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Crop Yield Protection 1994; A Diverse and Changing Cattle Feeding Industry

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CROP YIELD PROTECTION 1994

by

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Many factors today are increasing risks for South Dakota's farmers. Increased competition from foreign countries, volatile prices, and severely wet conditions have created tough economic conditions. Crop insurance is one means to alleviate risks; it is required for 1994 if farmers received disaster aid in 1993. The Federal Crop Insurance Corporation (FCIC) has developed two forms of Multiple Peril Crop Insurance (MPCI) to better serve a farmer's risk management needs.

Multiple Peril Crop Insurance

MPCI is available in two forms. The Actual Production History Plan (APHP) provides coverage based on each farmer's individual yields. The Group Risk Plan (GRP) provides coverage based on county yields. It is important to choose the risk management plan that serves you best.

Actual Production History Plan (APHP)

APHP is available on about 50 crops. Policies are offered in every state, but not every crop is covered in all counties. APHP protects against losses from drought, flood, excess moisture, frost/freeze, hail, and wind. It also covers losses from insects, crop disease, wildlife, and even earthquake and volcanic eruption. However, it does not cover losses from neglect, poor farming practices, or theft.

APHP offers a choice of coverage levels. You can choose to cover 35, 50, 65, or 75 percent of your approved yield. You can also choose from 30 to 100 percent of an established price election or you can choose a market-based price election. The amount you will be paid is based on

(Continued on p.2)

A DIVERSE AND CHANGING CATTLE FEEDING INDUSTRY

by

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While much has been written recently about structural changes in the hog industry and the resulting move to "bigness", the cattle feeding industry also has changed. That change has not been as dramatic as changes in the hog industry, at least not in the last few years, but there have been changes. One result is a cattle industry with "a lot of little guys", a "few big guys" and not that many "in-betweens". A few examples may illustrate that situation.

In 1993, there were 4000 cattle feedlots in SD (granted not all may have had many cattle in them). That is 300 fewer feedlots than in 1992. By contrast, Texas had only 640 cattle feedlots and Iowa had 15,300. In Texas, that was a decrease of 50 feedlots, while the Iowa decrease was a whopping 1200 feedlots.

In South Dakota, 97% of the feedlots had a capacity of less than 1000 head. In Texas, about 80% of the feedlots were smaller than 1000 head capacity, and in Iowa almost 99% of their feedlots were in that size category. As a result, SD marketed only 485,000 fed cattle in 1993 (from 4300 feedlots), while Texas marketed 5.29 million head (from only 640 feedlots). In Iowa, about 1.44 million head were marketed from their 15,300 feedlots.

Another major contrast between the three states is the larger size feedlots and the share those feedlots have of total marketings. In 1993, SD had 15 feedlots with a capacity of over 4000 head (most were under 10,000 head). In Texas, there were 129 feedlots with a capacity of over 4000 head, and 67 were larger than 16,000 head. Iowa had only 40 feedlots with a capacity of over 4000 head. (Contd on p.4)

(Crop Yield ... cont'd from p.1)
the price election and each pound or bushel of production that is below the level of coverage chosen.

Group Risk Plan (GRP)

Beginning in 1994, GRP policies will be available for barley, corn, grain sorghum, and soybeans in selected counties in SD. GRP departs from traditional approaches to crop insurance protection, with less paper work and frequently lower cost than most APHP policies.

GRP provides all-risk coverage based on the premise that when an entire county's crop yield is low, most farmers in that county will also have low yields. Therefore, GRP pays only when the yield of the entire county drops below the expected county yield set by the FCIC. You can choose from 6 coverage levels ranging from 65 to 90 percent of the expected county yield at an established price election. The price election is set by the FCIC and the insured can choose from different percentages up to that set price.

If your farm yields track closely with your county's yields, ask your agent if GRP is offered in your county. When your yields track consistently close to the county averages or above, you will receive the most benefit from the program. If your yields do not track close to the county averages, you will be exposing your self to more risk in years where the county average is way above yours. Talk with your insurance sales agent and consider if GRP is an alternative that will work for you.

The cost of your MPCI coverage depends on the kind of protection you choose. To help you get the coverage you need, the Federal Government pays up to 30 percent of your premium.

Crop insurance is sold by professional insurance agents who can help you evaluate your farm risks and choose the protection you need. If you need help finding a sales agent, an Agent Locator Directory is available in every county office of the USDA Agricultural Stabilization and Conservation Service (ASCS). For more information, refer to the "1994 Guide To Crop Insurance Protection" produced by the FCIC, USDA.

The following sections of the newsletter cover new 1994 FCIC provisions; determining the cost of different protection levels; a list of S.D. counties qualifing for the 1994 Spring Crop GRP program; and a table summarizing comparisons among APHP, GRP, and disaster assistance programs.

NEW PROVISIONS IN 1994

Actual Production History Plan

To improve crop insurance coverage for better farmers and improve overall insurance experience, the FCIC has reduced the APHP requirement for certified records from 10 to 4 years. Under the new provisions, with 4 or more years of records, Transitional Yields (known as T-Yields) will no longer affect a farmer's APHP approved yield.

Changes from the current APHP

* Guarantees based on a minimum of 4 years of records - building to 10 years.
* T-Yields not used when at least 4 years of records are provided.
* Reduced T-Yields used if less than 3 years of records are available.
* New farmers receive special consideration.
* 15% "cap" on increases and a 10% "cup" on decreases for approved yields for the 1994 crop year.

How APHP yields are computed

Simple average of:
* 4 - 10 years of records.
* 3 years of records plus 1 year at 100% of T-Yield.
* 2 years of records plus 2 years at 90% of T-Yield.
* 1 year of records plus 3 years at 80% of T-Yield.
* 0 year of records plus 4 years at 65% of T-Yield.

Late/Prevented Planting Insurance Now Possible

Under normal circumstances, for insurance to be in force, crops must be planted by predetermined dates set by FCIC. That's because, when crops are planted after those dates, normal production amounts cannot be expected. In past years, insurance coverage did not begin until a crop was planted.

Now, insurance on crops in SD with late/prevented planting coverage will be effective on the sales closing date, which is April 15th. The sales closing date refers to the last day that insurance may be purchased. The late/prevented planting insurance is included on barley, corn, grain sorghum, and soybeans in South Dakota. A typical late/prevented planting timeline looks like this:

Insured Unable To Plant	Late Planting Period	Prevented Planting Period
April 15	June 5	June 30
Sales Closing Date----->	Final Planting Date--->	End of late planting period.

Late Planting Coverage

* There is a 25-day late planting period.
* Production guarantee is reduced 1% for each of the first 10 days after the final planting date.
* Production guarantee is reduced 2% for each of the next 15 days after the final planting date.
* Farmers who plant late are paid on the basis of 60 to 99 percent of the guaranteed production level, depending on the number of days the crop is planted late.

Prevented Planting Coverage

* The insured must have been prevented from planting up to the final planting date.
* The insured must have been unable to plant during the late planting period.
* Eligible acreage is at least 20 acres or 20% of the acreage intended to be planted in the unit.
* Payment approximately 35% to 50% of production guarantee for timely planted acreage (Consult Sales Agent for details).

DETERMINING COST OF DIFFERENT PROTECTION LEVELS

To determine the cost of the level of protection that you choose, use current price elections and premium rates that your agent can provide to fill in the equation. An example of a crop insurance worksheet looks like this:

Your Yield Average	*	Coverage Level(%)	=	Guarantee Per Acre	*	Price Election	=	Protection Per Acre	*	Premium Rate

= PREMIUM PER ACRE

This simple formula can be used to estimate crop insurance costs. To determine what coverage level is best for you and what the exact cost will be, you will need to meet with an insurance agent. For more information refer to, "1994 Guide To Crop Insurance Protection" produced by the FCIC or your local insurance sales agent.

COUNTIES INCLUDED IN GRP

Corn, grain sorghum, soybeans, and barley qualify for the 1994 Spring Crop GRP program in 35 counties in SD as follows:

Corn (C) Soybeans (S) Grain-Sorghum (GS) Barley (B)

COUNTY	CROP(S) COVERED	COUNTY	CROP(S) COVERED	COUNTY	CROP(S) COVERED
BON HOMME	C,S	FAULK	B	MARSHALL	C
BROOKINGS	C,S	GRANT	C,S	MINER	C
BROWN	B	HAMLIN	C,S	MINNEHAHA	C,S
CHARLES MIX	C	HAND	B	MOODY	C,S
CLARK	C	HANSON	C,S	POTTER	B
CLAY	C,S	HUTCHINSON	C,S	ROBERTS	C,S,B
CODINGTON	C,S	LAKE	C,S	SANBORN	C
DAVISON	C,S	LINCOLN	C,S	TRIPP	GS
DAY	B	LYMAN	GS	TURNER	C,S
DEUEL	C,S	McCOOK	C,S	UNION	C,S
DOUGLAS	C,S	McPHERSON	B	YANKTON	C,S
EDMUNDS	B				

For more information concerning GRP or any of the provisions of FCIC crop insurance, consult the following table, contact your local insurance sales agent, or refer to FCIC publications concerning the GRP program for your crops, available through your local county extension agent.

MPCI AND DISASTER PROGRAM COMPARISONS

PLAN FEATURE	GROUP RISK PLAN (GRP)	ACTUAL PRODUCTION HISTORY PLAN (APHP)	DISASTER ASSISTANCE
UNITS	WHOLE FARM	SUB FARM UNITS	WHOLE FARM
SIGN UP DATES, REPORTING DATES	VARIES BY CROP	FLEXIBLE FOR PREVENTED PLANTING, ETC.	VARIES BY YEAR AND PROGRAM ANNOUNCEMENT
COVERAGE LEVELS	65 ,70, 75, 80, 85, 90% OF EXPECTED COUNTY YIELD	35, 50, 65, 75% OF INDIVIDUAL YIELD HISTORY	ACTUAL VERIFIED LOSS BELOW FARM PROGRAM YIELD OR COUNTY AVERAGE YIELD
PAYMENT TIMING	PRELIMINARY AFTER HARVEST; FINAL AFTER NASS RESULTS	AT TIME OF LOSS	AFTER LOSS IS VERIFIED BY ASCS OFFICES
CROP QUALITY ADJUSTMENTS	NONE	QUALITY ADJUSTMENTS POSSIBLE	NONE
PREMIUMS	ALL PRODUCERS WITH THE SAME LEVEL OF COVERAGE PAY THE SAME	BASED ON INDIVIDUAL EXPERIENCE; NCS ADJUSTMENTS POSSIBLE	NONE
MAX PROTECTION	COUNTY YIELD TIMES 1.5 TIMES PRICE	75% OF INDIVIDUAL YIELD TIMES PRICE	INDIVIDUAL LOSS TIMES PRICE SPECIFIED IN LEGISLATION

Continued on next page

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Address Correction Requested

MPCI AND DISASTER PROGRAM COMPARISONS

PLAN FEATURE	GROUP RISK PLAN (GRP)	ACTUAL PRODUCTION HISTORY PLAN (APHP)	DISASTER ASSISTANCE
CLAIM TRIGGER	COUNTY AVERAGE YIELD	INDIVIDUAL YIELD	65% OR 60% OF EXPECTED PRODUCTION
RECORDS	NONE	INDIVIDUAL YIELDS	INDIVIDUAL YIELDS AND PRODUCTION AND SALES
PAYMENT LIMITATIONS	NONE	NONE	$100,000

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(Diverse & Changing ... cont'd from p.1)

In SD, those 15 feedlots accounted for only about 35% of fed cattle marketings. The 129 largest feedlots in TX accounted for over 99% of the cattle marketed, while in IA the share was only 20%. Average marketings per feedlot in 1992 in SD was only 117 head. In IA, the average was only 92 head, while TX averaged 6949 head marketed per feedlot.

Twenty-eight of the 31 feedlots with a one-time capacity of 50,000 head are in TX, CA, AZ, CO, KS, and NE. None are in SD or IA.

In a more general sense, the cattle feeding industry is fairly well entrenched in areas south and west of SD, with most feeding conducted in very large feedlots. SD is a "supplier of feeders" to those areas, since only about 1/3 of our 1.5 million calves are fed out in the state. While that isn't necessarily bad, possible more in-state feeding does present an area of opportunity which should be evaluated.

Plenty of grain and feeder cattle are produced in the state. We also have other resources which could be used if the cattle feeding industry were larger. More feeding (or at least maintaining ownership longer than is the case) should benefit SD as a whole. However, since this doesn't always translate into benefits for the individual producer, we likely will see a continuation of the small scale cattle feeding industry and send our calves elsewhere for feeding.

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ECONOMICS COMMENTATOR

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