



United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

February 10, 1999

BULLETIN NO.: MGR-99-004

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

FROM: Kenneth D. Ackerman /s/ *Kenneth D. Ackerman*
Administrator

SUBJECT: 1999 Crop Revenue Coverage (CRC) Commodity Exchange Endorsement -
Durum Wheat Base Price

BACKGROUND:

The CRC Base Price election formula for Durum Wheat as defined in the CRC Commodity Exchange Endorsement is based on market conditions for the past 5 years. However, this year projected durum wheat market prices are substantially different than the formula driven 5-year average. Due to this unforeseen market anomaly the CRC Durum Wheat Base Price would be substantially higher than the actual market price for durum wheat. Due to the excessive risks associated with the artificially high prices generated under the current CRC Durum Wheat policy, the Federal Crop Insurance Corporation (FCIC) has determined that it cannot provide reinsurance, producer premium subsidy, and administrative and operating subsidy unless the policy is revised.

ACTION:

The following actions are effective immediately for the 1999 crop year:

- 1) FCIC will not offer reinsurance, producer premium subsidy or administrative and operating expense reimbursement on any CRC Durum Wheat policy unless it is sold with the **amended** Commodity Exchange Endorsement approved by the Board (see attachments), except as specified in paragraph 2 below. Since Federal preemption applied at the time of application, and continues to apply to the CRC Durum Wheat Policy, Federal preemption applies to all CRC Durum Wheat policies.



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- 2) This action applies to all 1999 crop year CRC Durum Wheat policies in Arizona, California, Montana, North Dakota, and South Dakota, except those CRC Durum Wheat policies in Arizona and California written or applied for by the producer on or before October 31, 1998. Policies in Arizona and California written or applied for by October 31, 1998, will remain insured under the Commodity Exchange Endorsement in effect at the time of sale.
- 3) FCIC will accept, for reinsurance, producer premium subsidy and administrative and operating subsidy, those CRC Durum Wheat policies that have been revised through an amendment signed by the producer. FCIC has approved the attached forms amending the Commodity Exchange Endorsement. If a reinsured company elects to use a different form, it must submit it to FCIC for approval in accordance with Section V.E. of the 1999 Standard Reinsurance Agreement.
- 4) Reinsured Companies should inform policyholders their premium will be lower as a result of the lower Base Price.

DISPOSAL: This Bulletin will remain in effect until December 31, 1999.

Attachment A.

The provisions in section (IV) of the Commodity Exchange Endorsement - Wheat (**99-CRC-CEE-WHEAT (Ed. 6/09/98)**) regarding the Durum Wheat Base Price and Harvest Price for those counties with a 3/15 cancellation date are deleted. New provisions regarding the Durum Wheat Base Price and Harvest Price for those counties with a 3/15 cancellation date are added to section (IV) of the Commodity Exchange Endorsement - Wheat to read as follows:

Durum Wheat - (Insured as durum wheat in counties with a 3/15 cancellation date). Minneapolis Grain Exchange (MGE)

Base Price (MGE) - The Northern Durum Price multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Northern Durum Price equals the February harvest year's average daily settlement price for the harvest year's MGE September hard red spring wheat futures contract (rounded to the nearest whole cent) plus an adjustment equal to the average of the current year nearby basis and the current 5-year harvest basis. The current year nearby basis is determined during the months of October, November, December, and January of the current crop year and is the difference between the average daily settlement price for top milling durum wheat, as reported by the MGE for such months (rounded to the nearest whole cent) and average daily settlement price for the nearby hard red spring wheat futures contract (rounded to the nearest whole cent). During the months of October and November the nearby futures contract used to determine the current year nearby basis for top milling durum wheat will be the December contract. During the months of December and January the nearby futures contract used to determine the current year nearby basis for top milling durum wheat will be the March contract. The current 5-year harvest basis is the average difference between the August average daily settlement price for top milling durum wheat, as reported by the MGE (rounded to the nearest whole cent) and the August average daily settlement price for the nearby MGE September hard red spring wheat futures contract (rounded to the nearest whole cent). The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by March 10 of the harvest year.

Harvest Price (MGE) - The August harvest year's average daily settlement price for top milling durum wheat as reported by the MGE (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus \$2, or greater than the Base Price plus \$2. The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by September 10 of the harvest year.

I have read the above referenced policy amendment and agree to the terms and conditions. I realize that if I do not accept the terms and conditions in this amendment, my application will be rejected or my policy will be canceled. I understand the amendment will be effective for the 1999 and subsequent crop years.

Policyholder Signature: _____ - Date: ____/____/____

Agent Signature: _____ -Date: ____/____/____

Attachment B.

The provisions in section (IV) of the Commodity Exchange Endorsement - Wheat (99-CRC-CEE-WHEAT (Ed. 6/09/98)) regarding the Durum Wheat Base Price and Harvest Price for those counties with a 10/31 cancellation date are deleted for only those CRC Durum Wheat policies written or applied for after October 31, 1998. For all CRC Durum Wheat policies written by October 31, 1998, the existing provisions continue to apply for the 1999 crop year only. New provisions regarding the Durum Wheat Base Price and Harvest Price for those counties with a 10/31 cancellation date are added to section (IV) of the Commodity Exchange Endorsement - Wheat, in all policies written or applied for after October 31, 1998, to read as follows:

Durum Wheat - (Insured as durum wheat in counties with a 10/31 cancellation date). Minneapolis Grain Exchange (MGE) Arizona and California

Base Price (MGE) - The Southern Durum Price multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Southern Durum Price equals the September 15 to October 14 pre-harvest year's average daily settlement price for the harvest year's CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent) plus an adjustment equal to the average of the current year nearby basis, determined during the months of May, June, July and August of the current crop year, and the current five-year average difference between the August average daily settlement price for top milling durum wheat as reported by the MGE (rounded to the nearest whole cent) and the August average daily settlement price for the nearby CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent). During the months of May and June the nearby futures contract used to determine the current year nearby basis for top milling durum wheat will be the July contract. During the months of July and August the nearby futures contract used to determine the current year nearby basis for top milling durum wheat will be the September contract. Beginning with the 2000 crop year the available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by October 20 of the pre-harvest year. Effective for the 1999 crop year the CRC Durum Wheat Base Price for any policy written after October 31, 1998, will be \$5.30.

Harvest Price (MGE) - The August harvest year's average daily settlement price for top milling durum wheat as reported by the MGE (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars (\$2.00), or greater than the Base Price plus two dollars (\$2.00). The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by September 10 of the harvest year.

I have read the above referenced policy amendment and agree to the terms and conditions. I realize that if I do not accept the terms and conditions in this amendment, my application will be rejected or my policy will be canceled. I understand the amendment will be effective for the 1999 and subsequent crop years.

Policyholder Signature: _____ - Date: ____/____/____

Agent Signature: _____ -Date: ____/____/____