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Under Some Conditions NAP Coverage is Not Required for SURE Eligibility¹

Dear Art²,

Art, you got it wrong. Under some conditions NAP coverage is not required for **SU**pplement **RE**venue (the new disaster program, SURE) eligibility. It is our understanding, from very high level sources within the Farm Service Agency (FSA), farmers who have grain sorghum listed on their insurance contracts with failed wheat can plant grain sorghum on those acres as long as the wheat is destroyed before harvest (per the insurance requirements). Irregardless of the stage of wheat development when the freeze occurred, producers with grain sorghum listed on their insurance contract are **not required to have paid the NAP fee back on March 15, 2009.**

Farmers with failed wheat destroyed **BEFORE** it heads out then have the option of either insuring the grain sorghum at 100% and receiving up-front 35% of their wheat indemnity payment **OR** taking 100% of their wheat indemnity and then having no insurance on their grain sorghum. If producers choose to insure the grain sorghum and it does not have a loss, then they will receive the remaining 65% of their wheat indemnity payment.

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²The email comment from the National Sorghum Producers was edited for easy reading and refined after several phone calls.

However, if the grain sorghum does have a loss, then they will receive their grain sorghum indemnity payment with no additional wheat indemnity payments. Given that most producers with freeze-damaged wheat will not have a yield history with sorghum and the historically high \$8.77/bu revenue insurance price election on wheat, most producers will take the option of receiving 100% of their wheat indemnity payment and will plant the grain sorghum at their own risk (sorghum is then considered a "ghost crop").

Farmers with failed wheat destroyed **AFTER** it heads out do not have the option of insuring the grain sorghum because it will be uninsurable according to the special provisions of insurance for grain sorghum (this assumes non-irrigated sorghum, irrigated sorghum would be insurable). In this case producers' only option is to take 100% of the wheat indemnity payment and then plant the grain sorghum at their own risk (sorghum is then considered a "ghost crop").

In either case, the SURE eligibility is protected. Farmers who have grain sorghum listed on their insurance contracts do not need to pay the NAP fee. Farmers with failed wheat can plant grain sorghum on those acres as long as the wheat is destroyed before harvest. Farmers are still eligible for SURE, even if the insurance does not attach to the grain sorghum because the wheat has headed out. If it is headed, then the grain sorghum planted on those failed acres is a ghost crop.

If for some reason farmers take the wheat to harvest and then plant grain sorghum on those wheat acres, it is considered double crop and farmers had to pay the NAP fee on grain sorghum to remain eligible for SURE. The exception is if the insurance contract covers double crop then those farmers would be covered under insurance and would not need to pay the NAP fee.

National Sorghum Producers

Dear Friends with the National Sorghum Producers,

Thanks for sending me your email comment. This makes more sense because farmers with grain sorghum listed on their crop insurance policy will pay premium on the grain sorghum if grain sorghum coverage attaches. This is certainly within the spirit of the law because farmers have insurance on their wheat and grain sorghum crops even without paying the NAP fee. We agree this may be a conflict in the crop insurance program and the commodity program because the Risk Management Agency (RMA) allows farmers to only buy one policy on a crop. For example farmers cannot buy Crop Revenue Coverage policy (CRC) and buy Group Risk Plan (GRP) within the same county on grain sorghum too. Effectively, farmers would have two policies on grain sorghum if they purchase both NAP and CRC.

It would be helpful for FSA to clarify the policy with their county FSA directors because farmers in counties approved by FSA for double crop, but are not approved for non-irrigated double crop grain sorghum coverage by RMA, are being told they had to pay the

NAP fees back on March 15, 2009, to maintain SURE eligibility if the wheat is headed out. Unfortunately, this places the FSA county staff in a difficult position because they are being asked these questions without the policy being clearly defined. The author would remind farmers who are frustrated with the lack of clear guidelines that the “lady across the counter” at the local FSA office has the same frustrations. Probably what this demonstrates is how difficult it is to implement a new farm policy in the same year as a change in administration. If this freeze had happened in a year with all state FSA directors in place these issues would likely have already been decided.

If we assume the policy is correct that NAP coverage on grain sorghum is not required to maintain SURE eligibility, then this policy raises a number of other issues.

1. Farmers that do not have grain sorghum listed on their crop insurance policy are not eligible for SURE payments unless they can meet the *de minimus* test if they plant grain sorghum on failed wheat acres. But assume they only planned to plant double crop grain sorghum so they paid the NAP fee but did not buy crop insurance because double crop is not an insurable practice. Would they lose SURE eligibility if they planted on failed wheat acres that had not headed out because those acres could have been covered under crop insurance? If the wheat were headed out, then would the NAP coverage make those uninsured farmers eligible for SURE or would they need to harvest the wheat before planting the grain sorghum to come under the NAP coverage for double crop and gain SURE eligibility?
2. Farmers who normally plant some full season grain sorghum and some double crop grain sorghum would have paid NAP on the double crop and purchase crop insurance on the full season grain sorghum. If the wheat crop has headed out, farmers must then take 100% of the wheat indemnity payment. Assuming they plant grain sorghum on those failed wheat acres, are they required to accept the NAP coverage or may those grain sorghum acres be treated as a ghost crop as would be the case if they had not paid the NAP fee? Attaching the NAP coverage is a disadvantage for farmers because NAP guarantee is 50% yield coverage at 55% of the price. The low NAP coverage is then averaged with the higher wheat revenue coverage that was based on an \$8.77 price will lower the average SURE coverage and any production from the grain sorghum will reduce the SURE payment. Therefore, grain sorghum that is classified as double crop with NAP coverage will need to generate a return that covers the cost of producing grain sorghum and cover the reduction in the SURE payment before farmers will be better off financially to plant. The reason for the incentive was caused by a very good revenue guarantee on wheat, combined with a grain sorghum guarantee that is lower than a year ago because of the reduced price election that is further reduced in the NAP formula.
3. Is haying or graze out of failed wheat acres considered harvest for the purpose of requiring payment of NAP fees for SURE eligibility?

4. It is possible only those farmers who harvest a “good” wheat crop and paid the NAP fee for double crop grain sorghum will benefit from planting double crop grain sorghum. It is unlikely they will be eligible for a SURE payment because they will not be able to meet the 10% yield loss test on one crop of significance.

Farmers who harvest a “poor” wheat crop may not have an incentive to plant double crop grain sorghum this year with NAP because SURE guarantees will average the lower NAP coverage with the higher wheat crop insurance coverage and that will lower the SURE guarantee, i.e. SURE works best for a single enterprise farm. In addition any grain sorghum production will count against the SURE payment and reduce the size of the payment. So, double crop grain sorghum will need to cover grain sorghum production costs and any reduction in SURE payments before farmers will have a net gain.

These are all very detailed but important decisions that must be made quickly because these failed wheat acres have either been or will be released by the insurance company within the next few days. Assuming the National Sorghum Producers information is correct, a directive from Washington to the County FSA directors that farmers are eligible for SURE payments who plant grain sorghum as a replacement crop if grain sorghum is listed on their insurance policy needs to be sent in order to eliminate the confusion.

FSA has sent the guidelines for determining equitable relief for eligible producers who did not meet Risk Management Purchase Requirements on 2008 crops. The memo also states “The guidelines for determining equitable relief for 2009 will be provided at a later date”. This suggests those decisions on what is considered double crop and require NAP fees will be released soon.

One final point, grain sorghum was used in the example but the same rules apply if farmers are planting corn, soybeans, or some other crop as a replacement crop on failed wheat acres. This was very good information and thanks for sending it to me.

ART