Cooperative Extension

Volume 4, Number 1, Statewide

1995 Cotton Management Economic Notes

The University of Arizona • College of Agriculture • Tucson, Arizona, 85721
Department of Agricultural and Resource Economics

February 20, 1995

Russell Tronstad
Extension Economist

February 28 Deadline

On October 13, 1994, President Clinton signed into law the Federal Crop Insurance Reform Act. This Act has important implications for Arizona growers even though Arizona has historically had very low participation in even multi-peril crop insurance. The main reason Arizona growers will find it beneficial to obtain crop insurance at a minimum level relates to farm program benefits. In order for a producer to be eligible for **any** price support or production adjustment programs (e.g., **deficiency payments, loan rate**). Catastrophic (CAT) coverage is the minimum level of insurance needed to be eligible for these benefits. New Farmers Home Administration loans that are of operating, farm ownership, or emergency status also require CAT coverage for insurable crops. Note that **the deadline for purchasing crop insurance is earlier than commodity program signup deadlines.** The deadline for signup is February 28 for both Upland and Pima.

With cotton prices relatively high one may be tempted to not sign up for CAT coverage. But if you want to be eligible for deficiency payments with another program crop like wheat or barley you need to have CAT coverage for Upland. With a 0% ARP rate announced the cost of participating in the farm program and having the benefit of downside price protection is the cost of CAT coverage. In order to be eligible for program benefits in any one crop, CAT coverage is required on all insurable crops that you expect to account for at least 10% or more of your total expected crop revenues. For example, suppose a producer expects to receive gross revenues, including deficiency payments, from crops for the year as follows; 5% wheat, 10% ELS cotton, 15% lettuce, and 70% Upland cotton. This producer would be required to have CAT coverage for ELS and Upland to be eligible for deficiency payments from wheat, ELS, and Upland acreage. Lettuce is not an insurable crop, and wheat accounts for less than 10% of the total expected value of all crops.

Producer Responsibilities for CAT Coverage Include:

- Applying for insurance by no later than the applicable deadline (February 28 for 1995).
- Providing available production records for at least the last four crop years to calculate yield guarantees, including any USDA farm program yield. If production records are not available, Federal Crop Insurance Corporation can establish your yield based on transitional ("T") yields. But "T" yields are generally not to the producers benefit.
- Paying the processing fee, unless waived.
- Filing an acreage report by the applicable date.
- Providing prompt notification of losses.
- Certifying the amount of loss and the cause of that loss.
- Reporting production following harvest.

USDA has announced projected deficiency payment rates for 1995 of: 70 cents per bushel of wheat; 40 cents per bushel of corn; 39

Recent Prices	***February 17, 1995***	
	Upland	***Pima (ELS)***
	(¢/lb)	**(¢/lb)**
Spot - uncompressed	96.31	108.00
Mar '95 Futures	96.48	
Oct '95 Futures	81.93	
Dec '95 Futures	75.98	
Adj. World Price	85.52	

Note: Upland Spot for Desert SW grade 31-3, staple 35, add 300 points for compressed bales, Pima Spot for grade 03, staple 46, 2/9/95.

1994 Average Upland Prices & Marketings

	Marketings (000) bales	Average Price $/lb.
January	1,925	.627
February	913	.657
March	722	.666
April	512	.675
May	191	.690
June	263	.633
July	263	.587
August	912	.668
September	836	.659
October	2,152	.655
November	1,302	.689
December	5,091	.732
Calendar Year Avg.	**18,612**	**.683**

cents per bushel of grain sorghum; 40 cents per bushel of barley; 10 cents per bushel of oats; and **3.4 cents** per pound of Upland cotton. The 1994 deficiency payment rate is 4.6 cents per pound since the calendar year average price was 68.3 cents per pound (i.e., target price of 72.9 minus 68.3 equals 4.6 ¢). Advance payments of 6.45 ¢/lb. were made to eligible producers that requested advance payments in 1994. Since the advance exceeds the final payment, producers that received an advance must refund the overpayment at a rate of 1.85 ¢/lb. Refunds for the 1994 deficiency overpayments are not due until the marketing year ends on July 31, 1995. Producers have the option of offsetting the refund against other program payments due perior to the end of the marketing year.

Catastrophic (CAT) Coverage

CAT coverage is available to growers of insured crops for a "nominal administrative fee of $50 per crop per county, but not to exceed $200 per producer per county, up to a maximum of $600 per producer. The administrative fee may be waived for limited resource farmers. The purpose is to make coverage affordable and widely used." CAT insurance guarantees **50% of the producer's "average yield"** — referred to as the yield guarantee. For each unit of production that actual yield is below the yield guarantee, the indemnity payment will be **60% of the expected market price established** and provided to insurance agents for that crop.

Additional Coverage can be obtained by purchasing a Multiple Peril Crop Insurance policy that includes and adds to the level of CAT insurance. Policy options can guarantee 65% or 75% of your average yield and up to 100% of the expected market price. Premium rates vary depending on the crop, county, and producer's average yield. CAT administrative fees are waived but a fee of $10 per crop per county is charged with additional coverage. The deadline for additional coverage is the "sales closing date." Farmers may call **USDA's Crop Insurance Reform Hotline toll free** at 1-800-749-7774 or TDD 1-800-884-7797 for further information. CAT coverage can be purchased at your local USDA office or from an agent of a private crop insurance company. Local USDA offices can provide a list of crop insurance agents.

Purpose of Crop Insurance Reform

According to Acting Secretary Richard Rominger, "the Crop Insurance Reform Act will save taxpayers $150 million over the next five years." Rominger said that the previous system of disaster relief was "a system that was considered a disaster itself, riddled with redundancy, too costly and inefficient. The system is now streamlined and affordable to all producers and ranchers seeking an economic safety-net for disasters." Rominger declared that the "enactment of crop insurance reform effectively transferred the risk management from the old ad hoc crop disaster programs to producers themselves. It is, therefore, very important that producers fully inform themselves of their options for risk management coverage and the linkage of crop insurance to eligibility for program benefits."

In 1993, 84 million acres or 33 percent of the acres eligible for crop insurance were insured. In 1994, 40 percent of the eligible acreage was insured (100 million acre). The Crop Insurance Reform Act is expected to double the number of acres insured from 1994 to 200 million acres, about 80 percent of the insurable acreage. About 251 million acres of farmland are estimated to be eligible for crop insurance in the United States.