



Agricultural Outlook Forum



The Farm Service Agency and Risk Management Agency Approaches To Risk Management

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Approaches to Risk Management



Farm Service Agency

Limited Number of Products

No Cost to Producer

Political Dimension
(loan rates, target prices,
direct payments)

Economic Dimension
(counter-cyclical,
loan deficiency payments)

Risk Management Agency

Increasing and Varied Products

Private Sector Involvement

Cost to Producer
(premium)

Financial Dimension
(actuarially sound)

Economic Dimension
(futures markets, revenue policies)



Risk Management Tool Boxes



Farm Service Agency

Direct Payments
Counter-cyclical Payments
Marketing Loans
Ad hoc Disaster

Risk Management Agency

Individual Policies
Group Policies
Yield Policies
Revenue Policies



What Commodities are Covered by FSA



Wheat
Corn
Sorghum
Barley
Oats
Cotton
Rice
Soybeans
Sunflowers
Other oilseeds
Sugar
Peanuts
Dairy
Wool
Mohair
Dry peas
Lentils
Chickpeas

Tobacco
Aquaculture

Non-Insured Assistance
Program (NAP crops)

Ad Hoc Disaster
All crops insured by FCIC or NAP
Livestock deaths
Trees



What's Covered by RMA



Adjusted Gross Revenue

Almonds
Apples
Avocados Avocado Trees
(Florida)
Bananas
Banana Trees
Barley
Blueberries
Cabbage
Canola
Cherry
Chile Peppers
Citrus
Grapefruit
Lemons
Limes
Mandarins
Murcotts
Oranges
Tangelos
Tangerines
Citrus Tree
Clams
Coffee
Coffee Trees
Corn
Cotton
Cranberries

Cultivated Wild Rice

Dry Beans
Dry Peas
ELS Cotton
Figs
Flax
Florida Fruit Tree
Forage Seeding
Fresh Market Sweet Corn
Fresh Market Tomatoes
Grain Sorghum
Grapes
Green Beans Green Peas
Hybrid Corn Seed
Hybrid Grain Sorghum
Seed
Livestock
Macadamia Nuts
Macadamia Trees
Mango Trees (Florida)
Millet
Mint
Mustard
Nursery
Naval Oranges
Oats
Onions
Papaya and Papaya Trees
Pasture, Rangeland,
Forage

Peaches 2007

Peanuts
Pears
Pecan Revenue
Peppers
Plums
Popcorn
Potatoes
Prunes
Raisins
Rangeland
Rice
Rye
Safflower
Silage Sorghum
Soybeans
Stonefruit
Apricots
Nectarines
Peaches
Strawberries
Sugar Beets
Sugarcane
Sunflowers
Sweet Corn for Canning
Sweet Potatoes
Table Grapes
Tobacco
Tomatoes
Walnuts
Wheat



What Triggers A Payment



Farm Service Agency

No trigger (direct payments)
National prices (counter-cyclical)
County prices (marketing loans)
World prices (marketing loans)
Farm yields (ad hoc disaster)

National revenue (farm bill proposal)

Risk Management Agency

Farm yields (APH)
County yields (GRP)
Farm revenue (AGR)
County revenue (GRIP)
Producer revenue (CRC)



What Factors Are Used to Calculate a Payment



Farm Service Agency

Base acres (DCP)
Program yields (DCP)
Farm yields (LDP, ad hoc)
County yields (ad hoc)
Farm planted acres (LDP, ad hoc)
National prices (counter-cyclical, ad hoc)
County prices (LDP)

Risk Management Agency

Farm yields (APH)
County yields (GRIP)
Farm's planted acres (APH, GRP, GRIP, CRC)
National prices (APH)
County revenue (GRIP)
Producer revenue (CRC)



Intersection of FSA and RMA Programs



RMA

FSA

Ad Hoc
Disaster

and

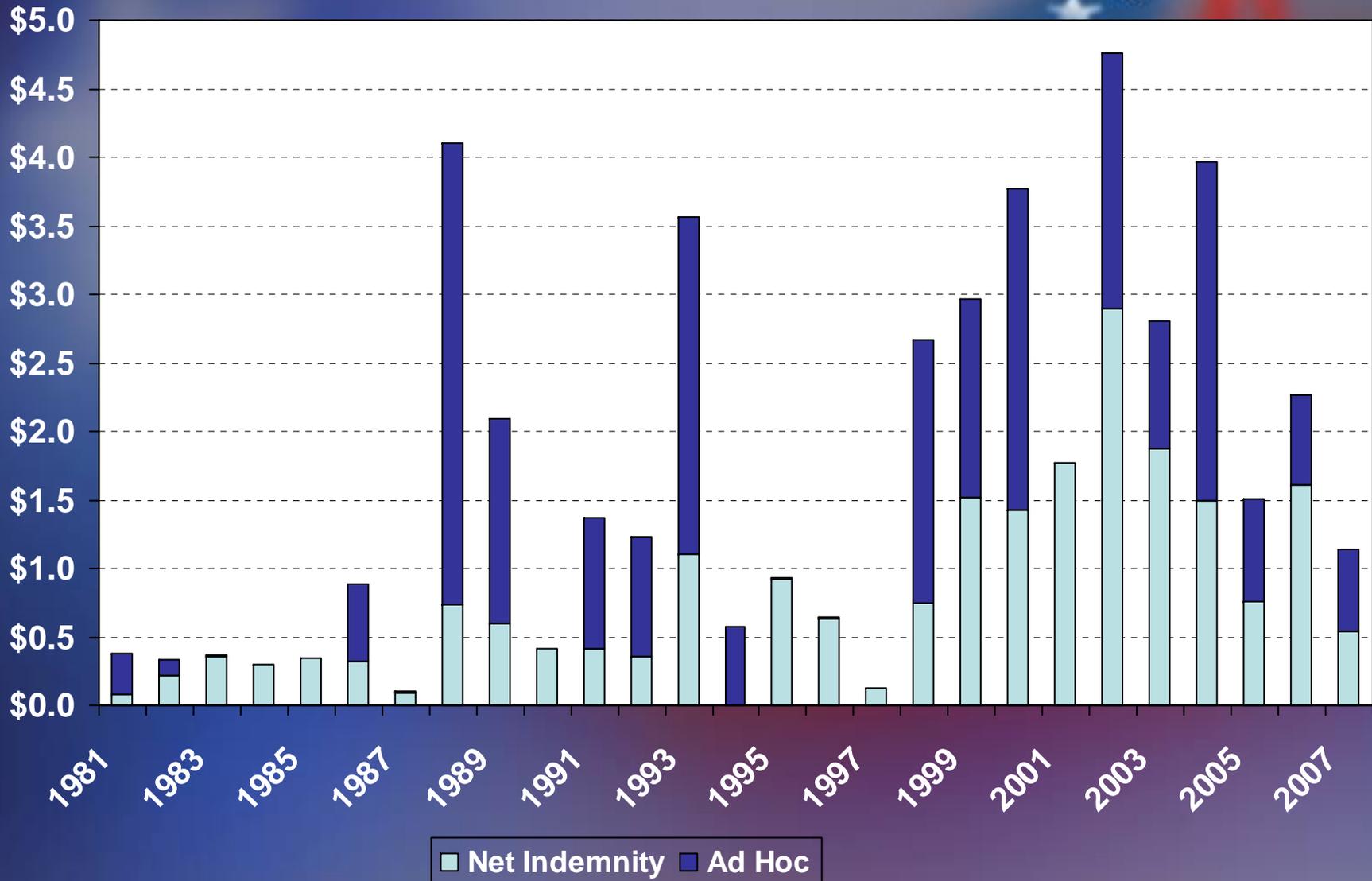
Crop
Insurance



Availability of Insurance Has Not Discouraged Ad Hoc Disaster



Billion \$





Costs of FSA Ad Hoc and RMA Insurance Programs



1981-2007
\$45 billion in ad hoc
and net indemnity costs

52% ad hoc
48% insurance



Ad Hoc Administered to Minimize Interference With Insurance...



Ad Hoc Disaster Assistance

Framework developed in 1998 and continues today

Linkage required

FCIC records used

Producer's APH (or county average yield if higher)

Crop insurance prices

Additional adjustments for quality

Benefits limited to 95 percent of "expected" revenue



...What is Wrong with Ad Hoc?



Ad hoc Disaster Assistance

Unpredictable, dependent upon Congressional appropriation

Payments may be issued years after losses occur

Successive years of bad weather reduces benefits because of low APHs

Discourages purchase of crop insurance

Why purchase insurance when ad hoc disaster is free?

Why purchase a high coverage level if limited by 95% of expected revenue?



One Solution is to Base Ad Hoc On Crop Insurance Indemnity



Provide a "TOP-UP" Payment

Give producer an ad hoc payment based on a percentage of the crop insurance indemnity.

A 30-percent TOP-UP payment was issued for crop losses related to Hurricane Katrina

Example: If a producer received a \$1,000 indemnity payment, the "TOP-UP" payment would be 30% of \$1,000, or \$300.



Another Solution is to Develop "Permanent" Rules for Ad Hoc Assistance



Develop a framework in the farm bill.

Regulations and software can be written in advance so payments can be issued timely.

Provide funds in the appropriations process.

Issue TOP-UP payments and develop procedures to boost yields for disaster payments (an "Enhanced" Disaster Yield) when several years of bad weather occur.



Benefits of "Permanent" Rules



Benefits more predictable.

Payments may be issued soon after indemnities are paid.

Use of an "Enhanced" Disaster Yield will help producers who have experienced poor weather or shallow losses.

Encourages purchase of crop insurance

The higher the crop insurance indemnity, the higher the permanent disaster payment.

Conclusion



Can a permanent disaster program really be “permanent”?

Will Congress enact an ad hoc program on top of a permanent program?

Will adequate funding be available?