Crop Insurance Options for Grape Growers in North Carolina

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Introduction

• Crop insurance is one of the most important tool for managing risk in U.S. agriculture
• USDA-RMA is the primary agency that oversees the U.S. crop insurance program
• Expansion to specialty and underserved crops (ARPA of 2000)

Introduction

• Why do we need crop insurance?
• Agricultural production is inherently risky
  – Adverse weather events
  – Pest infestations
• Not properly addressing production risks has financial consequences
Introduction

- Profit = (output price x output) – (input price x input)
- Negative risks affect ability to:
  - Pay bills
  - Meet farm business goals
  - Maintain lifestyle

Introduction

- Crop insurance is one strategy to manage production risk
- Not costless – weigh premium (cost) with the expected risk reduction (benefits)
  - Assess your own situation
- For grapes in NC, only 16.8% of total acres insured (RMA, 2006)

GOALS TODAY

- Provide information on available crop insurance options for grape growers
- Provide a brief overview of how the available crop insurance products works
- Issues to consider when buying crop insurance
Crop Insurance Options

- Written Agreement
  - Vinifera Grapes and others
- Actual Production History (APH) Policy
  - Muscadines in Bladen County
- Adjusted Gross Revenue Lite (AGR-Lite)
  - Any type of grapes (mainly for diversified operations)
  - Insures farm revenue

Written Agreement and APH

- Written Agreements
  - To provide crop insurance for crops where coverage and rates are unavailable (i.e. as in Vinifera grapes)
  - Administered through the Raleigh Regional Office
  - Structured as an APH policy
    - Protects against yield shortfalls due to insurable cause of loss

Written Agreement and APH

- APH Yield Guarantee:
  - Average APH Yield 3 tons/acre
  - Coverage Level 65%
  - Yield Guarantee (3 tons/acre x 0.65) 1.95 tons/acre
**Written Agreement and APH**

- APH Indemnity Payment

<table>
<thead>
<tr>
<th>Yield Guarantee</th>
<th>1.95 tons/acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Election (100%)</td>
<td>$420/ton</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actual Yield</th>
<th>0.95 tons (0.95 &lt; 1.95)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indemnity</td>
<td>$420/ac**</td>
</tr>
</tbody>
</table>

  ** (1.95 – 0.95 tons) x $420 = $420

If producer premium $18, net indemnity is $402/ac

**Written Agreements and APH**

- Requirements:
  - Vinifera – at least 5 crop years of certified APH yields, with an average of 2 tons/ac
  - Muscadines – reached fourth growing season after being set out; produced an average of 2 tons/acre at least one of the three most recent crop years
  - Nov. 20- Sales Closing Date

- Contact your Insurance Agent for details!

**AGR-Lite**

- Whole-farm revenue protection plan
  - Insures adjusted gross revenue of whole farm rather than individual crops
- Most farm-raised crops, animals, and animal products covered
- Can stand alone or with other insurance plans (APH)
AGR-Lite

• Uses producer’s 5-year historical farm average revenue as reported on IRS tax form (Schedule F) and annual farm report
• Have liability limits and other eligibility requirements
  – Lots of paperwork!
  – Mar. 15 – Sales Closing Date
  – Contact your Insurance Agent for details!

AGR-Lite Example

• Liability and Revenue Guarantee

<table>
<thead>
<tr>
<th>Coverage level &amp; Payment Rate</th>
<th>80%/75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved Adj. Gross Revenue</td>
<td>$100,000</td>
</tr>
<tr>
<td>Liability (100,00 x 0.8 x 0.75)</td>
<td>$60,000</td>
</tr>
<tr>
<td>Revenue Guarantee (100,000 x .8)</td>
<td>$80,000</td>
</tr>
</tbody>
</table>

AGR-Lite Example

• Indemnity Payment

<table>
<thead>
<tr>
<th>Actual Revenue for the year</th>
<th>$70,000 (&lt; $80,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss Below Guarantee</td>
<td>$10,000</td>
</tr>
<tr>
<td>Indemnity Payment ($10,000 x 0.75)</td>
<td>$7,500</td>
</tr>
</tbody>
</table>
Issues to Consider

• Yield variability
• Cash flow requirements
• Self-insurance/Cash Reserves
• Premiums are subsidized
• See handout on “Questions to Ask Yourself Before Buying Crop Insurance for Grapes”

Concluding Thoughts & Recommendations

• Consider at least minimum coverage (50%)
  – Fairly stable production

• Consider Written Agreements/APH policy at higher coverage levels
  – If more risk averse (wants higher protection)
  – More variable production
  – Not very diverse (only single crop)

Concluding Thoughts & Recommendations

• Consider AGR-Lite
  – If diverse farm operation
  – Grower contracts at price higher than APH price election
  – Have good records (last five years)

• Contact and communicate with your insurance agent
  – See handout: “How Do I to Effectively Communicate with My Agent?”
Additional resources

• USDA-RMA Website (http://www.rma.usda.gov)
  – Fact Sheets; Premium Calculators
  – Official Announcements
• USDA-RMA Raleigh Regional Office
  – Information pertaining to North Carolina
• NC State Crop Insurance Website
  – http://www4.ncsu.edu/~rmrejesu/ncsu_crop_insurance_extension_page.htm
  – I will put my presentations & extension materials here

More Questions?

• Contact me:
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