"Farming looks mighty easy when your plow is a pencil, and you're a thousand miles from the corn field."

—Dwight D. Eisenhower

A Comparison: 2002 Farm Bill vs. NFSA Proposal

2002 Farm Bill:

- **Direct Payment**
- **Marketing Loan**

  (Nonrecourse)
- **Countercyclical Program**

NFSA:

- **Direct Payment**
- **Loan Program**

  (Recourse-a market clearing process. Still in effect but different.)
- **Revenue Countercyclical Program**

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2002 Farm Bill

The Right Policy for the Right Time

•Provided support payments

•Included an energy title for the first time

•And expanded conservation programs and increased funding by 80%

•Safety net when commodity prices are low

• Exports had declined for five straight years

Agriculture is Changing!

• 2002 bill is not designed for the dynamic happenings in the industry

• Doesn't meet growers' long-term risk management needs

Source: USDA

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Producers Need: The Right Policy for the Times

- NCGA and its nearly 33,000 corn grower members have been educating Congress and the administration on what producers need in farm programs.

- Farm programs must recognize agriculture's dynamic changes

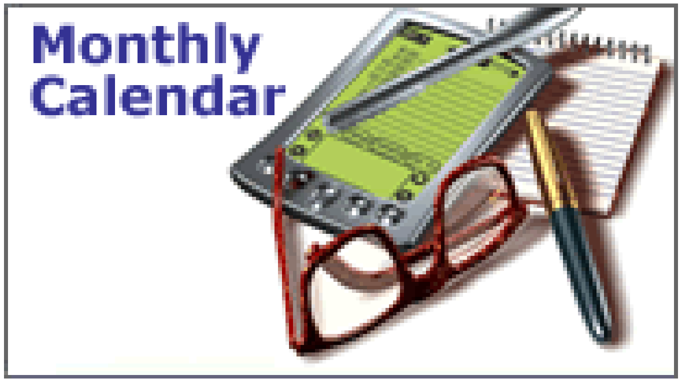
- Changes must be made to the safety net that would better protect producers against rising costs of production, volatile markets and especially crop losses.

Protecting Producers'

Main goal for NCGA's proposal was to give the variable yield producer more protection and a better safety net.

- We must also protect the producers profit in profitable times

- Low Yield and good prices = no protection



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Times Have Changed and So Has Agriculture

It's time for a fundamental change in the future of farm programs

- **Commodity prices are strong for most crops**
- **Exports have increased to a record \$68.7 billion in 2006; expectations are \$77 billion for 2007**
- **Lowest debt-to-asset ratio in recorded history (approx. 11% in 2006)**
- **Renewable energy from home grown crops are playing a pivotal role in the nation's energy security**

Source: USDA

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The National Farm Security Act (NFSA)

Designed to increase the market orientation of U.S. agricultural policy and to enhance the targeting of farm support.

A revenue-based farm safety net alternative for the 2007 farm bill would:

- Authorize significant changes in farm support programs
- Better protect producers against rising costs of production, crop losses and volatile commodity prices.

This sweeping proposal would create a farm safety net that:

- provides for a county revenue countercyclical program (RCCP) integrated with the current federal crop insurance program.

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NFSA Core Programs Include

- **Direct payments as currently provided**
- **Revenue Counter Cyclical Program (RCCP)**
  - modeled after Group Risk Income Protection insurance
  - producers compensated when a crop's actual county revenue per acre falls below the expected county revenue per acre
- **Federal Crop Insurance Program - Individual Insurance**
- **Recourse Marketing Loan Program**

Making RCCP Complement Crop Insurance

County-based RCCP (Similar to GRIP)

- Payments triggered at county level rather than national level
- Guarantees based on market driven target prices
- Planted acres rather than base acres

“Giving corn growers the help they need when it is needed”

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Revenue Counter Cyclical Program (RCCP)

- **Modify existing CCP program by targeting revenue instead of price**
- **Complements federal crop insurance and minimizes overlapping coverage**
- **Revenue Guarantee**
  - **90 to 95 percent of county trend yield times "market sensitive" target price**
- **Payments**
  - **When actual county revenue (yield x harvest insurance price) is less than guarantee, compensate for the difference**
  - **Adjustment factor for individual yield**

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Revenue Counter-Cyclical Program

Example: Corn 2004

Expected County Yield: **145.0 bu./acre**

February Insurance Price: **$2.83/bu**

Expected County Revenue: **$410/acre**

Actual County Yield (October): **158.4 bu./acre**

October Insurance Price: **$2.05/bu**

Realized U.S. Revenue: **$325/acre**

Revenue Deficiency Payment: **$85/acre**

Individual Crop Insurance

- Reduced premiums for same levels of revenue insurance
- RCCP payment subtracted from individual indemnity payments to minimize overlapping coverage
- Indemnity paid if actual gross income less than farmer selected coverage level of expected revenue

OPPORTUNITIES

- More market oriented
- Based on trend yields vs. historic yields
- Protection when prices rise, not just when they fall
- Rewards good production management
- Less potential for fraud
- Minimizes need for disaster aid.

CHALLENGES

- Implementation
- Ensuring adequate funding
- Requires re-rating of crop insurance products
- Changing marketing mindset of producers
  - Revenue/acre vs. yield/acre

Agriculture Baseline for March 2007 Released by Congressional Budget Office Sets the Stage for Farm Bill 2007 Funding Debate

Commodity Program Dollars

Down 40%

The Facts Are:

Annual spending for commodity price support programs:

- Projected to range from $8.1 billion in fiscal year 2008 to $7.1 billion over the next six years

A huge decline from the $18.2 billion in expenditures for FY 2006.

Outlays for federal crop insurance are expected to rise from an actual $3.3 billion last year to almost $5.5 billion in 2012 due to higher prices and premiums

Ad hoc crop disaster assistance:

- Not scored by CBO
- Costs an average of $1.8 billion per year for commodities

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What's this mean with the budget?

The big message: Agriculture will have to work hard to secure additional funding for the Commodity Title.

What's this mean for crop insurance?

- Growers can't and don't want to double dip
- We are sure the crop insurance companies want to give taxpayers the most coverage for their tax dollars.
- Any overlap of cost (payment) should be a saving to the cost of the farm bill

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General Conclusions

- **One key advantage of integrating federal crop insurance coverage is significant reduction in premiums**
  - RCCP removes the systemic market risk away from the private insurance companies – products must be re-rated
- **RCCP combined with federal crop insurance provides a more effective and efficient safety net**
  - Compensates for both significant area and individual crop losses
  - Compensates for low prices
  - Reduces inequities in support when low prices accompanied by crop shortfalls

Hypothetical Examples: Showing Producer Protection

$4.06 price per bushel
150 Bushels per acre county yield
100% = $609 gross

70% = $426 support target

70% $426 Target Support	Price falling to $2.50/bu. yield the safety net would be 170.4 bu./acre
70% - $426 Target Support	Yield falling to 125 bu./acre the safety net would be $3.41/bu.
70% - $426 Target Support	Price falling to $2.00/bu. yield the safety would be 213 bu./acre

Producer would still have option to purchase additional coverage

Thank You!

For more information visit

www.ncga.com

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