Farmers Insurance Agency

5048 U.S. Highway 29
Blairs, VA 24527
434-835-0107 * 800-458-3440
434-835-0109 (fax)
www.farmersontheweb.com

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Rainfall deficit and input costs cause concern

Is this year going to be a repeat of last year? Recent rains have calmed many worries, but with an ongoing rainfall deficit there is still concern regarding the 2008 crop year. With regard to crop insurance, there was a lot of buy-up activity, especially in the grains in order to achieve higher yield guarantees and better coverage. The rainfall deficit was a driving factor in that.

Another concern amongst growers is the declining yield databases that have reduced yield guarantees. Fortunately with regard to grain crops, commodity prices have been very high, and that has allowed farmers to generally insure their crops to a point of covering their input costs, with the exception of corn. With nitrogen pricing being high, it has proven difficult for corn growers with depressed yield averages to insure their crop at a dollar figure that would replace input costs in event of a total loss.

Soybeans, on the other hand, have increased in price enough so that the coverages have more closely kept up with the increased input costs.

Wheat, perhaps, suffered some in light of increased nitrogen costs, yet most producers are taking Crop Revenue Coverage that had a $5.93 price election at planting. But with a $2 limit on increasing the price election, it appears that $7.93 will likely be the price election that we see this summer at harvest. A producer's guaranteed yield, which is his average yield times his coverage level multiplied by $7.93, will likely cover input costs in most cases.

Also, it appears at the time of this newsletter that small grain crops look good other than perhaps acres that were planted behind tobacco where there were problems with plant populations.

We have a watchful eye on rain gauges in hopes that we will have adequate spring rains, and especially timely rains, during the summer to make this a successful crop for tobacco and grains.

Talk of contract price increases provide an incentive

Tobacco contract price sheets left many growers in a state of disgust prior to planting the crop. Fuel, nitrogen and most other inputs have risen in price considerably since contract price sheets were published. At the time of the writing of this newsletter, it is our understanding that Flue Cured Tobacco Cooperative Stabilization Corp. has mailed new contract price sheets showing as much as a 20 cents per grade increase in price to help offset input costs and to purchase a larger share of the tobacco grown in the United States. It is every tobacco farmer's hope, and of course our hope, that other companies will follow suit in some way. With a crop insurance price election on flue-cured tobacco of $1.60 per pound, there are concerns that crop insurance will not reach the goal of recovering input costs as the program is designed to do. Unfortunately, there's no provision in the crop insurance program for an increase in price election after the sales closing date which was Feb. 28 in North Carolina and March 15 in Virginia. However, increased pricing from the tobacco companies does give an added incentive to the grower to rely on production of a crop rather than to rely on crop insurance.

Wheat premiums will be billed in June with a July 1 due date.

Mailing includes crop hail coverages and premiums

For those who buy crop hail insurance for their tobacco, we will be contacting you in the near future. All crop hail rates have been announced, and there has been no change in rates from the 2007 crop to the 2008 crop.

Wind rates have also remained unchanged. Many growers make use of a policy feature known as Auto-Crop that automatically attaches coverage to tobacco seven days after planting. Auto-Crop automatically locks in the coverage on June 1 for the current crop year and is irrevocable after June 1; therefore, if you have the Auto-Crop endorsement on your hail insurance policy we're required to make any changes prior to June 1.

If your thoughts are to decrease or eliminate crop hail insurance, it is perhaps a good idea to wait until late May to do so in that the premium is not "locked in" until June 1. An early season hail storm might occur in May that would be covered for tobacco replant; and therefore, you would want that higher coverage to be in place when that hail storm occurs. We don't want you to miss out on an opportunity to get paid for replanting that you might elect to do with or without insurance.

A replant will pay 3 percent of the coverage amount per acre for those who have a 10 percent deductible. It will pay 4 percent of the coverage amount per acre for those who have a 5 percent deductible. It will pay 5 percent of the coverage amount per acre for those who have a 0 percent deductible.

We will be sending a mailing to all 2007 crop hail policyholders to inform them of their coverage in 2007 and the premium to expect in 2008 for that same coverage. Feel free to call us if you have questions. If you have not been purchasing crop hail insurance in past years for your tobacco crop and have an interest, please call.

Chemical damage to wheat under scrutiny

On April 15, 2008, the Risk Management Agency (RMA), which governs all crop insurance, issued a bulletin to all participating crop insurers that they are aware of significant damage to wheat crops due to Command carryover in tobacco fields from the 2007 crop.

RMA has instructed all insurers to determine if damaged wheat was planted behind tobacco, and if so, to determine if Command was used, and finally to determine the amount of "uninsured damage" that exists in the wheat crop so as not to pay claims on uninsured damage. It remains to be seen how the adjusters will determine this amount of uninsured damage. All other causes of loss such as drought, excess rain, wind, hail, etc. will still be covered as normal.

The problems with chemical carryover have been identified in all tobacco growing areas, and RMA's position with regards to Command carryover is that the "label is the law". Apparently, the label for Command recommends against planting wheat or other small grains on land treated with Command for a period of 12 months. "Off-label" uses of pesticides and herbicides are not considered "good farming practices" by RMA, and therefore would indicate uninsured causes of loss if damage occurs to the insured crop.

If you have particular concerns about this issue, feel free to give us a call, and we will give you the latest information that we have.

Keep good production records

When harvesting your wheat crop this year, please keep very good records as to yields that are achieved on each farm serial number.

Those good records can be in the form of load records, which can be a tally of truckloads as long as it is known how many bushels are normally in each truckload.

Load records can also be given in the form of combine bin loads. Indicate the size of your combine bin on your records. The harvest date and the farm serial number should show on your load record or tally. Partial loads or partial combine bins should now show an estimate of bushels rather than simply showing one-half bin or one-third bin or so. Load records should balance with production that is sold, in storage bins or fed to livestock.

Hail insurance available on grain crops

A coverage that is unknown and unused in this part of the country is hail insurance for grain crops. In other parts of the country, it is commonplace for growers to supplement their federal crop insurance on grain crops with hail insurance in the same way that tobacco farmers have done for years. Hail insurance on grains is relatively inexpensive due to the greatly reduced risk of loss that exists. Interestingly, the premium in all North Carolina and Virginia counties is the same for all of the counties. For corn, the premium rate is $1.00 per $100 of coverage. For wheat, the premium is $1.20 per $100 of coverage, and for soybeans the premium is $1.00 per $100 of coverage.

Hail is a covered cause of loss in your federal crop insurance, but some may want additional protection against hail in a year in which the value of the crop is so much larger. There are some growers with yield averages so low that federal crop insurance would not adequately cover input costs in the event of a significant loss due to hail.

Give us a call if you have an interest in hail insurance on any of your crops.

Proposed farm bill includes a cut in cost allowance

Currently, the proposed farm bill is in conference committee with a farm bill having been passed by the U.S. House of Representatives and U.S. Senate.

The House version of the farm bill involved a 2.9 percent decrease in the Administrative and Operational (A&O) cost allowance to the companies, and the Senate version of the farm bill includes a 2.3 percent A&O cut. Either of these amounts would be hurtful to the crop insurance industry, but a decrease of 2.3 percent generally has been deemed acceptable by most of the crop insurance companies involved.

An A&O decrease only affects the companies involved with regards to the amount of every crop insurance dollar that is provided to administer the program. **Any decrease in premium subsidies to the crop insurance customers has not been a part of discussion to our knowledge.** Unfortunately in conference, it is rumored that additional A&O cuts are being sought to help fund the increased spending in the farm bill. The concern amongst companies and agents alike is that further cuts would make it economically difficult, and perhaps unfeasible, to administer crop insurance to the smaller grower. It is our hope that the new farm bill will include no more than a 2.3 percent A&O cut.

Growers track futures pricing for highs and lows

We scarcely find any grain producer who doesn't keep a close eye on futures pricing on the different exchanges. All grains have been volatile in the last nine months. Higher prices are certainly welcomed to offset higher input costs; however, it's important that we all understand what goes up usually comes down.

Crop Revenue Coverage and Revenue Assurance are great tools for aggressively contracting at these higher prices to lock in a sizable portion of your expected crop at these higher prices. The greatest fear amongst growers is that commodity prices will recede while inputs remain at these higher levels. Crop insurance allows the grower to contract enough of his expected crop at these higher prices to guarantee enough revenue from grain sales or crop insurance claims to offset input costs.

Although official numbers haven't been released, it is expected that wheat and soybean acres will be increased relative to prior years.

Corn acres are expected to be low. Recent publications have estimated that corn acres will be 87.5 million acres compared to 93 million acres in 2007.

Planting intentions, world supplies, storage capability and weather all affect the supply and demand variable associated with commodities pricing. It's estimated that 99 percent of the money in the commodities market is speculative money, and the remaining 1 percent accounts for growers who are forward pricing the crops that they grow. Therefore, it's important to watch the commodities market, and to be a part of that 1 percent when prices offered allow you to make a profit.

Report claims for hay crops before harvest

It's important we know about potential claims prior to harvest. With hay stocks at a record low and wheat prices at a record high, it's difficult to predict how much of the wheat crop will be cut for hay. If you insured wheat that you will be cutting for hay, it's important to contact us prior to doing so. We'd like as much as one week prior notice to get an adjustor in contact with you so that crop samples to be left for later appraisal can be agreed upon. If you have wheat you believe will have a loss and are not planning to cut that wheat for hay nor will you thrash, contact us so that we can send an adjustor to appraise the expected bushels that could be harvested.

Growers can insure organic tobacco

There's been a lot of interest in insurance for organic tobacco. If you have multi-peril crop insurance for flue-cured tobacco, your organic tobacco would automatically be covered. Organic is considered to be a separate insurable unit than the flue-cured tobacco that might be on a particular farm serial number. Unfortunately, organic tobacco will have the same $1.60 price election as exists for flue-cured tobacco. If you are growing organic, we will need an organic certificate by the June 30 acreage reporting deadline in North Carolina, or the July 15 acreage reporting deadline in Virginia.

Purity Residue Clean (PRC) tobacco will be covered as conventional flue-cured tobacco. It's important to understand that loss of pest control or sucker control in PRC tobacco could easily be considered uninsured damage.

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More double cropping is expected

With wheat and soybeans appearing to be profitable ventures in 2008, we anticipate plenty of acres being double cropped. It's important that you understand that wheat losses can be reduced to 35 percent of the normal amount if double cropping history doesn't exist. Double cropping history is determined by the second highest number of acres that have been double cropped by a grower in a county in the last four years.

Wheat claims will be paid at 100 percent of actual loss up to the number of acres of double cropping eligibility that a grower can show from acreage records over the last four years. Beyond a producer's double cropping eligibility, wheat claims are reduced to 35 percent of the normal claim amount. Any wheat claim that is reduced to 35 percent allows for a farmer to receive the remaining 65 percent if no claim is paid on the soybean acres that follow the wheat acres. Also, a grower has the option of receiving 100 percent of a wheat claim even without double cropping eligibility if he elects not to insure the soybean crop that follows.

Measuring tobacco acreage is an individual decision

We are continuously asked by tobacco growers if they should have their land pre-measured. Measuring service data does supersede grower acreage data if acreage is ever disputed at the time of claim; however, if reported acreage is within 10 percent of actual acreage there's typically no penalties involved when a claim is worked on tobacco or any other crop for that matter. Generally, if an adjustor believes acreage to be within 5 percent of reported acreage, the reported acreage is used for claim purposes.

Any acreage measured and determined by the Farm Service Agency (FSA) would supersede reported acreage or acreage measured by a private measuring service.

Finally, the adjustor has the ability to measure acreage at claims time, if he deems that to be necessary in order to be accurate. The original question of whether to have acreage measured should be answered on an individual basis, based upon your estimate as to how close that you feel you can determine your acreage.