

# United States Senate

WASHINGTON, DC 20510-3403

August 25, 2004

Mr. Ross J. Davidson, Jr.  
Administrator, Risk Management Agency – USDA  
USDA/RMA/Stop 0801, Room 3053 – South  
1400 Independence Ave., SW, Washington, DC 20250

Dear Administrator Davidson:

The quality discount schedules for federal crop insurance coverage are in desperate need of adjustment for the 2004 harvest season. A cool growing season combined with unreasonable quality provisions is likely to result in a real financial disaster for producers in the Northern Plains.

In the late 1990s, farmers in my state experienced first-hand the problems associated with actual, local market quality discounts for wheat that greatly exceeded the prescribed quality adjustment provisions of federal crop insurance policies. It was not uncommon for market discounts to be as high as 50 percent of the crop market value while crop insurance provided an indemnification level for quality losses of only 25 percent or less.

To rectify this problem, I offered amendments to the Agricultural Risk Protection Act of 2000 and the Farm Security and Rural Investment Act of 2002 with the hope that corrective action would be taken. In August 2003, a RMA contracted study conducted by Milliman USA was released. Milliman found existing crop insurance discount schedules to be inadequate when compared to actual market discounts. The study further indicated that quality discounts based on surveys within the RMA regions and local markets were substantially different from the coverage allowed by the crop insurance program.

Despite my efforts and the issuance of the 'Milliman study', the Risk Management Agency has apparently disregarded suggestions to change its current procedures, practices and coverage provisions. USDA's reluctance to rectify the situation may cost farmers dearly in 2004, and may also lead them to question the usefulness of the crop insurance program entirely.

Cool temperatures in the northern plains have retarded crop maturity and increased the potential for an early frost. In fact, an early frost that occurred on August 19<sup>th</sup> and 20<sup>th</sup> in some parts of North Dakota and Minnesota have already affected crop production. Failure to achieve physiological maturity may result in significant damage that is not adequately recognized by the crop insurance program. Thus far, the growing degree-days this year are nearly identical to the disastrous years of 1992 and 1993 according to data accumulated by North Dakota State University. Potential crop quality impacts include:

- Corn: High moisture (very expensive to dry, especially given today's energy costs) and low test weight are common if full maturity is not reached. Cash discounts for test weights in the low 50 pounds per bushel range could amount to over 40 percent of the market price if the occurrence is relatively widespread. However, crop insurance indemnification at the 25 percent level begins when the test weight falls to 48 lbs.
- Sunflowers: Test weights and oil content suffer with an early frost after petals drop and flowering is completed. Widespread regional problems are likely to result in deep discounts well in excess of crop insurance schedules for both quality factors.
- Soybeans: Lower oil content, protein levels, and green beans are likely. Crushers may not accept soybeans if too many 'green' beans are present. Stiff discounts are nearly guaranteed.

Similar scenarios may also play out for late seeded small grains and some specialty crops.

Failure to adequately compensate producers when significant quality problems exist detracts from the overall, long-term value of the program. It also increases the pressure to enact a crop disaster assistance package to address economic losses resulting from reductions in crop quality.

To fully understand the gravity of the situation, I invite you to come to North Dakota to discuss this most important issue with farmers, crop insurance agents, grain warehouse managers, and grain trade officials.

USDA must immediately review all available options to more fairly compensate producers for income losses associated with weather-related quality deterioration.

I look forward to receiving your response to this invitation and the crop quality issues outlined in this letter.

Sincerely,



KENT CONRAD  
United States Senate

CC: Dr. J.B. Penn, Under Secretary FFAS