



2001 Cotton Management Economic Notes

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New Legislation = Larger Crop Insurance Subsidies

Ever since the Federal Crop Insurance Reform Act of 1994 was signed into law, government support behind crop insurance has increased. In previous years premium subsidies have been increased through annual legislative measures, but a new law was passed with broad bipartisan support this last June that has increased subsidy levels on a more permanent basis.

Arizona Crop Insurance Returns. The accompanying table gives the historical payout received for each \$1.00 of producer premium and signup costs expended by Arizona farmers. On average, 2000 was the first year since implementation of the 1994 Act that Arizona received less money in claims than what producers paid out. For all crops and commodities, Arizona producers received \$0.93 back in indemnity claims for every dollar spent. Cotton producers that had just yield or actual production history (APH) coverage received \$0.97 back for each dollar they spent. Crop revenue coverage (CRC) policies had no claims last year because these limited producers obtained yields that were above their insured yield levels and prices increased. If prices had declined, CRC policy holders would have been more likely to trigger indemnity claims from revenue shortfalls. But note that if any CRC policy holders had experienced a yield shortfall, they would

have been paid for yield losses at the higher harvest price of 65¢/lb. rather than the spring price of 61¢/lb. established for CRC last February.

Catastrophic (CAT) indemnity claims were triggered in Pinal County last year for upland. Because the government subsidizes 100 percent of CAT premiums and producers only pay the signup fee, the return per dollar spent was quite high (834%). But the average payout per acre insured was only \$1.42 because CAT covers only 50 percent of proven APH yield and 55 percent of the established base price. In contrast, the average payout last year for BuyUp policies (yield coverage above the CAT level) was \$27.66 per acre in Pinal even though the rate of return for these policies was much less at 79 percent.

Agricultural Risk Protection Act. ARPA constitutes major legislative change to crop insurance with an increase in premium subsidies, changes in administra-

Historical Payout for Each \$1.00 of Producer Premium & Signup Costs

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
AZ: All Crops	\$3.04	\$1.59	\$3.38	\$0.93
AZ: APH Cotton	\$2.78	\$1.78	\$0.98	\$0.97
AZ: CRC Cotton	\$4.31*	\$0.00*	\$7.34	\$0.00
Maricopa County				
CAT: Upland	\$0.00	\$0.00	\$0.00	\$0.00
BuyUp: Upland	\$3.19	\$3.45	\$2.89	\$0.21
CRC: Upland	\$4.39	\$0.00	\$8.07	\$0.00
CAT: ELS	\$0.00	\$0.00	\$0.00	\$0.00
BuyUp: ELS	\$0.00	\$0.00	----	----
Pinal County				
CAT: Upland	\$0.00	\$0.00	\$0.00	\$9.34
BuyUp: Upland	\$2.30	\$0.77	\$0.38	\$1.79
CRC: Upland	n/a	n/a	\$7.05	\$0.00
CAT: ELS	\$0.00	\$2.65	\$0.00	\$0.00
BuyUp: ELS	\$0.47	\$3.69	\$5.53	\$3.81

* Less than 10 policies sold as a pilot program in the State.
Source: Risk Management Agency, Davis Regional Office and RMA web site(www.rma.usda.gov).

Recent Prices (February 9, 2001)	Upland (¢/lb.)	Pima (ELS) (¢/lb.)
Spot - uncompressed	54.62	101.25
Mar '01 Futures	58.37	
Jul '01 Futures	58.25	
Dec '01 Futures	58.70	
Adj. World Price	48.03	

Note: Upland Spot for Desert SW grade 31-3, staple 35, add 300 points for compressed bales, Pima Spot for DSW grade 03, staple 46,

tive fees, and a new option that allows producers to replace low actual production history (APH) yields with adjusted transitional yields. The largest percentage increase in subsidies has been for CRC policies. Under the old law, CRC insurance was subsidized at the same dollar amount that APH insurance was for the same yield and price coverage, as described in the table below. Even after accounting for the 25 percent Emergency Financial Assistance (EFA) discount provided last year, CRC subsidies will increase about 20 percent for most coverage levels versus around 5 to 10 percent for APH policies.

About 94 percent of Arizona's cotton acreage had crop insurance coverage in 2000, but this number is somewhat misleading. Over 50 percent of all policies were limited CAT coverage, 46 percent were yield coverage augmented beyond CAT, and less than 4 percent were CRC policies. As shown in the table below, per acre subsidies are maximized by selecting a CRC policy with the highest yield and price coverage available (i.e., 85:100). Also note that under ARPA, Risk Manage-

ment Agency (RMA) has been asked to come up with yield adjustments to recognize an area that has controlled a plant disease or pest infestation. An example would be the cotton Boll Weevil Eradication Program that improved yield prospects for many areas above actual production histories.

The sales closing date to add, cancel, or augment crop insurance coverage is again rapidly approaching this **28 February, 2001**. USDA/RMA recently announced base prices of 60¢ and 100¢ for Arizona's upland and ELS, respectively, for the 2001 crop year. The price for CRC upland contracts is based on futures prices for the Jan. 15 to Feb. 15 period and will be announced shortly. This price and more specific rate quotes can be obtained using the online and interactive premium calculation software found at www.rma.usda.gov/tools/. Unlike prior years, no additional software needs to be installed on your computer and you set up an account with a password so that premium quotes constructed can be stored and edited at a later date. Click on "Menu" to run a quote and navigate to other areas of the program.

Comparison of crop insurance subsidies, premiums, and payout rates for an acre of upland in Maricopa County¹

Yield : Price Coverage		50:55	50:100	60:100	70:100	80:100	85:100	
OLD LAW	<u>Subsidy without 25% EFA² discount</u> ----- dollars per acre -----							
	Actual Prod. History (APH)	5.95	5.36	5.85	8.71	9.61	10.11	
	Crop Revenue Coverage (CRC)	n.a.	5.36	5.85	8.71	9.61	10.11	
	<u>Subsidy with 25% EFA² discount</u>							
NEW LAW	APH (2000 crop year)	5.95	6.72	8.33	12.89	18.90	23.23	
	CRC (2000 crop year)	n.a.	7.66	9.87	15.52	23.59	29.41	
	<u>Subsidy under ARPA¹</u>							
	CRC (2001 crop year)	n.a.	9.77	14.03	21.21	31.46	33.18	
<u>Total Premium</u>								
for many areas in the future under ARPA provisions. Calculations for coverage and payout are the same under both laws.	Total premiums	APH	5.95	10.82	15.75	25.44	46.77	62.60
	will likely decline	CRC	n.a.	14.58	21.92	35.95	65.54	87.31
	<u>Coverage³</u>		214.50	429.00	468.00	546.00	624.00	663.00
	<u>Payout</u>		<u>25% yield shortfall and 10% price decline</u>					
	APH	0.00	0.00	0.00	0.00	39.00	78.00	
	CRC	n.a.	0.00	0.00	19.50	97.50	136.50	
	<u>Payout</u>		<u>35% yield shortfall and 25% price increase</u>					
	APH	0.00	0.00	0.00	39.00	117.00	156.00	
CRC	n.a.	0.00	0.00	48.75	146.25	195.00		

¹ All scenarios and policies assume an approved APH yield of 1,300 lbs., 5% prevented planting option, and price election of 60¢/lb. The signup fee has increased from \$60 to \$100 under the new law or Agricultural Risk Protection Act (ARPA) of 2000. Grower premium costs can be calculated by subtracting the appropriate subsidy from the total premium cost.

² Emergency Financial Assistance (EFA) legislation resulted in a 25% discount of all "old law" producer premium costs for 2000.

³ Coverage levels at or above 50:100 are a lower bound on per acre revenues for CRC policies.