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United States Senate

WASHINGTON, DC 20510-3403

March 6, 2003

The Honorable Ann Veneman
Secretary of Agriculture
U.S. Department of Agriculture
Washington, D.C. 20250

Dear Secretary Veneman:

With enactment of agricultural disaster assistance in the omnibus appropriations bill for 2003, I would like to bring to your attention two items of great concern to producers: the "95 percent cap" on disaster payments and quality loss payments.

The 95 Percent Cap on Disaster Payments

A central concern among farmers and the crop insurance industry is the manner in which USDA will impose the 95 percent cap on payments. I believe we share a common interest in not undermining participation in the crop insurance program or discouraging producers from purchasing higher levels of protection. Unfortunately, the 95 percent cap threatens to do both.

Attached to this letter are examples of potential outcomes for a wheat producer with alternative levels of coverage. If USDA applies what I consider the worst-case scenario to determine the per-acre cap, higher levels of Revenue Assurance Coverage will receive no crop disaster program payment at all while those who chose catastrophic (CAT) protection will receive maximum benefits. That result will threaten the future of crop insurance and our goal of encouraging higher levels of risk protection.

Accordingly, I suggest that you explore alternative options in determining the per-acre cap, such as:

- In determining the value of the crop, using the higher of:
  - the Actual Production History (APH) basic price;
  - the projected seasonal average market price, or;
  - the final price election for insurance coverage (such as the harvest price for Revenue Assurance Coverage or Crop Revenue Coverage).
- Proportionately increasing the cap in relationship to the producer's insurance guarantee over and above 65% APH coverage
- Adjusting deductions for indemnities paid to levels no greater than a calculated indemnity for 65% APH coverage.

Quality Loss Payments

The omnibus appropriations act for 2003 states that:

> "*...the Secretary shall make assistance available under this section in the same manner provided under section 815 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001, including using the same loss thresholds for quantity* *and quality* *[emphasis added] losses as were used in administering that section.*"

Many producers have suffered significant quality losses that are not indemnified adequately under current crop insurance discount schedules. The Agricultural Risk Protection Act of 2000 and language in the managers' report on the Farm Security and Rural Investment Act of 2002 instructs the Risk Management Agency to explore methods to resolve this glaring failure.

It is critically important that USDA administer a Quality Loss Program (QLP) in a manner similar to the method used for the 2000 crop year. I believe the 2000 QLP properly addressed quality losses and provided reasonable relief. I therefore encourage you to follow that precedent as recommended by the language of the Agricultural Assistance Act of 2003.

I look forward to working with you to ensure that Agricultural Assistance Act of 2003 is implemented in a manner that is equitable and consistent with our long-term objective of encouraging greater participation in the crop insurance program.

Sincerely,

Kent Conrad

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Attachment

Wheat Producer Example for the 2001/2002 Crop Disaster Program

A producer with an Actual Production History (APH) on wheat of 32 bushels could face the following scenarios depending on their level of coverage in a total loss scenario for 2002.

1. 75% Revenue Assurance (RA) or Crop Revenue coverage (CRC) with harvest price election
   $96.96 Indemnity [24 bushels per acre with a price of $4.04]
2. 65% Revenue Assurance (RA) or Crop Revenue coverage (CRC) with harvest price election
   $84.03 Indemnity [20.8 bushels per acre with price of $4.04]
3. 75% Actual Production History (APH) coverage
   $75.60 Indemnity [24 bushels per acre with a price of $3.15]
4. 65% Actual Production History (APH) coverage
   $65.52 Indemnity [20.8 bushels per acre with a price of $3.15]
5. Catastrophic (CAT) level coverage
   $27.72Indemnity [16 bushels per acre with a price of $3.15 X 55%]

Potential Crop Disaster Program (CDP) Calculation (65% of APH X 50% of Price)

Assumes USDA will use producer's APH, crop insurance loss data, and APH Price election for payment purposes

$32.76/acre CDP indemnity (20.8 bushels X $1.575 per bushel)

Calculation of the 95% Cap

If USDA chooses the worst-case scenario whereby the 95% cap is determined by multiplying the APH by the APH basic price, this producer's cap would equal $95.76

- Producers who purchased 75% or greater RA or CRC coverage would receive no CDP payment
- Producers who purchased 75% APH coverage would be eligible for a maximum of $20.16 per acre or 61.5% of the maximum CDP payment
- Producers who purchased 65% APH coverage would be eligible for a maximum of $30.24 per acre or 92% of the maximum CDP payment
- Only producers of CAT coverage would receive the entire CDP payment