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Technical Corrections to SURE¹

Technical Corrections. There are several technical corrections to SURE that are on their way to the President for his signature. These changes will also need to be interpreted by the Farm Service Agency (FSA) and incorporated in to the final rules. The changes require the following:

1. It requires a 10 percent loss due to natural causes on at least one crop of economic significance for SURE eligibility. This is a new rule that was added.
2. These technical corrections eliminate counting of “ghost” crops in SURE guarantees and revenue to count against the SURE guarantee. This removes uninsurable crops such as planting double crop soybeans in non-approved county, following wheat in the SURE calculations.
3. These technical corrections define a de minimis crop as; if the NAP fee exceeds 10% of crop value or if crop is not of “economic significance”. Effectively for 2009 this means the crop value would needed to exceed \$2,500 before NAP fees would be required (\$1,000 in 2008). Farmers may also have crops that don’t require NAP fees if the crop is not of “economic significance”, but that is another

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rule for FSA to determine. All de minimis crops will not count in the SURE guarantee and revenue from a de minimis crops will not count against the SURE guarantee, causing a reduction in SURE payments. These rule changes will eliminate the crop insurance/NAP requirement on 2 acres of brome grass in a waterway and other small acreage crops. It is unclear if any adjustment will be made for farmers who have already paid NAP/CAT fees on de minimis crops

4. These technical corrections eliminate NAP or crop insurance requirements for pasture and range land from SURE but retain it in the Livestock Forage Disaster Program.

Will SURE help with Shallow Losses? These changes will make it easier for farmers to be eligible for SURE. Currently Washington rumors also suggest that Crop Revenue Coverage or Revenue Assurance with Harvest Price Option (CRC/RA-HPO) prices will be used to set the SURE guarantee and SURE's 90% of "expected" revenue payment limits for revenue insured farmers. If that is the case, consider the wheat farm example below. This is a real farm with all of the adjustment for crop share and adjustments to the SURE aph for yield plugs. Because this farm is growing and has added new land, I used the RMA rules for added land. It is possible that FSA could use county yields rather than follow the RMA added land rules and that would lower the SURE guarantee for this farm.

Because SURE is a revenue guarantee it is possible for SURE to trigger payments without a yield loss but the technical corrections now requires a 10% yield loss on at least one significant crop. Even this requirement would still allow farmers to receive SURE payments without an insurable yield loss (30% yield loss on most farms) under some conditions.

The farm presented in table 1 is insured with 70% RA-HPO/CRC. It is a single enterprise wheat farm and SURE favors single enterprise farms over diversified farms. The minimum revenue guarantee for Great Plains winter wheat is based on a \$8.77 price election, but the guarantee would increase if the market increases at harvest time next July. If one assumes the market price decreases to \$7.50 during the first two weeks of July 2009, then this farm would generate RA-HPO (June average for CRC) indemnity payments with less than a 30% yield loss. If one assumes the MYA price is 20 cents lower than the settlement price for the revenue insurance, then this farmer would generate SURE payments with a 10% yield loss but nothing under RA-HPO/CRC. However, in order to receive those SURE payments it would require the farm to be located in a county that has the Secretary's disaster declaration or be in a contiguous county. If not, then the farmer would need a 50% yield loss to receive any SURE payment. At a 50% yield loss the SURE payment exceeds the payment under the Ad Hoc disaster rules but at a 90% yield loss Ad hoc disaster would have paid more. In most cases diversified farms would generate more payments under ad hoc disaster than under SURE.

As demonstrated by the example farm it is possible that SURE will pay for “shallow losses”. However, this will require farmers to purchase revenue insurance rather than APH, a Secretary’s county disaster declaration, a declining MYA price and CRC/RA-HPO prices will need to be used to set the SURE guarantee and the SURE 90% cap on payments per acre. In addition “shallow losses” are more likely to be covered on a single enterprise farm than a diversified farm.

ACRE. The USDA still wants to use the 06/07 prices rather than the 07/08 prices to set the strike price in ACRE, but there is also the possibility that the 10% cap/cup on ACRE guarantees will be set based on the signup year rather than setting the cap/cup based on 2009 for all farmers. If farmers signing up in 2010 have their cap/cup set based on the 2010 ACRE offer this is a “game changer”.

Assuming this is the final rule;

1. If farmers wait to signup in 2010 then their 10% cap/cup on ACRE guarantees will be based on 2010.
2. Farmers would get the full benefit of the higher 2008 price but ACRE signup would be delayed a year.
3. Because of the lag in setting the strike price it will be easier to determine if the market is trending up or down.

If the market is trending down, then ACRE is offering an in the money put option on expected state revenue, thus increasing the odds of payments. This does not guarantee payments but it shifts the odds in favor of farmers without increasing the “premium” cost, i.e. 20% of direct payments.

Table 1. SURE Payment on 2007 KS Wheat Loss Year with 70% Coverage

aph	50,019									
SURE Adjusted aph ¹	51,604									
CRC Price	\$8.77									
Harvest Price	\$7.50									
APH Price	\$7.35									
Direct Payment	\$1,900.00									
Coverage Level	70%									
NASS all Wheat Price	\$7.30									
Insurance rate/\$100	10.00%									
CRC/RA-HPO Insured (CRC/RA-HPO price sets SURE guarantee and 90% cap)										
Percent of Crop Lost	90%	75%	50%	30% ²	25% ²	15% ²	10% ²	0% ²	10%> Avg ²	
90% Payment CAP	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309	407,309
Unlimited SURE Guarantee	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315
SURE Guarantee	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315	364,315
Less:										
Indemnity	269,555	213,283	119,497	44,467	25,710	0	0	0	0	0
15% of Direct + other FSA pymts	285	285	285	285	285	285	285	285	285	285
Sales	36,514	91,286	182,571	255,599	273,857	310,371	328,628	365,142	401,656	
SURE * 60% = Net SURE	34,777	35,677	37,178	38,378	38,678	32,196	21,241	0	0	0
Ad Hoc Disaster Aid	84,926	61,764	23,162	0	0	0	0	0	0	0

¹The SURE adjusted aph was calculated based on historical crop insurance proven yields after deleting any crop insurance yield that was 60% X "T" yield (plug yields were deleted from SURE adjusted aph yield). For insurance units that lacked yield data, the crop insurance rules for added land were used, so the same crop insurance aph added land yields were the same in the SURE adjusted yield. It is unclear how the SURE adjusted yield will account for added land.

²If the yield loss is less than 50%, then SURE will require the county to receive a U.S Secretary of Agriculture disaster declaration.