

**JUNE 2009**

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GAO Releases Long-Awaited Report on Crop Insurance

The Government Accountability Office (GAO) has released a long-awaited report related to the crop insurance program that is sure to provide more fuel for the fire in the ongoing debate surrounding the correlation between agent commissions and the profits realized by crop insurance companies on one side and the need to find cost savings on the other.

The GAO was tasked with examining the reasons for increases in Administrative and Operating (A&O) reimbursements, as well as the purpose and utilization of these reimbursements by crop insurance companies. In addition, the study looked at the insurance agencies' expenses for selling federal crop insurance policies, as well as any questionable practices agencies might use to compete for a farmer's business. The report acknowledges that crop insurance plays an important role in protecting farmers when losses occur due to natural disasters and that private insurance companies are an integral part of the program's success. The GAO, however, suggests that increased downward budgetary pressures provide an opportunity to reduce government expenditures without compromising the crop insurance program.

The GAO found that from 2000 to 2009, A&O reimbursements nearly tripled, with the primary reason behind these increases is the method used by the United States Department of Agriculture (USDA) to calculate administrative expenses. This formula has traditionally been based upon the value of the crop, not the crop insurance industry's actual expenses associated with selling and servicing policies. Due to high commodity prices in recent years, this methodology has resulted in increased federal outlays. Although the 2008 Farm Bill reduced the A&O reimbursement rate, the rise in commodity prices increased A&O reimbursements from \$960 million in 2006 to \$2 billion in 2008. Although these allowances are expected to decrease in 2009 (due to lower crop prices and the reduced A&O allowance), the Risk Management Agency (RMA) estimates they will be \$1,417 per policy. This is down from \$1,751 in 2008 but is still 69 percent higher than in 2006.

The higher commodity prices also increased agent commissions per policy, from an average of \$836 in 2006 to an estimated \$1,417 in 2009. Of particular interest to AgriBank District associations is the finding that crop insurance agent commissions increased 59 percent in one year. In Iowa, commissions more than doubled from 2006 to 2007 and commissions in Minnesota, Nebraska and Wyoming increased more than 90 percent.

The GAO cited concerns that the utilization of a large share of the higher A&O reimbursements by crop insurance companies to compete for more business has set off a

commission “bidding war” between carriers and that insurance agencies have benefitted from the increases in A&O without selling more policies. Although the crop insurance companies did acknowledge that they increased commission rates to obtain large books of business, they also reported to RMA that their expenses for delivering federal crop insurance in 2007 exceeded A&O reimbursements by approximately \$244 million.

The GAO has forwarded a number of recommendations to Congress they believe would ensure that A&O reimbursements provided to the crop insurance industry are sufficient for program delivery, but not excessive. For example, they recommend that the Secretary of Agriculture direct the administrator of RMA to develop a new methodology for calculating A&O reimbursements so that it is more closely aligned with expenses in terms of dollars per policy. Once this alignment is achieved, the Administrator should minimize annual fluctuations in A&O that are unrelated to business expenses - while still recognizing variations in delivery expenses across different regions of the country.

To assist in maintaining a balance between A&O reimbursements and reasonable business expenses, the GAO recommends that crop insurance companies annually report the commissions they paid to insurance agencies (by policy) to the RMA. It is also recommended that this agency conduct a study of the costs associated with selling and servicing crop insurance policies so as to establish a standard method for assessing these costs.

AgriBank continues to monitor developments regarding changes to the crop insurance program. The bank’s long-standing position is that it supports a wide range of strong risk-management tools for producers; including a viable crop insurance program and that it opposes reductions in the program that would adversely impact producers. Reductions hold the potential to reduce the number of companies offering risk-management tools such as crop insurance. Without a viable program, it is likely that lending standards would need to be much more stringent in order to maintain sound credit quality.

### Climate Change Bill Clears First Legislative Hurdle

After weeks of negotiations, four days of debate in the House Energy and Commerce Committee and consideration of ninety-six amendments, a comprehensive bill (H.R. 2454) regarding climate change legislation has cleared its first legislative hurdle. However, with eight other House committees also laying claim to the bill (as well as an uncertain future in the Senate) the final outcome is anyone’s guess. The other eight committees sharing jurisdiction over the measure are the House Agriculture, Education and Labor, Financial Services, Foreign Affairs, Natural Resources, Science and Technology, Transportation and Infrastructure and Ways and Means Committees.

The bill that was approved by the Energy and Commerce Committee would cap greenhouse gases and establish a market-based program for businesses to buy and sell carbon credits that would allow them to meet their requirements under an established cap. Specifically, the legislation would cap emissions at 17 percent below 2005 levels by 2020, followed by an additional 25 percent reduction in 2030 and an overall reduction of

83 percent from 2005 levels by 2050. A company could buy carbon emissions allowances from another business in lieu of meeting its obligation to reduce emissions. As currently written, the government would sell approximately 15 percent of these allowances at an auction and distribute the rest free. In future decades, a much greater percentage would be auctioned to interested parties.

In addition, the legislation would require that 15 percent of the nation's electricity come from renewable sources, including wind, solar, biomass and geothermal, by 2020 - with an additional 5 percent in energy savings coming via greater efficiency. According to congressional sources, States could petition to meet a standard for 12 percent renewable use and 8 percent from efficiency.

Among those voting against the bill in committee was **Representative Mike Ross (D – AR)** who believes that it needs a broader definition of biomass as a renewable resource. Although Mr. Ross has indicated he agrees with the intent of the bill, at this time he cannot support the current approach because he believes it lacks certain provisions that protect rural areas that do not have the same renewable-energy sources as states such as California.

Although **Speaker Nancy Pelosi (D – CA)** had been pressing to pass the legislation prior to the July Fourth recess, she later softened her remarks and said that “it could be this year” that Congress is able to pass the climate change bill into law. What is clear is that there is anything but smooth sailing in the weeks that lie ahead. The bill has been referred to eight other House committees, each of which has their own priorities when they conduct their markups. For example, **House Natural Resources Chairman Nick Rahall II (D - WV)** supports language that would allow new oil and gas production offshore and on federal lands. Conversely, **Ways and Means Chairman Charles B. Rangel (D – NY)** and his committee will oversee significant portions of the bill and have significant influence over tax and other funding provisions. However, Mr. Rangel has also said advancing health care legislation should continue to be a priority.

Before the legislation can move to the House floor, these competing interests and differing priorities must be reconciled. As such, there are a number of ways in which chairmen might deal with their individual priorities. They may settle them behind closed doors and then attach a manager's amendment to the bill or they could simply write their changes into the bill. Another option would be to agree to floor amendments, clear them with Speaker Pelosi, and add them during floor debate.

Complicating the picture is the fact that the White House has expressed a desire to take on healthcare reform sooner rather than later, so it is unclear how much political capital the administration will be willing to spend in order to advance climate change legislation.

#### Impact on Agriculture Remains an Open Question

Although amendments have been adopted that would provide some relief for agriculture and ethanol (including, loan guarantees to help finance the building of pipelines to carry

renewable fuels), the open question for agriculture stakeholders is what impact the legislation will have on farmers and the agriculture sector. The bill would leave it to the EPA to specify the types of agricultural projects that would be eligible for greenhouse gas reduction credits, as well as a provision offered by **Representative Bruce Braley (D – IA)** that would provide loan guarantees for renewable fuels pipelines.

There continues to be more questions than answers regarding the legislation's potential impact on agriculture. **House Agriculture Committee Chairman Collin Peterson (D – MN)** has outlined several objections that could lead him and at least forty other Democrats who hail from agricultural districts to vote against the bill – including a recent Environmental Protection Agency (EPA) rule on how to measure the environmental effects of biofuels such as ethanol. It appears as though Mr. Peterson may have softened his insistence on requiring a formal markup, but he continues to meet with the bill's sponsors and House leaders to “resolve” all pertinent issues

The EPA has proposed analyzing the “indirect” effects of biofuel production, such as changes in land use that could lead to increased greenhouse gas emissions. According to *Congressional Quarterly*, Chairman Peterson wants to add language that would require United States Department of Agriculture (USDA) approval before the EPA could move forward. Mr. Peterson would also like to tighten the bill's regulation of market trading for emissions permits, expressing concerns that the legislation holds the potential to make it illegal to have a derivatives market.

Concerns regarding the bill go beyond the halls of Congress. According to the *Red River Farm Network*, at least twenty-three farm groups have sent letters to Congress expressing opposition or serious concerns regarding the pending climate change legislation. For example, the North Dakota Grain Growers Association is concerned that the bill reaches into the mining and oil industries. According to Grain Growers President Bryon Richard, this would mean an increase in input costs. Mr. Richard notes that “fertilizer, fuel, you name it, dramatic increases will be there.” He also notes that the legislation will remove cropping options, thereby forcing farmers into a no-till system in order to receive carbon sequestration credits.

Clearly the House Agriculture Committee has a major role to play in crafting a bill that can be accepted by members who represent rural districts and, ultimately, be passed by the full House. The magic number for passage of legislation in the House remains 218 and it is yet to be determined how many of those votes will come from members who represent rural communities and agricultural districts.