



Brownfield Network
September 27, 2011
Ken Anderson and David Graves

Executive Branch Budget Proposal and Crop Insurance

NOTE: This is an **Unofficial Transcript** of a *Brownfield Network* podcast.

Keith Good
FarmPolicy.com, Inc.
Champaign, IL
www.FarmPolicy.com

Mr. Ken Anderson: We're visiting this afternoon with David Graves, who is the manager / secretary of the American Association of Crop Insurers. Well, David, last week the Obama Administration released a proposal for budget cuts going forward, and as far as the agriculture budget is concerned, it looks like crop insurance is the target again of some of those cuts. Can you explain to me, as you view it, what that would involve?

Mr. David Graves: Yes. As we understand the proposal, they want to go back and have Congress do what they cannot do now, and that is renegotiate the terms of the SRA yet again. The administration, in 2010, more or less unilaterally agreed to cut six billion – at that time it was estimated to be six billion. We understand that since that time CBO and other authorities calculate the savings to be in excess of \$6 billion from the industry...from the industry that delivers the program.

They did that on the strength of authority given to the administration in the 2008 Farm Bill by Congress that says that the administration can renegotiate the terms of the SRA, including the financial terms, one time in every five periods of reinsurance years. Since they technically don't have authority right now to unilaterally go back one year later and make further reductions, this time projected to be 8.3 billion additional dollars in cuts, their proposal is asking Congress to step up and do that.

So we believe it's ill-advised. We think the Department is now, the administration generally, and the Department of Agriculture in particular, are showing great signs of just being divorced totally from any reality about what it takes to deliver this very complex program. Anyway, that's our...our assessment of it is it is just absolutely a

step beyond reason, one year later to come back and ask for another \$8 billion to be taken out of the delivery of the program.

Mr. Anderson: Well, apparently USDA and the administration both still believe that the subsidies involved are still unnecessarily high in the crop insurance business.

Mr. Graves: What's interesting about that very note is, as I indicated, the numbers that are in the 2011 SRA, Standard Reinsurance Agreement, that was written by the Department just one year ago said that the levels they included in that bill were levels that were reasonable and necessary and would afford the industry the opportunity to deliver the program effectively as farmers had needed, without one piece of additional analysis to point to.

They have reached into the open air and pulled out these new numbers. We don't think it's based in any kind of analytical reality, and is therefore just simply a political statement by the administration wanting to whack private sector delivery and private sector jobs, possibly looking to have those jobs move back to the government. That's our feeling about the basis of this proposal.

Mr. Anderson: So you do believe that there's more of an ulterior motive here?

Mr. Graves: Yes. It is not based in economic analysis. They have not produced, they have not asked for any studies. They've not even had time to complete a cost of delivery study they promised Congress they would do. So without any further analysis to support any kind of change from the numbers they selected as reasonable and necessary to deliver the program one year ago, they come forward with this proposal.

Mr. Anderson: If this proposal were to advance, what would it do to the industry?

Mr. Graves: Well, it would just, it would run a whole lot of people out of the delivery of the program. We only have 15 companies left today from a high water mark of 50 or 60 a few years ago now, not just yesterday, but a few years ago, the high water mark, we had around 50 or 60 different insurance companies delivering the program. We're down to 15.

What the 15 number does not tell you is the change in ownership that has happened behind the scenes. Some of these companies were individually owned by investors or companies here in the United States. Since the new SRA was signed July 10, 2010, a number of those companies have sold out to bigger internationally owned pools of risk capital. So we are seeing substantial change in the structure of the companies that are these approved providers today.

And another 8 billion out before you know the impact of the 6 billion taken out in the SRA – and, by the way, the nearly 6 billion that was taken out in the 2008 Farm Bill, none of those changes have been in effect long enough for any credible analysis to be made of the impact. We can tell you, though, just looking at the structure of the industry, crop agencies, insurance agencies are being consolidated.

And as I indicated, companies are being consolidated in terms of the fact that the ownership is selling out to bigger pools of capital. It suggests to me and others who watch the program that there is a type of a consolidation going on that leaves competition fairly fragile. We think another 8 billion, or it might not even take that much, but certainly the administration proposal, if it was implemented, would, we think, generate further change in industry structure and ownership.

Mr. Anderson: And what could that mean ultimately to the farmers who, up to this point, really haven't noticed much of a difference, I guess, from these cuts so far?

Mr. Graves: Well, first off, this proposal does directly impact the farmer in that there is \$2 billion proposed to be taken out of the premium that the government pays on behalf of the farmer. Participation level by farmers slowly increased over the decades of the '80s and the '90s and into the current decade by virtue of the support that has been given to farmers by the federal government in helping pay the subsidy – excuse me, helping pay the premium by subsidizing those premium payments. So we think that it will leave some farmers without the ability to purchase the level of coverage that they have currently, and that will reduce their risk management protection.

Secondly, as the industry continues to consolidate, agents have fewer companies to do business with, the fewer companies and fewer agencies, the farmer will have either less choice or they will actually receive outright less service as companies struggle to contain cost with lower income from the program. What comes to mind is the old adage there is no free lunch.

Farmers testify routinely at field hearings and hearings here in Washington that the crop insurance program has grown over the last couple of decades to become a very good and useful risk management tool that they prefer to see continue as is. And we are concerned that the administration is not understanding what the farmer is saying when the farmer says we want the program to continue as is.

The farmer is getting a lot of service from the private sector industry in delivery of the program that they never got before when the program was being sold and serviced and delivered by the federal government. Part of that has translated into increased participation by the farmers in this program, meaning that there has been a reduction in demand for these ad hoc disaster assistance programs.

Mr. Anderson: It sounds like this proposal has not been met very favorably from a lot of members of Congress, at least farm state lawmakers.

Mr. Graves: Well, I think that's right. At least a number of them have already indicated their concern over the administration's proposal. I'm not going to be aware of every comment made by every member of Congress, but I know Chairman Lucas of the House Ag Committee and Senator Roberts, the Ranking Member of the Senate Ag Committee, put out a joint statement. I know that Chairwoman Stabenow of the Senate Ag Committee has indicated her concern over the level of cuts.

I know Senator Kent Conrad has indicated that he does not support further cuts in the program. Ranking Member of the House Ag Committee Collin Peterson has routinely and repeatedly said that there should be no more cuts made to the program until there has been sufficient time to analyze the impact on farmers and the industry of the cuts and changes that have already been made.

So I think it's reasonable that members of Congress are making these statements because it reflects, we think, the very simple message that farmers have delivered to Congress over the last year, year and a half as Congress has turned its attention toward writing the next farm bill through all these hearings, collecting input from the farmers, wanting to know what farmers think about the current farm bill. And we think, without exception, all of those hearings, when the question came up about the crop insurance program, Congress heard from farmers that the program should be left alone, that it should be maintained because it was working for them.

We're very hopeful that Congress will read this proposal and understand it for what it is. We are very encouraged by what Congress has said so far. It is kind of very interesting, and maybe uncharted territory that we're going to be living in, working on the next farm bill, in light of the nation's interest in doing something about the federal budget, and then the advent of the Joint Select Committee and its management of this issue.

But we're hopeful that Congress will be able to see through all this chatter and these kind of proposals and do what's right, not only for farmers, but for the nation in terms of helping be sure that we're able to have a production agriculture industry that's competitive and viable and continues to produce an abundance of food that the consumers in this country enjoy today.

[End of recording.]