

A Report from the:
Risk Management Agency,
U.S. Department of Agriculture,
regarding:

“The Department of Agriculture’s Annual Report to the
Committee on Agriculture of the U.S. House of Representatives
and the Committee on Agriculture, Nutrition and Forestry of the
U.S. Senate Regarding the Progress Made in Developing and
Improving Federal Crop Insurance for Organic Crops”

March 2015

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Introduction

The Risk Management Agency (RMA) provides this report, pursuant to Section 508(c)(6)(D) of the Federal Crop Insurance Act, as amended by Section 11023 of the Agricultural Act of 2014:

“The Corporation shall submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate an annual report on progress made in developing and improving Federal crop insurance for organic crops, including:

- i. the numbers and varieties of organic crops insured;
- ii. the progress of implementing the price elections required under this subparagraph, including the rate at which additional price elections are adopted for organic crops;
- iii. the development of new insurance approaches relevant to organic producers; and
- iv. any recommendations the Corporation considers appropriate to improve Federal crop insurance coverage for organic crops.”

In this report, RMA addresses the requirements above, and provides: 1) a brief summary of our March 2014 report to the House of Representatives Committee on Appropriations and the Senate Committee on Appropriations regarding our progress in establishing organic price elections and alternative options for organic coverage; 2) information regarding the number and variety of crops for which we introduced organic price elections for the 2015 crop year; and 3) our ongoing efforts to obtain additional data and information to aid future development of price elections for crops for which we do not yet offer organic price elections.

RMA’s March 2014 report to the Congressional Committees on Appropriations

In March 2014, RMA provided a report (<http://www.rma.usda.gov/pubs/2014/appropriations.pdf>) to the House Committee on Appropriations and the Senate Committee on Appropriations (hereafter referred to as the Report), which discussed the following: RMA data quality requirements to develop organic price elections; our data sources; progress made in providing organic price elections and alternative organic coverage options; our plans to acquire quality organic price data in the future; and our proposal and time frame for the further development of organic price elections.

Data Quality Requirements. RMA emphasized certain data quality requirements needed to derive actuarially sound and economically defensible price elections. Data must reflect a representative sample of the relevant organic producer population, and be accurate, unbiased and available on a recurring basis. To be used directly, the data must be volume-weighted (either production-weighted or coupled with sales volume). In addition, data must reflect the appropriate pricing location (i.e., pre-harvest/farm-gate level) to reflect prices farmers actually

receive. Organic price elections through the 2014 crop year were derived either by: 1) using organic price factors developed from Agricultural Marketing Service (AMS) data; or 2) directly from proprietary private data sources.

Price factors developed from AMS data are a ratio of the organic price to the conventional price. The price factor is applied to the conventional price election to determine the organic price election. This differs from the creation of an organic price election using a data source directly. Specifically, creating and using a factor implies that the two markets are correlated and the prices trend together, which may not always be the case.

Direct use of AMS data to establish organic price elections (as opposed to the creation and use of organic price factors) is limited for the following reasons: 1) daily/weekly price quotes for fruits and vegetables are not volume weighted (i.e., do not include sales volumes)¹; 2) quotes are obtained at shipping point or terminal locations, far removed from the pre-harvest/farm-gate price level required; and 3) for some crops, only a few years of organic data are available, and/or the data are very sparse, often due to limited movement of organic commodities through the spot markets that AMS typically reports on (i.e., many organic commodities are sold under contract). Increased AMS organic reporting at the shipping point level (the level of AMS reporting closest to the pre-harvest/farm-gate level) could assist RMA in developing additional organic price factors. Ideally, AMS price quotes would reflect pre-harvest/farm-gate values and would be accompanied by sales volumes so that RMA could use AMS data directly to create organic price elections without the use of price factors.

Private data sources can be crucial since they may be the only source of information available for determining organic prices, but locating viable sources of data is challenging. We are often required to maintain confidentiality of the source of the data, which inhibits transparency. We may also not be able to substantiate sample sizes and the degree of representation of the entire market that is provided by the private data sets; and we cannot guarantee future availability of the data sets because a private party offers data to RMA at their discretion.

Organic Price Elections through the 2014 Crop Year. In the Report, RMA listed crops for which we derived organic price elections: almonds (CA), avocados (CA), blueberries (all types in CA; Early to Late Highbush types in OR and WA), corn, cotton (non-ELS), fresh apples (ID, OR, and WA), fresh stonefruit (apricots, freestone peaches, nectarines and plums in CA, ID, OR, and WA), grapes (Concord variety in OR and WA), mint (peppermint), oats, pears (OR and WA), processing tomatoes (CA), and soybeans.

The Report also listed crops with insurance policies that require the crop be produced under a contract that includes a base price for the crop. The base price is used under these policies as the price election to determine liability. The requirement of a contract and base price provides the potential for organic price coverage since the terms of the contract can be customized for organic

¹ AMS Market News publishes grain prices weighted by transaction volumes.

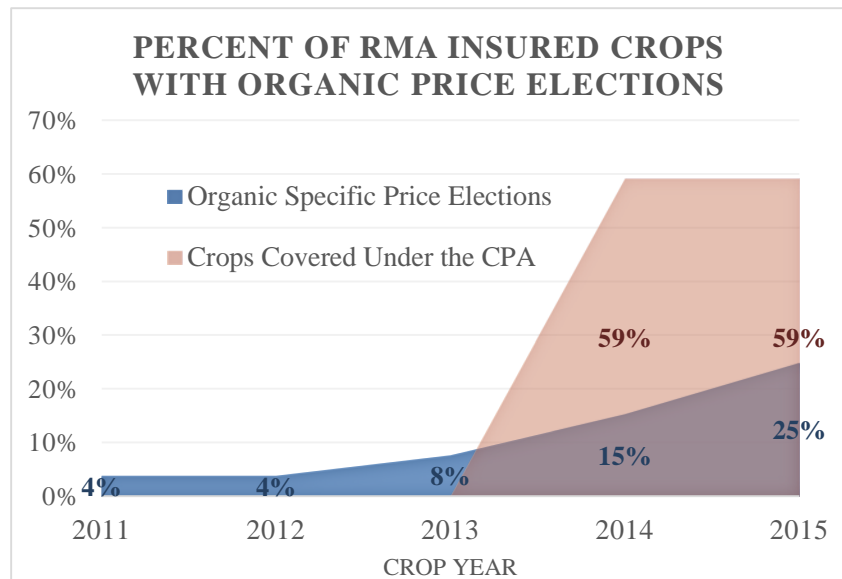
production and thus reflect an organic price. These crops are buckwheat, camelina, green peas, machine-harvested cucumbers, mustard, processing sweet corn, pumpkins, and sesame.

Alternative Tools to Provide Organic Coverage. In the Report, RMA detailed alternative tools developed that provide organic coverage. These include the following:

1. Contract Price Addendum (CPA), which allows organic producers who grow crops under guaranteed contracts to use prices established in those contracts as their price elections in place of RMA’s announced prices;
2. Actual Revenue History (ARH), which is a plan of insurance for a limited number of crops (cherries, navel oranges, and strawberries) that uses personal historical revenue documentation - including documentation for organic crops - to establish coverage;
3. Adjusted Gross Revenue (AGR) and AGR-Lite/Whole Farm Revenue Protection (WFRP), which establish individualized coverage based on income information reported on a producer’s historical IRS tax form (Schedule “F” or equivalent forms), including income pertaining to organic production. WFRP replaced the AGR and AGR-Lite plans of insurance beginning in the 2015 crop year.

Progress for the 2015 Crop Year

Expanded Offering of Organic Price Elections for the 2015 Crop Year. RMA introduced organic price elections during the 2015 crop year for the following ten crops: corn silage, figs, flax, grain sorghum, hybrid corn seed, hybrid sorghum seed, millet, popcorn, silage sorghum, and walnuts. With the addition of these 10 crops, RMA now has an organic-specific price election for 25 percent of the commodities for which we offer coverage².



² Based on the distinct number of crops listed in RMA’s online Actuarial Information Browser. Crops with ARH plans of insurance, WFRP, apiculture, nursery, clams, livestock policies, and crop policies that both require and use a contract price to determine liability are not included in the total. Corn silage was added to the total. For those commodities identified as having an organic price, it does not mean RMA offers a unique organic price for all types and locations of that commodity.

Modified Usage of Existing NASS Organic Survey Price Data. To date, quality organic price data are unavailable for many RMA-insured crops. The absence of such data makes the development of actuarially sound crop-specific organic price elections difficult. However, RMA has attempted to further comply with the Congressional mandate to develop organic price elections for all insured crops by making use of existing National Agricultural Statistics Service (NASS) organic survey price data. RMA used data contained in the *NASS 2011 Certified Organic Production Survey* and the accompanying unpublished individual survey responses on a limited basis. In some cases, RMA set the organic price elections conservatively when referenced against the limited one year of data and anecdotal market information available, in order to avoid inducing moral hazard and market distorting behavior. Consequently, organic price elections developed from this process – including grain sorghum, hybrid sorghum seed, popcorn, and silage sorghum – may fall short of some insured producers’ organic price coverage expectations. These price elections will be updated as new data and information become available.

Whole-Farm Revenue Protection. RMA developed the new WFRP plan of insurance, which was approved by the FCIC Board of Directors in May 2014. WFRP provides whole-farm insurance protection covering all commodities on the farm (including organic commodities). The program improves upon many features of the previous AGR and AGR-lite policies, with a goal of providing producers an improved whole-farm risk management product. Beginning with the 2015 insurance year, the WFRP product replaced the AGR and AGR-Lite plans of insurance.

RMA sought input from parties across the U.S. who were interested in whole-farm insurance, in order to help define the target markets for the WFRP product. The feedback centered on the risk management needs of producers and focused on sustainable agriculture and specialty commodities, including organic commodities. This led to the identification of two key markets, both of which are composed primarily of specialty crop growers: 1) highly diversified farms where shallow and/or isolated commodity losses might be sufficiently absorbed by the operation, but that may benefit from a risk management safety net that provides insurance for larger losses; and 2) farms growing two to five commodities and selling to wholesale markets. These farms tend to need higher coverage levels in order to insure their risk for commodity losses. It was noted that the previous AGR and AGR-lite products did not provide high enough coverage levels for the wholesale farm producers’ needs or low enough coverage for the highly diversified producers’ needs.

Current Organic Data Collection Efforts

Contract for Research into Organic Crop Marketing. RMA entered into a contract with a private firm, Agralytica, titled, “Indefinite Delivery, Indefinite Quantity (IDIQ) for Pricing Reviews and Information” with a total budget of approximately \$980,000. The work required under the contract involves: 1) identifying, contacting, and working with producers and point-of-first-sale purchasers to gather information; 2) constructing cost of production budgets; and 3) compiling and analyzing results of the research.

On March 20, 2014, RMA issued Task Order 1 to compile point-of-first sale market information for the following crops: fresh and processing apples (CA and AZ); table grapes and raisins (CA), as well as cost of production budgets for apples (ID, OR, WA, and CA). The information contained within the report provides background and source information on market participants willing to cooperate with RMA's organic data collection efforts. This information will be used to pursue 2016 crop year organic price elections for the researched crops.

RMA plans to issue Task Orders 2 and 3 under the IDIQ contract. Task Order 2 will be issued to compile point-of-first-sale market information for sweet corn (CO, FL, and NY), tomatoes (FL), peppers (FL) and dry peas and lentils (MT, ND, and WA). It will also construct cost of production budgets for the following crops in the state of Florida: peppers, sweet corn, and tomatoes. RMA seeks representative cost of production budgets for organic production of these crops because they are covered under Dollar Plan policies where the insurance coverage is based on the cost of growing the crop. Task Order 3 will be issued to conduct research and gather market information for organic wheat.

NASS Organic Survey for 2014. As mentioned in the 2014 report, RMA previously contracted with NASS through a partnership agreement to collect organic acreage, production, and sales data from certified organic growers. Under this agreement, NASS constructed a survey, compiled aggregated values from the responses, and published a report titled *2011 Certified Organic Production Survey*. This report complimented a previous NASS report, *2008 Organic Production Survey*, a supplement to the *2007 Census of Agriculture*.

RMA funded a \$1.4 million contract with NASS to collect 2014 crop year organic price data from certified organic growers. This survey seeks to update and expand data collected in the *2011 USDA Certified Organic Production Survey*. For the 2014 crop year, NASS is surveying all producers who identified themselves as producing some amount of organic production in the *2012 Census of Agriculture*. The initial survey mailings were sent on January 5 and January 15, 2015. The expected publication date of the results is September 2015.

For the 2014 organic survey, RMA worked with NASS to improve the survey methods. For example, NASS is expanding data collection to include specific crop types and varieties not listed in previous surveys. The NASS data from this survey, combined with data from the earlier surveys, will provide three non-sequential years of organic price data over a span of seven years. Once analyzed, the results of the 2014 survey could result in new or more accurate organic price elections beginning no later than the 2017 crop year.

Cooperative Efforts with AMS. RMA and AMS are working cooperatively to determine additional ways in which AMS can collect expanded organic price data that RMA can use to develop additional organic price elections. AMS and RMA held several meetings during which RMA carefully explained its data requirements and the type of data needed to create additional organic price elections.

In some cases, RMA currently uses AMS shipping point data to create price factors and derive organic price elections. The table below lists the fruit and vegetable crops currently covered by AMS organic data reporting and compares those crops with RMA's organic crop insurance coverage.

AMS Organic Reporting Compared with RMA Organic Crop Insurance Coverage		
Crop Reported	Shipping Point Reported	RMA Organic Coverage
Apples and Pears	Washington	Yes ¹
Blackberries	California	<i>-not insured-</i>
Blueberries	Oregon, Washington, California	Yes ¹
	Georgia	No ³
Cantaloupes	California	<i>-not insured-</i>
Honeydews	California	<i>-not insured-</i>
Lemons	California	No ³
Oranges	California and Arizona	No ³
Strawberries	California	Yes ²
Watermelons	California and Arizona	<i>-not insured-</i>

1. RMA offers an organic price election using a factor developed using AMS data.
2. Crop is insured under an ARH plan of insurance which allows for organic coverage.
3. Data are currently being reviewed for a possible 2016 organic price factor.

AMS reports organic prices at the shipping point level for apples and pears in Washington; blackberries, cantaloupes, honeydews, and strawberries in California; blueberries in Oregon, Washington, California, and Georgia; lemons in California; oranges in California and Arizona; and watermelons in California and Arizona. Of these crops, RMA currently offers organic price elections for blueberries in Oregon, Washington, and California, and apples and pears in Washington. Strawberries are insured under an ARH plan of insurance which allows for organic coverage. RMA currently does not insure watermelons, cantaloupes, honeydews, or blackberries. RMA is currently reviewing AMS organic shipping point data for lemons in California, oranges in California and Arizona, and blueberries in Georgia for the possibility of deriving factors for additional organic price elections in 2016.

As already mentioned, the direct use of AMS data to establish organic price elections (as opposed to price factors) is limited. Consequently, AMS would need to pursue new types of reporting for RMA to use AMS data directly for additional organic price elections. In response to RMA, AMS is currently planning a pilot study to collect pre-harvest/farm-gate level prices for one or more crops. In lieu of pre-harvest/farm-gate level data, expanded AMS organic reporting at the shipping point price level, on a sustained basis could assist RMA in developing additional organic price elections. RMA has provided AMS with a list of crops for expanding shipping point price level organic data for the fruit and vegetable category. RMA has also conveyed the need to enhance existing organic grain price reporting, particularly for wheat, to increase the number of observations reported by type. AMS is currently pursuing a plan to address RMA's request for increased reporting at shipping point for organic commodities. AMS also continues to explore opportunities to address reporting for certain commodities (e.g., those with confidentiality issues due to thin markets from a very limited number of shippers, i.e., Florida

organic citrus) and capture data from contractual arrangements in addition to data from the spot market (e.g., organic wheat).

Recommendations

The most efficient way to facilitate RMA's progress in developing and maintaining additional price elections is one in which an organic survey is conducted by NASS on an annual or even biennial basis to establish a recurring data source, which will build statistical confidence and ensure accurate price elections. Due to the nature of these surveys (farm-gate level season average production-weighted prices, and comprehensive survey coverage), they are the exact type of data RMA requires and are a valuable tool to evaluate other sources of organic price data.

If insurance will be offered with organic prices, it is imperative that a sustainable data source be available to assure organic prices offered can be updated to reflect current market values. Inaccurate prices can have devastating impacts on commodity markets, particularly for specialty commodities that have limited markets. The cost of the NASS Organic survey that RMA has funded for 2014 is \$1.4 million. RMA has funded the last two organic surveys NASS conducted; however, there is not dedicated funding available for this survey work, which means the future availability of NASS data cannot be guaranteed to be available from year to year. To ensure NASS is able to continue conducting these surveys on an annual or biennial basis, a designation of funds specifically for organic data collection would be necessary.

Conclusion

RMA continues to strive to develop and implement organic price elections for all crops covered by Federal crop insurance programs, as mandated in the Federal Crop Insurance Act. New organic price elections are developed whenever appropriate organic price data are available. Organic price data that meets RMA standards are scarce, and without such data, developing organic price elections in a manner consistent with pricing principles needed for actuarially sound products is not possible. RMA's efforts to obtain additional organic price data over the past year are extensive and include:

- \$980,000 for organic research (IDIQ contract awarded to Agralytica);
- \$1.4 million for the 2014 crop year organic survey (NASS);
- Cooperation with data collection agencies (i.e., AMS) for enhanced and/or increased organic data reporting; and
- On-going RMA efforts to find new data sources not expressly identified above.

In addition, the Whole Farm Revenue Protection plan of insurance, which insures organic production at organic prices, was implemented for the 2015 crop year.

RMA continues efforts to locate and analyze new sources of data. Every crop is evaluated annually to determine if there are new or updated sources of organic information sufficient to develop organic price elections. This frequently involves contacting University Cooperative Extension agents and/or working with private sector groups and companies to locate organic data and other pertinent market information. RMA will continue to pursue opportunities for the acquisition of additional organic price data and information as we are able, given funding constraints. We will continue to work toward developing crop-specific organic price elections consistent with our data quality requirements.