Coalition of American Agricultural Producers

Cost of Production Insurance Project

NASDA Presentation

Washington, D.C.

March 5, 2000

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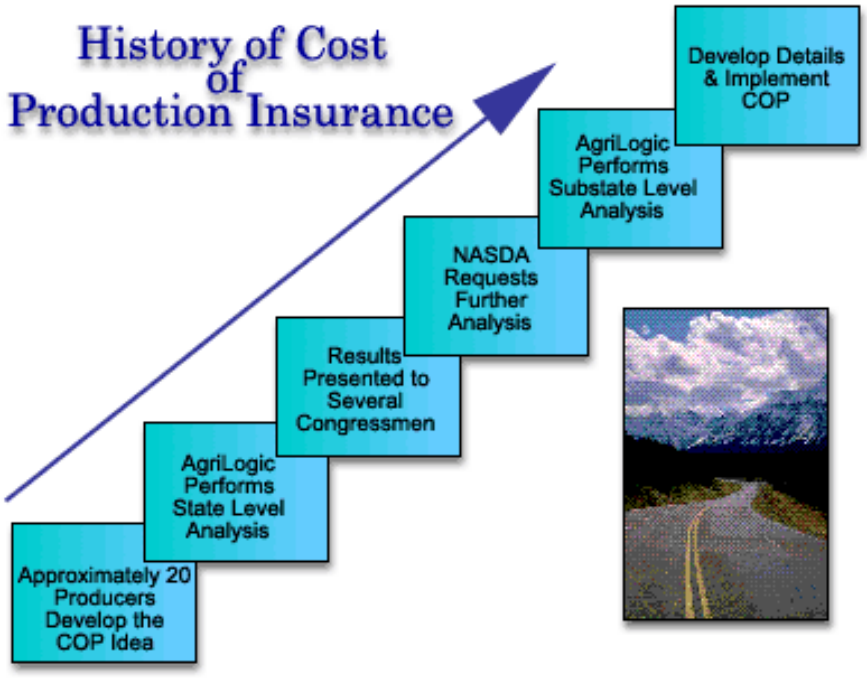
History of Cost of Production Insurance



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Introduction

"The CAT Program has resulted in very significant underwriting gains to reinsured companies, while at the same time has not served as the intended farmer safety net, particularly to the American small farmer."

Roger C. Viadero
Inspector General, USDA

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What is Cost of Production Insurance?

In the simplest of terms: Cost of Production Insurance is a concept which allows producers of all commodities (crop and livestock) to insure up to 90 percent of actual variable costs of production and land expense. Thus, the maximum exposure that a producer has in any one year is 10 percent of these costs and any costs that are not covered.

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What Commodities Are Covered?

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All Hay	Coffee	Lentils	Rice
Alfalfa Seed	Corn	Lettuce	Rye
Apples	Corn Silage	Lima Beans	Ryegrass Seed
Asparagus	Cotton	Macadamia	Sheep
Avocados	Cranberries	Mohair	Sorghum
Bananas	Crimson Clover	Nectarines	Soybeans
Barley	Cucumbers	Oats	Spinach
Dry Edible Beans	Dairy	Olives	Squash
Dry Lima Beans	Eggplant	Onions, Dry	Strawberries
Snap Beans	Fescue Seed	Onions, Green	Sugar Beets
Beets	Figs	Oranges	Sugarcane
Bentgrass Seed	Filberts/Hazelnut	Orchardgrass Seed	Sunflowerseed
Blackberries	Flaxseed	Peaches	Sweet Cherries
Blueberries	Garlic	Peanuts for Nuts	Sweet Corn
Broccoli	Goats, Other	Pears	Sweetpotatoes
Cabbage, Chinese	Grapefruit	Peas, Green	Tangelos
Cabbage, Head	Grapes	Peppers, Hot	Tangerines
Cantaloupes	Hogs - Feeder	Peppers, Sweet	Tart Cherries
Carrots	Hogs - Finish	Pistachio	Tobacco
Cattle, Cow-Calf	Hogs, Finishing	Plums and Prunes	Tomatoes
Cattle, Feedlot	Honeydew Melon	Potatoes	Turkeys
Cattle, Stockers	Kale	Pumpkins	Walnuts
Cauliflower	Kentucky Bluegrass	Raspberries	Watermelons
Cherries	Lemons	Red Clover Seed	Wheat

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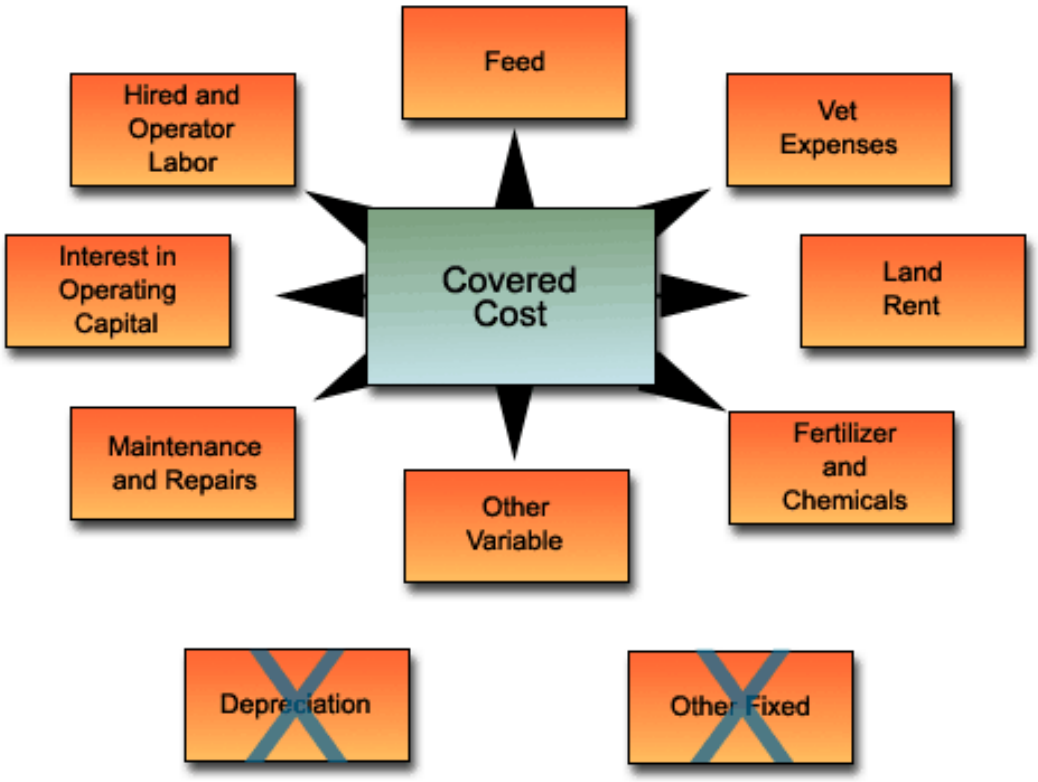
What Costs Are Covered?



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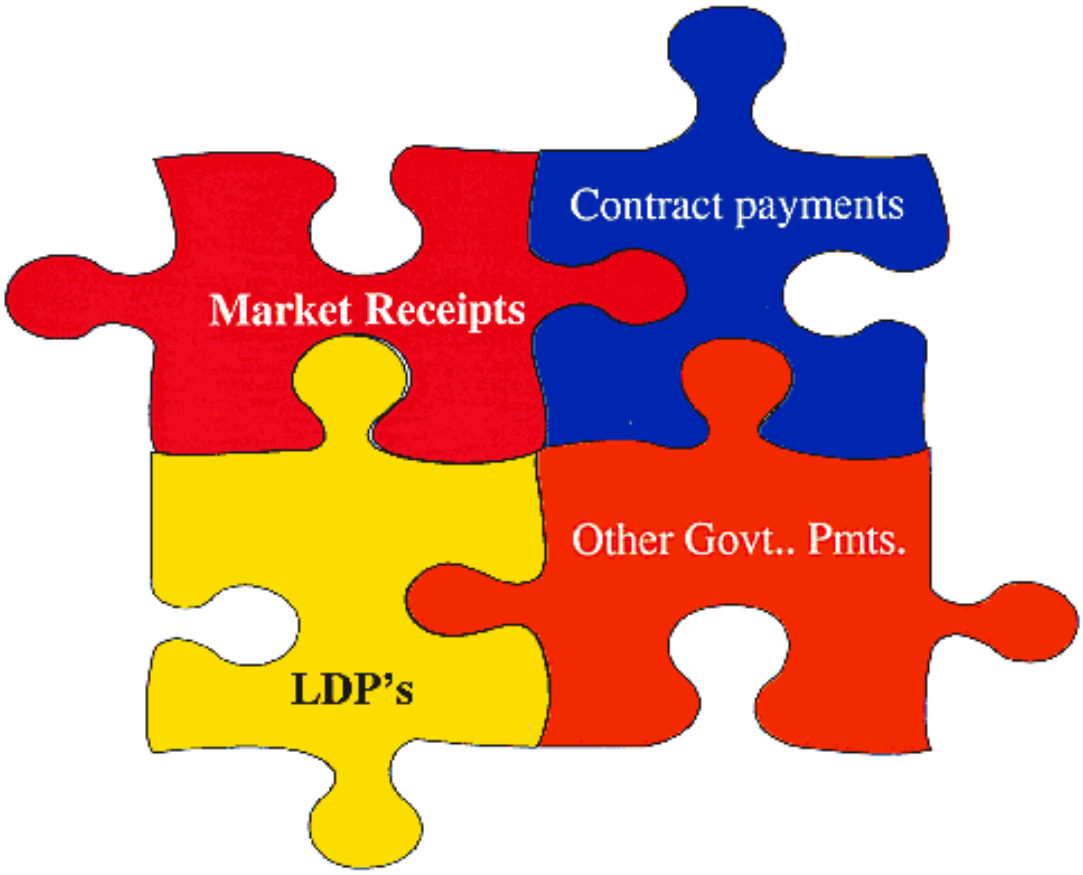
What Is Income?



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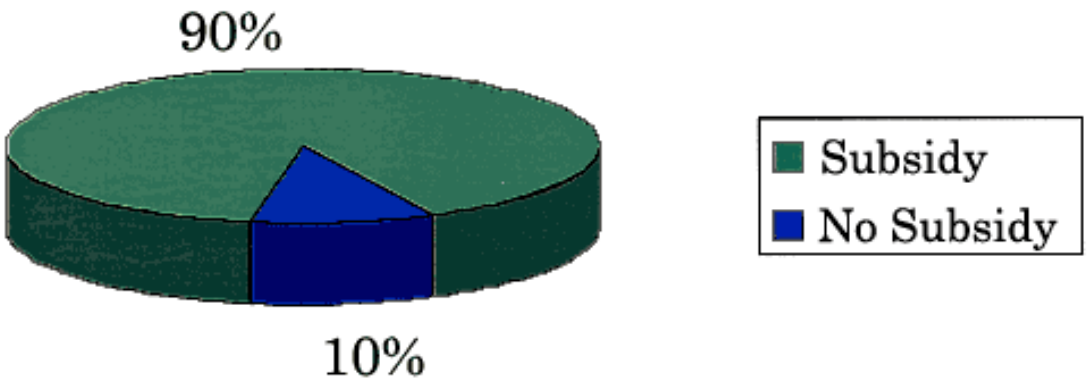
What Is the Coverage Level?



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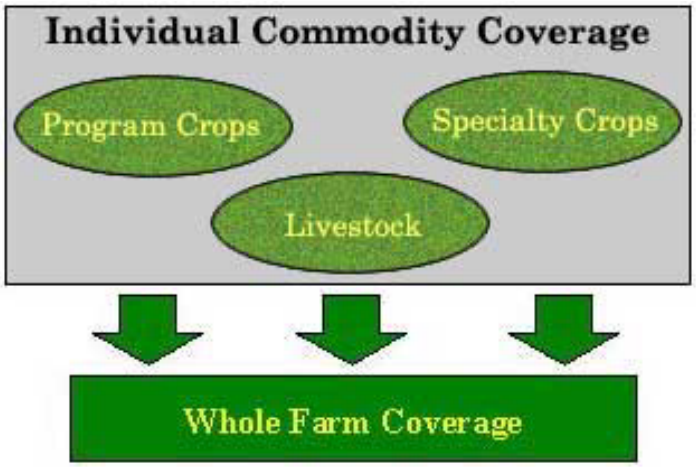
What Type of Coverage?



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What Cost of Production Is:

Safety Net

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What Cost of Production Is Not:

Revenue Enhancer

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Indemnity Calculation

Commodity Basis

Example:

Income from Wheat = 38 bushels x $2.50 = $95.00

Expenses = $90.00

Coverage: 90% of documented Cost of Production

Indemnity Calculation:

$95.00 - ($90.00 x .9) = $14.00 No Payment

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Indemnity Calculation

Commodity Basis

Example:

Income from Soybeans = 20 bushels x $5.00 = $100.00

Expenses = $115.00

Coverage: 90% of documented Cost of Production

Indemnity Calculation:

$100.00 - ($115.00 x .9) = $(3.50) Payment

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Indemnity Calculation

Whole Farm Basis

Example: 90% Coverage Equal Acreage

Income from Wheat = 38 bushels x $2.50 = $95.00
Expenses = $90.00

Income from Soybeans= 20 bushels x $5.00 = $100.00
Expenses = $115.00

Indemnity Calculation:

$95.00 - ($90.00 x .9) =	$14.00
$100.00 - ($115.00 x .9) =	$(3.50)
	$11.50 No Payment

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Indemnity Calculation

Whole Farm Basis

Example: 90% Coverage

Income from Wheat = 38 bushels x $2.50 = $95.00

Expenses = $90.00

200 Acres Wheat

Income from Soybeans= 20 bushels x $5.00 = $100.00

Expenses = $115.00

900 Acres Soybeans

Indemnity Calculation:

$95.00 - ($90.00 x .9) = $14.00 * 200 = $2,800

$100.00 - ($115.00 x .9) = $(3.50) * 900 = $(3,150)

No Payment ~~$11.50~~ Total Payment = $350.00

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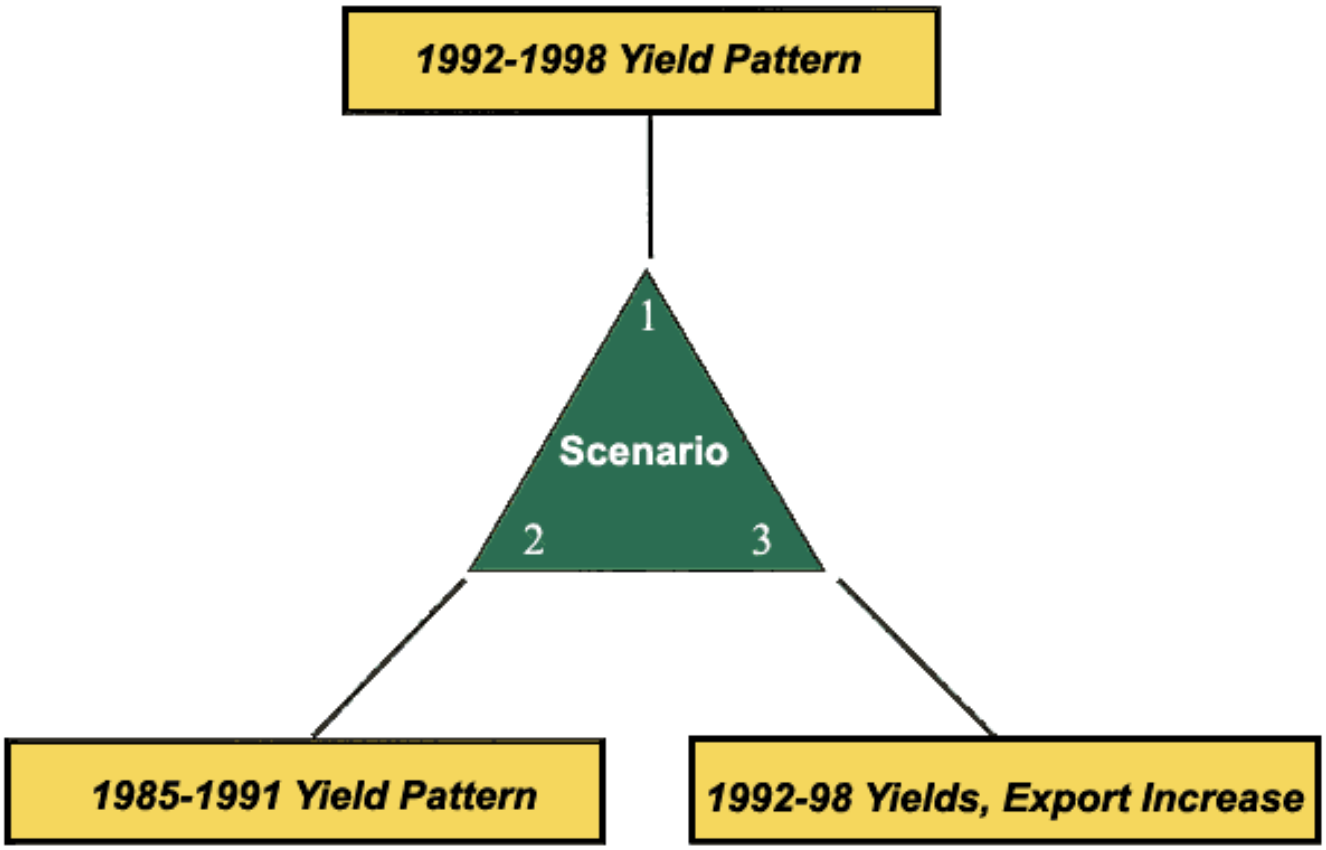
Three Scenarios Examined



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Premiums should not be inferred where payouts are shown

Due to differences in historical farm yields over time for all crops, an exact premium calculation cannot be stated without production and yield data from a specific farm.

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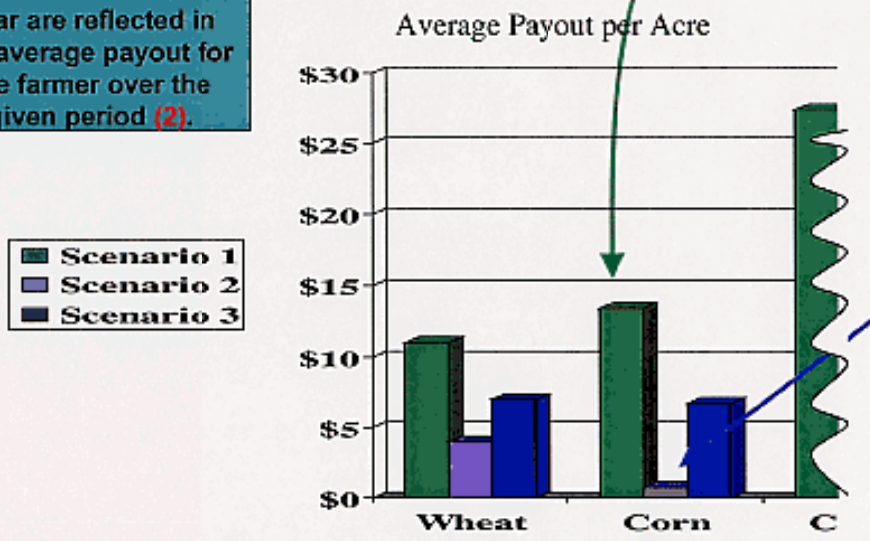
Average Payout per Unit by Commodity

Commodity: Corn

State	(Dollars per Unit) Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Average Payout
Utah, Scenario 1	3.69	1.41	1.50	71.90	9.75	3.20	1.68	13.45
Utah, Scenario 2	1.01	0.96	0.65	0.68	0.64	0.64	0.80	0.77
Utah, Scenario 3	1.85	0.71	[illegible]	35.95	4.88	1.60	0.84	6.73
Virginia, Scenario 1								

If the State experiences even one year of adverse yields (1), the effects of that year are reflected in the average payout for the farmer over the given period (2).

By the same token, relatively level production needs a lower payout (3), which in turn lowers the cost to the producer.



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NATIONAL RESULTS

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National average (7-year) payout per unit of production for agricultural commodities

Commodity	Scenario 1	Scenario 2	Scenario 3	Average
Alfalfa Seed	6.56	11.60	6.32	8.16
Almonds	111.56	46.15	90.95	82.89
Apples	27.48	25.74	25.53	26.25
Asparagus	59.78	63.07	53.04	58.63
Avocados	39.36	15.48	39.26	31.37
Bananas	71.10	29.28	20.19	40.19
Barley	16.00	19.18	15.18	16.78
Beans, Dry Edible	7.62	7.17	7.02	7.27
Beans, Dry Lima	58.00	73.50	50.08	60.53
Beans, Snap	6.78	5.17	6.47	6.14
Beef Cattle	18.87	18.92	21.46	19.75
Beets	4.98	3.03	4.06	4.02
Bentgrass Seed	11.66	11.54	11.41	11.54
Blackberries	17.93	17.93	17.66	17.84
Broccoli	115.49	97.71	91.47	101.56
Broilers	0.00	0.00	0.00	0.00
Cabbage, Chinese	19.89	19.73	19.73	19.78
Cabbage, Head	59.47	69.48	59.60	62.85
Cabbage, Mustard	11.78	7.75	11.53	10.35
Cantaloupes, Muskmelons	14.26	80.82	13.80	36.29
Carrots	55.15	66.30	51.70	57.72
Cauliflower	77.26	103.52	48.47	76.42
Cherries	53.74	116.08	17.73	62.52
Coffee	187.35	28.49	160.15	125.33

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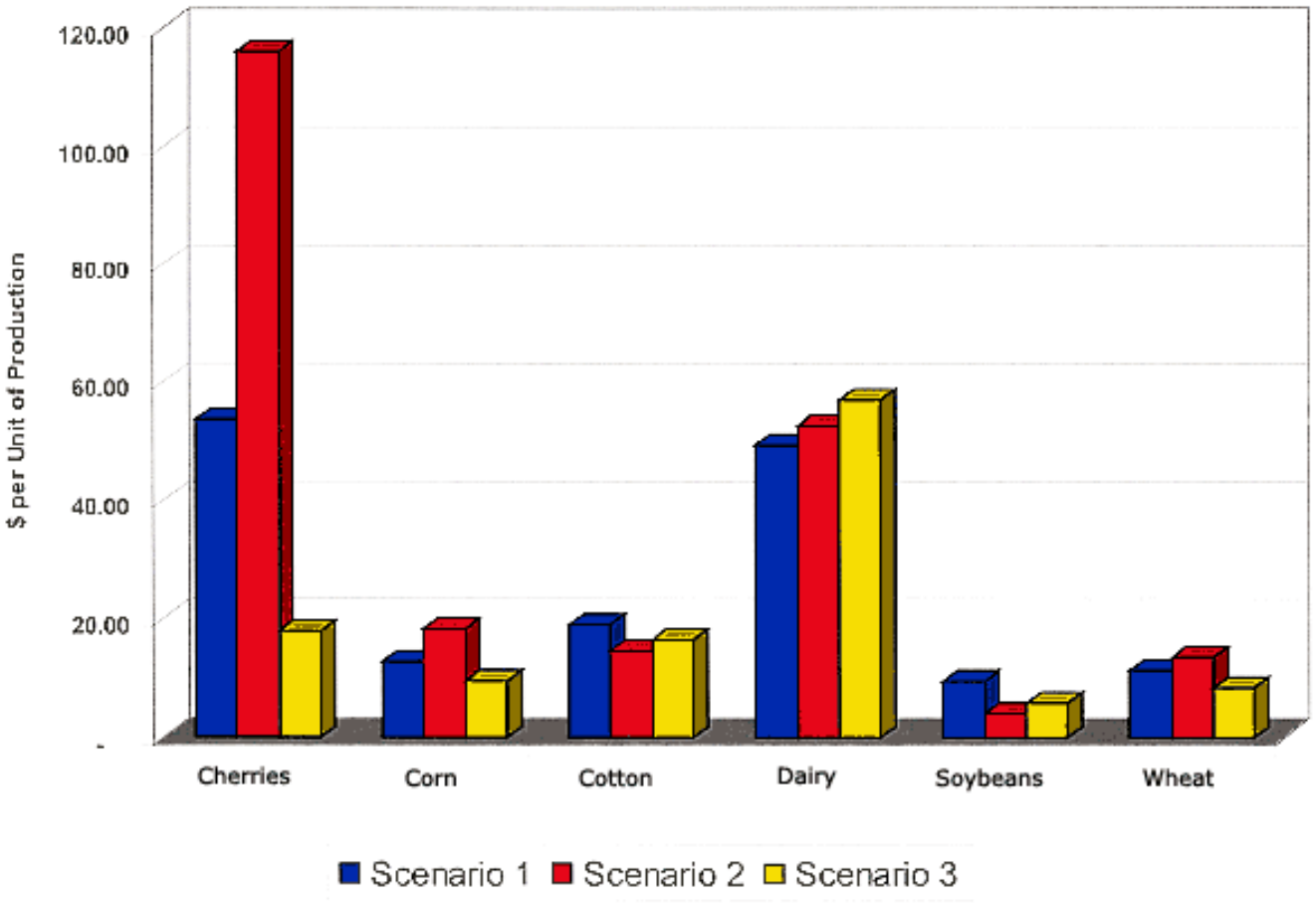
Payout By Commodity



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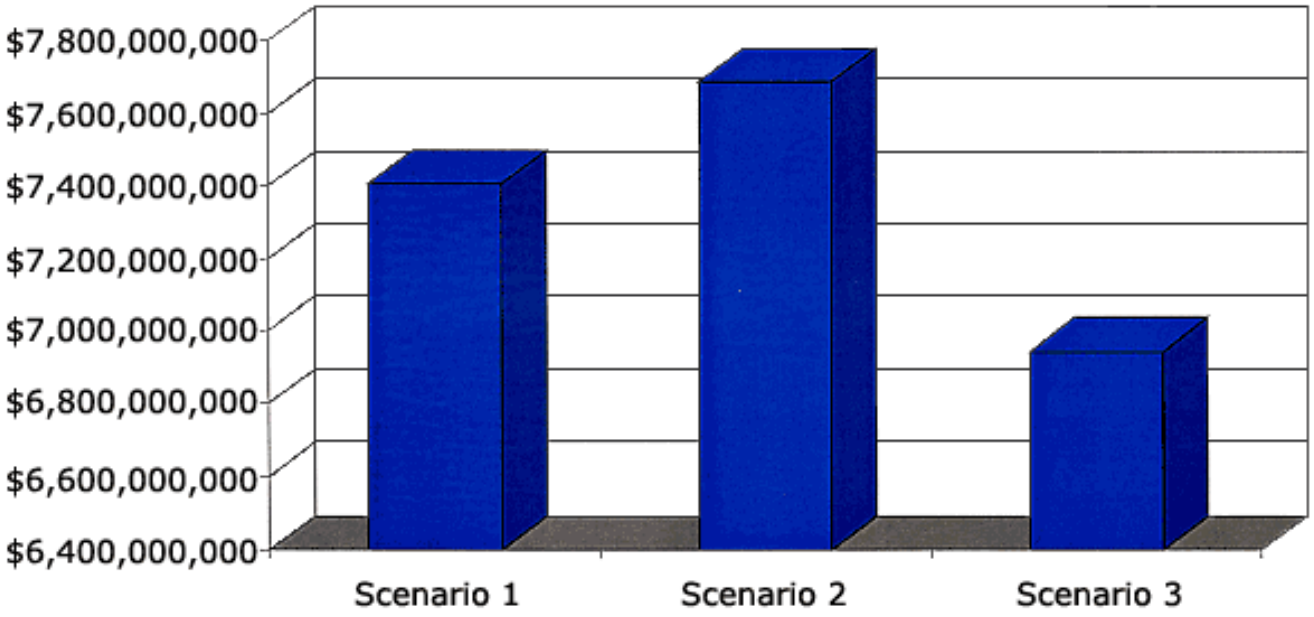
Total Payout



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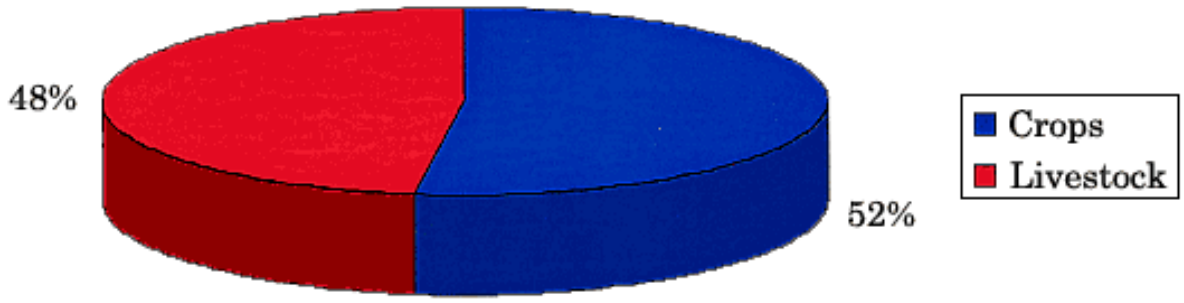
Distribution of Payout



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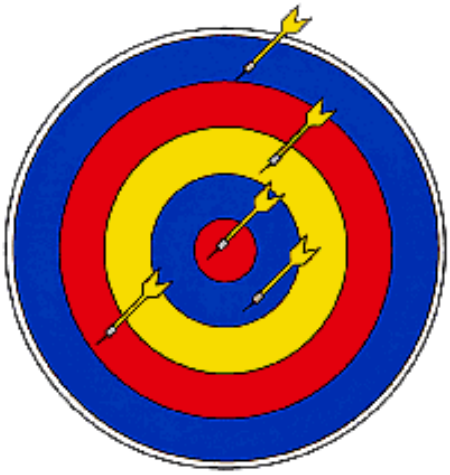
How Much is the Premium?



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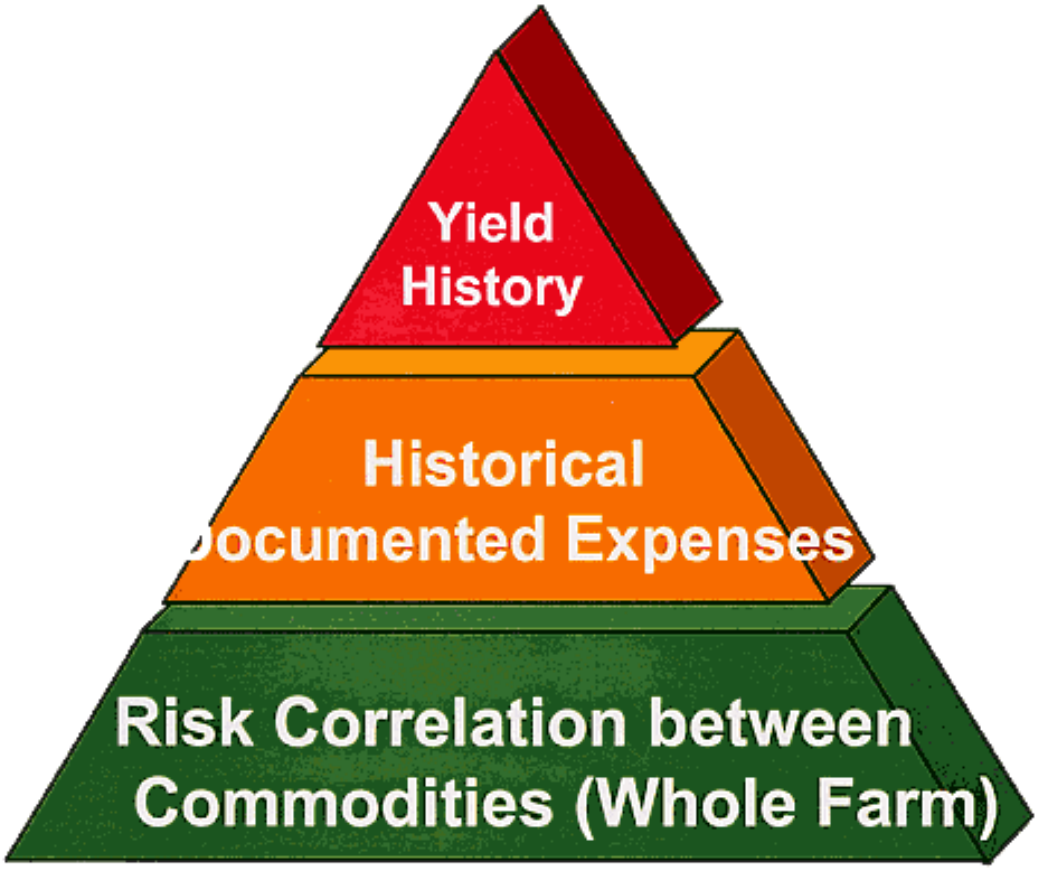
Premium Calculation Concept



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How Much is the Premium?

General rule of thumb: 3-6% of Costs

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Limitations of Study

Budgets

- Many budgets are at state or district level and may not represent actual cost for each county and/or producer.
- Budgets from neighboring states are used when commodity budgets are not available.
- There are some inconsistencies in budget formula, i.e., accounting vs. economic budgets. Where this was identified, we made adjustments as necessary.
- Distinctions are not made between various types and qualities within a commodity. Example, processed oranges vs. fresh oranges or wine grapes vs. table grapes.

Yields

- A majority of specialty crop historical yields are only available at the state level.
- In many states, yield data is not available for minor crops.
- The average of available data is used when yields for the covered periods are not available.

Prices

- National average prices are used if state or county level prices are not available.
- Prices are not separated by variety within commodity such as winter wheat vs. spring wheat vs. durum wheat.
- Due to the lack of production information, historical yields, budgets and/or disclosure problems, some commodities have not been calculated.
- Quality of payment calculations are dependent upon quality of input data.

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