

2006 AGRICULTURAL OUTLOOK FORUM



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The Five-Year Check-Up

- An evaluation of the Agricultural Risk Protection Act
- The Prospects for Eliminating Disaster Assistance



Several Objectives of This Presentation

- Provide overview of PA's response to a crop disaster
- How ARPA has benefited PA producers
- Development of AGR-Lite
- Future policy considerations to expand participation in AGR-Lite



1999 – A “Teachable Moment”

- Established a Crop Insurance Task Force
- Initiated an educational program
- Provided \$60 million in state crop loss assistance
- Initiated a \$5.6 million state-sponsored Crop Insurance Assistance program to cover fees and part of premium



ARPA

- Addressed many concerns identified by PDA Crop Insurance Task Force
- Provided opportunity for state to take lead role in designing a program that we felt addressed our crop insurance needs (508.h)
- Provided additional emphasis on “low participation” states – or “high priority” states

(Continued)



ARPA (continued)

- Additional cost share
- Additional producer education opportunities
- Commitment to help producers make improved risk management decisions



Producers Responded

- The number of insurance policies in PA increased by 118%, acres increased 83%, protection in force 127%
- Significant numbers of PA producers experienced multiple year disasters 1999-2005
- Producers received loss payments of \$140 million 2000-2005 -- \$3.69 for each dollar of producer paid premiums
- PA crop insurance, premium assistance nearly \$13 million from 2000-2005



PA Producers' Concerns With Traditional Crop Insurance

- No insurance programs available for many commodities
- Producer records are financial with less emphasis on yield/production as required for APH
- Many market their crops through livestock – measuring end value is more feasible than trying to account for fed production
- Insuring on a crop-by-crop basis doesn't fit



PA Department of Agriculture Responded

- Conducted, in partnership with RMA, an aggressive education and outreach program, raising the awareness of need to have crop insurance
- Requested RMA to streamline the Adjusted Gross Revenue Program (AGR) and expand it statewide – did not happen

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PA Department of Agriculture Responded (continued)

- Requested private insurance industry to develop a streamlined AGR and expand statewide – limited interest because of lack of financial incentives
- As a last resort, PDA submitted AGR-Lite so our producers would have the opportunity to participate in crop insurance



Policy Objectives of AGR-Lite

- Overarching objective – to protect the farm income of producers. We believe our producers should have access to a crop insurance program designed to fit their needs
- Make meaningful crop insurance available to commodities without insurance programs

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Policy Objectives of AGR-Lite (continued)

- Develop programs that are easier for producers to understand that also reduce private sector delivery costs



AGR-Lite Benefits

- Whole farm protection from a single policy, revenue policy follows marketplace – easier to understand
- Provides broad coverage for almost all commodities including livestock

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AGR-Lite Benefits (continued)

- Crops marketed through animals are captured in an efficient manner
- Will work for loan collateral for lenders, resulting in their encouragement of producers to participate in insurance
- Makes it possible for added marketing emphasis by the private sector

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AGR-Lite Benefits (continued)

- Provides a way to insure NAP crops, including pasture and grazing in a practical way
- Quality and value standards are based on producers' history instead of being set by insurance contract
- Plan is a win-win: producers win by having broad access to insurance protection – federal government wins by offering workable crop insurance protection as encouraged by ARPA



How AGR-Lite Works

- Protection based on previous 5 years of income (tax returns)
- Protection is in form of Adjusted Gross Revenue (use lesser of 5 year average or the projection of the next year's farm plan)
- Producer chooses levels of coverage

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AGR-Lite Status

Participation

- Available in 17 states
- Work continues
 - More states
 - Modifications



Where AGR/AGR-Lite Makes Sense

- Grower of otherwise uninsurable crops
- Umbrella over selected individual crop coverages
- Interested in protecting the bottom line for operation from severe economic loss
- Interest in coverage based on historical quality and price

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Where AGR/AGR-Lite Makes Sense (continued)

- Poor yield records
- Where gross income survived droughts better than APH



AGR-Lite

- Full partnership with RMA and FCIC
- Shared goals – make meaningful crop insurance available to more farmers



The Future

- Could AGR-Lite be the vehicle to minimize the need for Ad-Hoc Disaster payments?
- Could it be used as the vehicle to channel low price protection to producers?

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The Future (continued)

- Can AGR-Lite provide unavoidable income loss protection to producers of diversified Ag Commodities?
- Yes, it already provides gross income protection to ag commodities, but will require significant considerations.

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Thank you.