



United States
Department of
Agriculture

Risk
Management
Agency

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BULLETIN NO.: MGR-05-014

TO: All Reinsured Companies
All Risk Management Agency Field Offices
All Other Interested Parties
Administrator

FROM: Ross J. Davidson, Jr. /s/ *Ross J. Davidson, Jr.* 9/2/2005

SUBJECT: Tobacco Quality Loss Adjustment for 2005 and Subsequent Crop Years

BACKGROUND:

The American Jobs Creation Act of 2004 abolished the USDA Tobacco Marketing Quota program beginning with the 2005 crop year, thus eliminating the support price program for burley and other types of tobacco. Questions have arisen regarding quality adjustment for damaged harvested or damaged mature appraised tobacco production insured under either the Quota Tobacco Crop Provisions or the Guaranteed Tobacco Crop Provisions.

Prior to the 2005 crop year, the Quota Tobacco Crop Provisions used the support price and the Guaranteed Tobacco Crop Provisions used the support price or the season's average market price for the applicable type to determine a value for production to count. This memorandum clarifies how to value the production to count for damaged harvested or mature appraised production for types insured under both policies.

ACTION:

In accordance with MGR-05-001, with the elimination of the quota tobacco program, burley tobacco insured under the Quota Tobacco Crop Provisions now use the actual production history (APH) of the producer for determining the amount of insurance. However, an issue remains regarding prices and how to adjust for quality for burley tobacco (plan code 70) and guaranteed tobacco (plan code 86).

For the 2005 and subsequent crop years, when applying quality loss adjustment for burley tobacco under the Quota Tobacco Crop Provisions and other tobacco types insured under the Guaranteed Tobacco Crop Provisions, quality loss adjustment procedure will be as follows:



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1. Definitions:

“Auction warehouse” and “warehouse floor” as stated in the Guaranteed Tobacco Crop Provisions and the Quota Tobacco Crop Provisions are not defined within either of the Crop Provisions. However, Manager’s Bulletin MGR-01-021 states that “Tobacco warehouse” is not defined in the Crop Provisions and would mean the location where the tobacco is delivered for sale.” This provision remains applicable.

“Support price” is defined in the Guaranteed Tobacco Crop Provisions and the Quota Tobacco Crop Provisions as “The average price per pound for the type of tobacco as announced by the USDA under its tobacco price support program, or, if there is no such program, as announced by FCIC”. Since the tobacco price support program has been eliminated, the support price is the price election announced by FCIC.

2. Guaranteed Tobacco:

For the purposes of determining quality loss adjustment for mature damaged tobacco, section 12(d) of the Guaranteed Tobacco Crop Provisions uses the market price. The market price is defined as the support price for specific types and the current year’s season average price for the other types of tobacco. As stated above, the support price is the price election announced by FCIC.

- a. For types 11, 12, 13, 14, 21, 22, 23, 31, 35, 36, 37, 42, 44, 54, and 55, the market price will be the support price announced by FCIC. Quality adjustment will apply when the average value of the mature damaged production appraised and/or harvested is less than this support price.
- b. For types 32, 41, 51, 52, and 61:

The applicable season average price will be determined the same as it has in past years. There is no change from previous crop years and quality loss adjustment will be in accordance with the policy, loss adjustment standards, and applicable bulletins.

3. Burley (Quota) Tobacco:

The definition of “amount of insurance”, in section 1 of the Quota Tobacco Crop Insurance Provisions, refers to the current year’s support price. As stated above, the support price is the price election announced by FCIC. In accordance with section 13 of the Quota Tobacco Crop Insurance Provisions, burley tobacco is valued at the average price for any tobacco sold on the warehouse floor and the fair market value for all other tobacco sold or not sold. The average price and fair market value is determined the same as it has in years past under the policy, loss adjustment standards, and applicable bulletins.

4. Dollar Plan

The Quota Tobacco Crop Insurance Provisions provide coverage on a dollar basis by determining the amount of insurance (the approved yield times the support price) and subtracting from that the total value of the production to be counted (the production to count times the average price for sold tobacco or the fair market value for unsold tobacco). This calculation does not change.

Example 1: 1.0 ac. of Burley Tobacco Qualifying for QA:

1,000 Share.

APH Guaranteed = 1,000 lbs.

Established Price Election \$1.30 per lbs.

1,000 lbs. X 1.30 X 1.0 acre = \$1,300.00 Dollar Guarantee.

Harvested 500 lbs. and sold at \$1.00 per lbs.

Harvested 500 lbs. and sold at \$1.50 per lbs.

Determine the QA in accordance with the Quota Crop Provisions as follows:

500 lbs. X \$1.00 = \$500.00;

500 lbs. X \$1.50 = \$750.00;

\$500.00 + \$750.00 = \$1,250/1,000 lbs. = \$1.25 average price per lb;

1,000 lbs. X \$1.25 average price per lb. = \$1,250.00;

\$1,300.00 - \$1,250.00 = \$50.00 Indemnity Payment.

Determine Production to Count (PTC) for Data Acceptance System Reporting Purposes as follows:

1,000 lbs. times [\$1.25 average price per pound / \$1.30 price election]

1,000 lbs. minus 961.5 lbs. PTC (rounded to nearest tenths) = 38.5 lbs loss;

38.5 lbs. times \$1.30 average price per pound = \$50.00 Indemnity Payment.

Reinsured Companies will transmit 961.5 lbs. as PTC and 38.5 lbs. as the farm unit deficiency for Data Acceptance System.

Reinsured Companies should continue to follow the instructions under the Insurance Plan Code 86 contained in Appendix III of the Standard Reinsurance Agreement (SRA) and the attachment for adjustments to the current Quota Loss Adjustment Standards Handbook.

5. Production to be Counted

It has come to RMA's attention there may be damaged or undamaged production that is not sold that may not be counted for the purposes of determining production to be counted. Such production includes lower stalk mature tobacco leaves (or leaves from any other stalk position) removed because the buyer refuses to accept production from this particular stalk

position. This production must be included as production to count. If the insurance provider is not given the opportunity to appraise the tobacco and determine the amount of production before it is destroyed, then an appraisal for uninsured causes must be assessed in accordance with the Quota and Guaranteed Tobacco Crop Insurance Provisions.

If the mature tobacco is undamaged and not sold, no quality adjustment applies. If the mature tobacco is damaged due to an insurable cause of loss, not sold, and is determined to have no value, the existing loss adjustment standards apply. For mature tobacco damaged due to an insurable cause of loss, not sold, and that does have some value, such value will be based on the following:

- a. If the insured has sold tobacco for this crop year of the same quality, value the unsold tobacco at the same price per pound.
- b. If the insured has not sold tobacco for this crop year of the same quality and cannot obtain an offer for the unsold tobacco and the loss adjuster verifies that there is no buyer in the area willing to provide an offer for such tobacco, no quality adjustment will apply, and the tobacco will be valued at the support price.

6. Quality Adjustment

All provisions of the policy, applicable loss adjustment standards, and applicable bulletins continue to apply.

DISPOSAL:

This Manager's Bulletin will remain in effect until in effect until incorporated into the Tobacco (Guaranteed Production and Quota) Loss Adjustment Standards Handbooks.

ATTACHMENT

Following are adjustments to the current Quota Loss Adjustment Standards Handbook for the 2005 crop year.

1. Section 6 C. - Value appraised tobacco hanging in the barn as stated in item 5 of this Bulletin.
2. Section 9 B Production Worksheet Completion Instructions:
 - a. Section I, column O (Value per Pound) – Enter the Established Price Election as shown in the price addendum.
 - b. Section I, column P (Total Potential To Count) – The result of multiplying (Column C or C₁ (actual acres) times Column N, in whole pounds.
 - c. Section I, column Q (Value Per Pound) – Enter the insured’s per-acre guarantee (insured’s approved APH per acre times the insured’s elected coverage level).
 - d. Section I, column R – The result of multiplying column C₂ (reported acres, “C” if acreage is not under-reported) times column Q, in whole pounds.
 - e. Section II, column G, Enter only production in whole pounds that has a value received or determined. Enter on a separate line, the pounds of production that has zero value and has been destroyed.
 - f. Section II, column H₁ (Value per Pound) - Enter the average value per pound to the nearest cent. Determine the average value per pound by adding the total value of the harvested production (sold and unsold production determined to have a value (including tobacco hanging in the barn, or unsold production determined to have no value and that has not been destroyed) divided by the total pounds harvested for the unit, excluding pounds of production not to count and pounds of zero value production that has been destroyed. Do not include the value of production not to count, or zero value for production that has zero value and has been destroyed in this calculation.

In the Narrative or on an attached Special Report, explain the basis for value of production not sold, and show the calculations used to determine the average value per pound.

- g. Section II, column H₂ (Local Market Price) – Enter the Established Price Election as shown in the price addendum.
- h. Section II, column I (Quality Factor) – Enter the quality adjustment factor (QA) factor determined by dividing H₁ by H₂. The QA factor may be less or greater than 1.000, rounded to four decimal places (.0000). The QA factor will be the same for all lines of production qualifying for quality adjustment.

If the QA factor is greater than 1.0000 no quality adjustment will apply and production to count will be increased by the QA factor so the indemnity results will be the same as if calculated in dollars in accordance with the Quota Tobacco Crop Provisions. However, for APH purposes for plan code 70, the actual pounds before applying the QA factor will be used in determining the actual production to be reported for APH.

- i. Section II, column K (Production to Count) – The result of multiplying item “g” times item “I” minus item “J” in pounds to tenths.
- j. Section II, column L and M – MAKE NO ENTRY.
- k. Section II, column N – Repeat entry from item K.
- l. Section II, Item 22 - Enter the total of column N.
- m. Section II, Item 23 – Enter the figure from column P total in Section I.
- n. Section II, Item 24 – Total of items 22 and 23 to tenth of pound.