



United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

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TO: All Reinsured Companies
All Risk Management Agency Field Offices

FROM: Kenneth D. Ackerman /s Ken Ackerman 11-30-00
Administrator

SUBJECT: Quality Adjustment for Guaranteed Tobacco Types 32, 41, 51, 52 and 61 for the
2000 and Succeeding Crop Years

BACKGROUND:

Connecticut Broadleaf Tobacco (Type 51) is a Class 5 cigar binder type of tobacco grown in the Connecticut River Valley of Massachusetts and Connecticut. The current marketing of this tobacco does not typically include grading according to USDA Official Standard Grades.

Determining the market price used to quality adjust damaged Type 51 tobacco has relied on the "previous year's season average market price" for some time. However, recent changes in market conditions for Type 51 tobacco have led to wide variations in season average prices from year to year. These variations make the previous season's price unreliable for quality adjustment purposes.

This Manager's Bulletin describes how quality adjustment provisions should be administered for Types 32, 41, 51, 52 and 61 tobacco and what market price will be used to make quality adjustment.



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All Programs Authorized Under the Federal Crop Insurance Corporation

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DISCUSSION:

Issue: Determining the Market Price

The Guaranteed Tobacco Crop Provisions (99-071) define in Section 1:

Market price -

“For types 32,41, 51, 52, and 61 is the current year’s season average market price, when available; if not available because the insured type of tobacco has not been marketed in the area, the previous year’s season average market price for the applicable insured type of tobacco grown in the area.”

Season Average Market Price -

“The simple average price paid by buyers for a tobacco type for all days sales occur at public markets during the tobacco sales season in the area in which the farm is located.”

Average Value -

“For appraised production, the estimated value of all such production divided by the appraised pounds. For harvested production, the total value of such production divided by the harvested pounds.”

The Common Crop Policy, Basic Provisions (99-BR and 01-BR) state in Section 14(c):

“We may defer the adjustment of a loss until the amount of the loss can be determined...”

In prior crop years, the previous season average market price was used to determine quality losses. In the last few years, wide price fluctuations in the year-to-year season average market price occurred and the previous season’s price can no longer be used for quality adjustment determinations. Consistent with the Basic Provisions, final losses involving quality will be deferred until the amount of loss can be determined. To ensure the season average market price issued by RMA is accurate, the price will be issued by RMA after the close of the market for the 2000 and succeeding crop years and will reflect the average of the current season market prices.

RMA has further determined that the value reported as received by producers for mature (cured) tobacco does not always reflect the average value paid by buyers for similar grades of tobacco. RMA will therefore use buyer sales records to establish the true average value for quality adjustment purposes for the 2001 and succeeding crop years.

ACTION:

For the 2000 and succeeding crop years, the season average market price will be issued after the market for the applicable tobacco type closes. This price will be used for calculation of quality adjustment.

For the 2000 crop year only, the requirement to obtain a grade according to USDA Official Standards for tobacco types 32, 41, 51, 52 and 61 to qualify for quality adjustment is waived.

To ensure that tobacco producers receive timely payment for their loss for Type 32, 41, 51, 52, and 61 tobacco, insurance providers are authorized to process indemnities for the portion of the tobacco loss identified as the production loss upon completion of the production to count portion of the claim. If quality adjustment is applicable, insurance providers will complete a corrected claim to authorize payment of additional indemnities after RMA issues the season average market price for the current crop year.

For the 2001 and succeeding crop years, tobacco must be graded according to USDA Official Standard Grades to qualify for quality adjustment due to an insured cause of loss.

Quality adjustment will be based on the average value for the type of the mature (cured) damaged tobacco on the unit compared to the current season average market price. The average value will be determined from the value for each USDA Official Standard Grade of tobacco as issued by RMA using buyer sales records for all tobacco of the type bought during the crop year. The loss adjuster will then use these values, by grade, to determine the average value of damaged tobacco eligible for quality adjustment.

Instructions implementing the 2001 grading and quality adjustment provisions of this bulletin will be issued.

DISPOSAL:

This Manager's Bulletin will remain in effect until incorporated into the Guaranteed Tobacco Crop Provisions and Guaranteed Tobacco Loss Adjustment Standards.