Submission to the Productivity Commission

Wheat Export Marketing Inquiry

From Robert Scott a Director of M B Scott Pty Ltd

Kywong Forbes
NSW 2871
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Dear Sir Madam,

I am a wheat producer from Forbes NSW. Firstly let me say how inappropriate it is to be conducting this inquiry during harvest time. All sectors of the industry are focused on harvesting the crop and most are probably not even aware of this inquiry. I hope your inquiry can gather sufficient information to be effective.

I will be brief in raising a few concerns.

The period since deregulation and the transition period have highlighted many shortcomings in our new industry structure. The inquiry needs to look at how the grain industry operates in other countries and adopt those practices, which are of benefit to our industry. I have included with this letter two appendices. The first is an extract from the CME group. This information highlights the extent of the operation of the Government Subsidised Risk Management Agency in the USA.

The second appendices is from the RMA website and gives access to the nature of its operation.

The powers that be in their wisdom have seen fit to deregulate the Australian Wheat industry but have not put in place any mechanism to protect the industry from the exploitation of the markets. As can be seen from the operation of the RMA the American farmers have a Government backed entity subsidizing and protecting them from both yield and price losses.

With deregulation the AWB stopped forward selling of grain. The Banks and Marketers flooded the market with a plethora of "Risk Management Tools". The volatility that ensued in the grain markets defied understanding. Exposure to these markets has had a devastating effect on many farm operations. Australian farmers are purportedly the most efficient in the world, they are good at growing product, for many having to enter the marketing side has been difficult. As the GFC has proven not even the experts can get it right.

Yours Sincerely

Commodities' Price Drop Opens Flood Of Crop Insurance Claims

The floods and hurricanes of early 2008 turned out to be a wash for corn and soybean crop insurers, but unprecedented levels of market volatility in 2008 have grain belt crop insurers bracing for a flood of claims and payouts.

As farmers prepared for spring planting in 2008, they faced prices that had essentially doubled from historic levels. Thousands of them bought federally subsidized crop insurance designed to provide a floor to prices for corn and soybeans. Then the bottom fell out the market and harvest prices dropped by around 30% for corn and soybeans, wrenching open insurers' exposure levels.

The national totals for government-subsidized crop insurance programs are still in process for corn and soybeans, but actuaries said they are seeing heavy claim volume pouring into field offices.

Wheat claims topped $1 billion this year, up 16% from the $864 million paid in 2007, according to data from the U.S. Risk Management Agency. But these claims reflect weather pressure as much as market conditions. North Dakota, which suffered through an intense drought this year, led the nation in claims. Weather was more a factor for wheat's revenue-based claims than it was for corn and soybeans, insurers and agency officials said.

Wheat claims are 59% higher than the average payments registered between 2004 and 2007, according to post harvest summaries.

The U.S. Risk Management Agency sets the policy parameters of federal crop insurance and subsidizes policies written by the companies who comply with the agency's coverage guidelines.

"We've got greater-than-normal price drop and thus a huge number of claims," said Tom Witthoft, vice president of crop insurance providers Rain and Hail in Des Moines, Iowa.

Given the substantial challenges of the wet planting season followed by the floods, "it's not a bad year in total [regarding production] but the ones that raised more average [crops] don't offset those that are below," Whitthoft said.

Revenue assurance policies written for corn were insured at a base price of $5.40 a bushel only to have the RMA's harvest price drop 31% to $3.74. Soybean prices from base to harvest price also dropped 31%, to $9.26 from $13.36.

Policies are written in February against a base price measuring the Chicago Board of Trade's monthly average for November soybeans and December corn futures. Farmers with revenue assurance choose to protect 65% to 85% of that base. For corn, the harvest price is determined by averaging the CBOT price for the December corn contract during the month of November.

The RMA offers other revenue-protection products that offer variations on coverage and price determination. Revenue assurance policies, the most popular form of crop insurance, offer coverage ranging from 65% to 85%, but other policies go as low as 50% and as high as 90%.

"If you had 70% coverage level with corn revenue assurance and you had a normal yield, you will probably get a small indemnity payment," said Bill Murphy, deputy administrator for insurance services at RMA. "If you have a 60% coverage level, you would also need a low yield for the year to get an indemnity payment. I recommend producers contact their agents with questions."

If farmers have yield losses, their claim capacity expands.

If a farmer's recorded average yield is 150 bushels an acre and that's what is produced in 2008 after insuring it at a 70% coverage, then he has an indemnity due to the 31% price drop. But if he only produced 140 bushels an acre, he'd have the yield loss and the 31% price drop, then his indemnity would add up on both sides of the equation.

Crop insurance provider AgriServe said soybean claims represent about half of the total revenue-based claims turned in this year. Corn totals 39% and wheat represents 6% of the company's revenue-based claims. Of the revenue assurance policies, nearly 70% are represented at 70% or higher coverage - the amount at which Murphy predicted a virtually guaranteed paid claim.

Insurer Rain and Hail sent a letter to agents and policy holders encouraging them to submit claims as soon as crops are gathered. The company is bringing in actuaries from outside the grain belt to help process the claims. Striving for the best efficiency in claim-processing is an opportunity this environment presents the insurers, Whitthoft said.

"Is it a challenge? Yeah, it is," said Whitthoft. " I don't think anyone is staffed to have this many claims in a year - because it's not a normal thing."

But, Whitthoft added, "I don't see any radical changes in how people are going to underwrite Iowa [farmers]. From an industry perspective, how well and how timely people get their claims worked will a differentiating factor at the farmer and insurer level."

While the volatile market swings of 2008 worked against the crop insurers, the RMA boosted 2008 policy premiums by 50% in response to the high harvest prices projected by the CBOT this spring. So the products will likely remain profitable, but much less profitable than they would have been had the market remained stable.

RMA-approved agents sold 168,632 corn revenue assurance policies in 2008 for a total of $2.271 billion in premiums paid. The policies covered 35.7 million acres of corn, or 42% of the 85.9 million acres the U.S. Department of Agriculture estimated planted. For all RMA corn policy types combined, 81% of the nation's corn crop was insured.

About the Risk Management Agency

The role of USDA's Risk Management Agency (RMA) is to help producers manage their business risks through effective, market-based risk management solutions. RMA's mission is to promote, support, and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers. As part of this mission, RMA operates and manages the Federal Crop Insurance Corporation (FCIC). RMA was created in 1996; the FCIC was founded in 1938.

RMA employs approximately 500 people in offices around the country. RMA's fiscal year 2009 administrative budget was $77 million. Meanwhile, the size of the program has grown tremendously (see chart, p. 2). In crop year 2009, RMA managed nearly $80 billion worth of insurance liability (see table).

RMA Administrator William J. Murphy was appointed in July 2009. He also serves as the manager of the FCIC. Located within the Office of the Administrator are the Director of External Affairs, the Director of Civil Rights and Outreach, the Director of Program Support, the Chief Information Officer, the Chief Financial Officer, and the Secretary to the FCIC Board of Directors.

The Agency has three divisions: Insurance Services, Product Management, and Risk Compliance. Insurance Services is responsible for program delivery (for example, managing contracts with the companies that sell and service policies), and local program administration and support. Product Management is responsible for overseeing product development. Risk Compliance monitors compliance with program provisions by both producers and the 16 insurance companies that sell and service policies.

Crop Year 2009 Program Size

Number of Policies	1.17 million
Premium Volume	8.92 billion
Crop Value Insured	$79.2 billion*
Acres Insured	264 million

Data accurate as of October 15, 2009
*Estimate

RMA, through FCIC, provides crop insurance to American producers. Sixteen private-sector insurance companies sell and service the policies. RMA develops and/or approves the premium rate, administers premium and expense subsidies, approves and supports products, and reinsures the companies. In addition, RMA sponsors educational and outreach programs and seminars on the general topic of risk management.

Additional information about RMA can be found on our main Web site, including agency news, State profiles and other publications, summaries of insurance sales, information on pilot programs, downloadable crop policies, and agency-sponsored events. The site also features online tools and applications. The most popular applications are the Agent Locator, Premium Calculator, and Summary of Business.

RMA launched a new Web site, Farm Risk Plans, in 2009. The Farm Risk Plans Web site is dedicated to providing risk management information to the Nation's farmers and ranchers. The site features risk management planning, better marketing planning, new enterprise planning, and a farm planning library.

Contact Us

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This fact sheet gives only a general overview of the Federal Crop Insurance Program and is not a complete policy. For further information and an evaluation of your risk management needs, contact a crop insurance agent.