



The University of Georgia
Cooperative Extension
College of Agricultural and Environmental Sciences



Georgia Cotton

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www.ugacotton.com

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Cotton Price Situation and CRC Crop Insurance Coverage. (*Shurley*) Crop insurance is an important risk management tool for many Georgia farmers—especially cotton and peanut producers. Essentially 100% of the states cotton acreage, for example, is insured.

Types of policies available vary somewhat by crop. The most used policies in cotton are APH (Actual Production History) and CRC (Crop Revenue Coverage). APH is the traditional “yield” type policy and provides coverage against yield loss. CRC, on the other hand, provides coverage against loss in “revenue” which incorporates both price and yield, not just yield alone.

APH coverage can be at the minimum of just 50% of the farms historical yield (this is referred to is CAT or catastrophic coverage) or 55 to 85% of yield referred to as “buy-up” coverage. For 2008, 55% of Georgia cotton acres were insured under CRC and 44% under APH (19% under CAT and 25% “buy-up”).

Because over half of Georgia’s cotton acres are insured under CRC and because CRC has a price component in addition to yield and because cotton prices have declined dramatically during this growing season, there are questions as to how CRC will work and how producers will fare. So, let’s look at the current situation and quickly walk through the process.

For CRC coverage, the *Minimum Guarantee* must first be calculated. For cotton, this is calculated using the average price for the December futures contract during the period January 15 through February 14 prior to planting. This is called the *Base Price*. The crop insurance signup deadline is February 28, so producers will know their Minimum Guarantee for revenue before the deadline. Coverage could end up more than this but cannot be less.

This past January 15 – February 14, 2008 December cotton futures averaged 77 cents per pound. Let’s assume the farm had a cotton APH yield (average yield history) of 700 pounds per acre and let’s assume the farmer elected 65% coverage. The Minimum Guarantee is:

$$700 \text{ lbs} \times 65\% \times 77 \text{ cents} = \$350.35 \text{ per acre}$$

Now, fast-forward to harvest time. On or about November 30, the *Harvest Guarantee* will be calculated. For cotton, this is based on the average price for December futures for the month of November. This is called the *Harvest Price*.

The Harvest Guarantee is calculated the same as the Minimum Guarantee only substituting the Harvest Price for the Base Price. Currently, December cotton futures have averaged approximately 42 ½ cents per lb thus far during the month of November—a drop of over 30 cents per pound from the Base Price. Assuming December futures averaged 42 ½ cents for the entire month of November, the Harvest Guarantee would be:

$$700 \text{ lbs} \times 65\% \times 42 \frac{1}{2} \text{ cents} = \$193.38 \text{ per acre}$$

The *Final Guarantee* is the higher of the Minimum Guarantee or the Harvest Guarantee. In other words, if prices increase the CRC revenue guarantee will increase. If prices decline, the CRC revenue guarantee will remain at the higher Minimum Guarantee.

After harvest, the producers actual or *Calculated Revenue* will be determined from actual production records. The actual or Calculated Revenue is the actual yield valued at the Harvest Price. Assuming the producer’s actual yield was also 700 lbs per acre and assuming the actual Harvest Price was 42 ½ cents, the Calculated Revenue would be:

$$700 \text{ lbs/acre} \times 42 \frac{1}{2} \text{ cents/lb} = \$297.50 \text{ per acre}$$

APH Yield	700	Actual Yield	700
Coverage Election	65%	Harvest Price	\$0.425
Base Price	\$0.77	Calculated Revenue	\$297.50
Minimum Guarantee	\$350.35		
Harvest Price	\$0.425		
Harvest Guarantee	\$193.38		
Final Guarantee	\$350.35	Indemnity	\$52.85

The producer will receive a payment (Indemnity) if Calculated Revenue is less than the Final Guarantee. The payment will be the difference—in this case, \$52.85 per acre.

With an APH policy, an Indemnity would not have been received unless yields were less than 455 lbs per acre (700 lbs APH x 65%).

Notice and remember that a payment (Indemnity) under CRC is determined based on actual revenue as determined by BOTH price and yield. For the 2008 cotton crop, because price has declined significantly, an Indemnity is likely for most policy holders unless actual yield is significantly more than the farms APH. In the above example, even with the dramatic drop in price, a CRC Indemnity payment would not be received if the farms actual yield were 824 lbs/acre or higher (\$350.35/ac Final Guarantee divided by 42 ½ cents/lb Harvest Price).

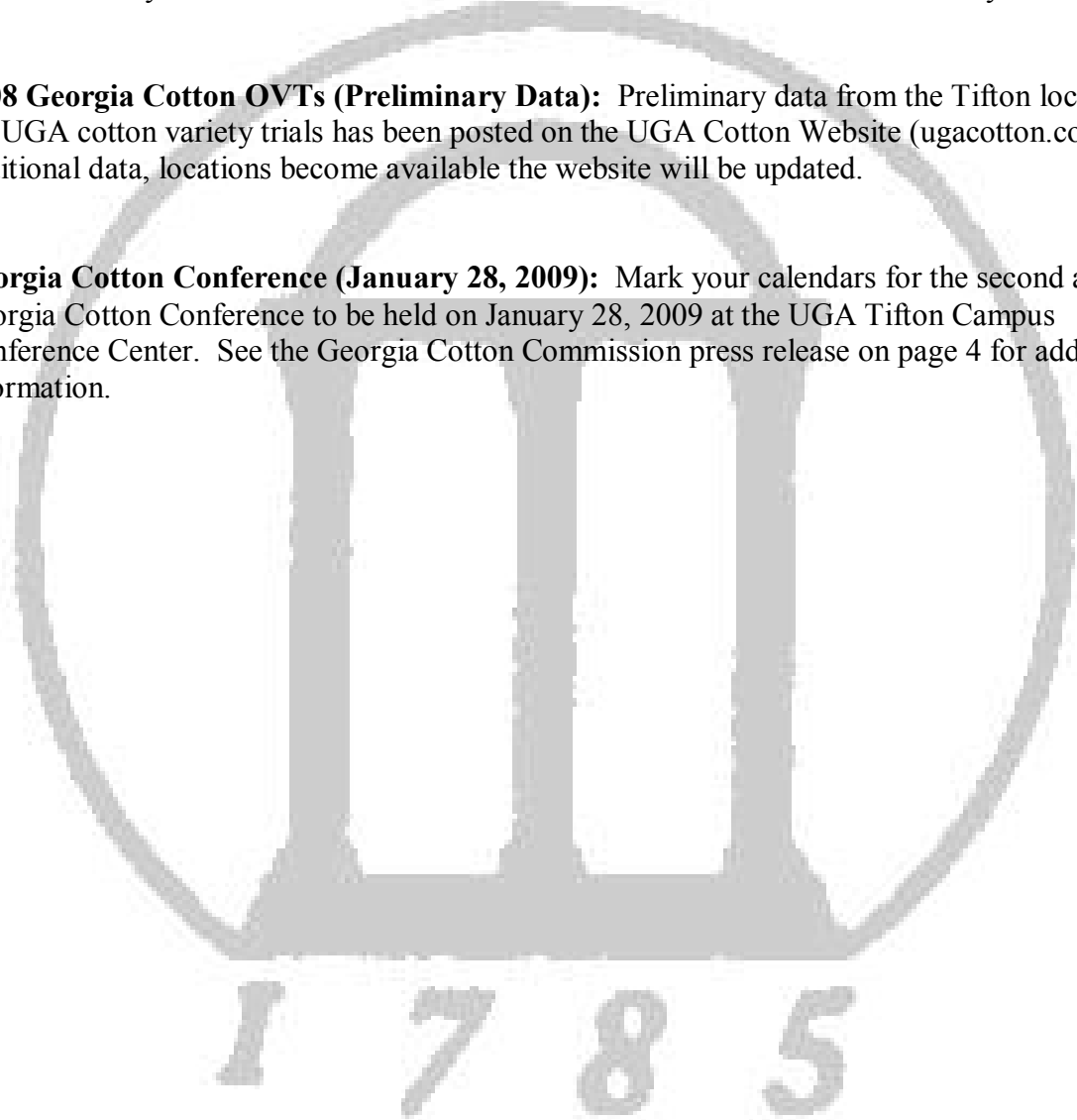
Premiums are higher for CRC compared to an APH policy with the same yield coverage election. CRC is generally attractive if the Base Price is high compared to the price election on an APH

policy. December 2009 cotton futures are currently less than 50 cents per pound. The Base Price for 2009 cotton CRC will be the average December 2009 futures price during the period January 15 – February 14, 2009. The APH price election is not yet been announced.

The above table and example may be used to illustrate to producers how CRC will work given the current cotton price situation. Producers may use their own numbers and follow the example given. The precise Final Guarantee, Calculated Revenue, and any Indemnity if applicable can be determined only after the Harvest Price and Actual Yield are known with certainty.

2008 Georgia Cotton OVTs (Preliminary Data): Preliminary data from the Tifton location of the UGA cotton variety trials has been posted on the UGA Cotton Website (ugacotton.com). As additional data, locations become available the website will be updated.

Georgia Cotton Conference (January 28, 2009): Mark your calendars for the second annual Georgia Cotton Conference to be held on January 28, 2009 at the UGA Tifton Campus Conference Center. See the Georgia Cotton Commission press release on page 4 for additional information.



GEORGIA COTTON COMMISSION

2nd Annual Georgia Cotton Conference – January 28, 2009

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Plans are coming together for the Georgia Cotton Commission's 2nd Annual Meeting on Wednesday, January 28, 2009, at the UGA Tifton Campus Conference Center. In a one-day format, it will be held in conjunction with the Commission cosponsored Georgia Cotton Production Workshop, under the umbrella name GEORGIA COTTON CONFERENCE. Between the Workshop and the Commission's Annual Meeting program, it will be a day of learning for Georgia's cotton producers. This is a perfect chance for them to see how their check-off investment dollars are working for them. During the program, growers will hear from researchers, industry leadership, elected officials and they can also visit with various industry supply representatives. Producers present are eligible for a grand prize drawing this year and our co-sponsors, to date, include Bayer CropScience; D&PL; DuPont Crop Protection; Helena; Phytogen Cottonseed and Valent. We appreciate their commitment to help us present a quality educational event to Georgia's cotton growers.

Tentatively, the day will begin at 7:30 a.m. with registration; the Workshop's concurrent sessions are from 8 – 10 a.m.; the Annual Meeting program will run from 10:20 a.m. – 1:30 p.m., immediately followed by two consecutive Workshop breakout sessions, until 5:30 p.m.

Online [Pre-registration](#) is strongly encouraged to help us with meal planning. Beginning December 1, 2008, preregistration will be accepted at: www.ugatiftonconference.org

Please direct registration questions to: Karen McBrayer or Renae Woods of the UGA Tifton Conference Center (phone) 229.386.3416. Updates can be found on the Home page of the Commission's website: www.georgiacottoncommission.org

Annual Meeting questions may be directed to: Richey Seaton (gactn@alltel.net) or Karen Nikitopoulos (cotton@alltel.net) at the Georgia Cotton Commission office (phone) 478.988.4235.

Tentative Agenda – January 28, 2009

7:30 a.m.	Free registration
8 -10 a.m.	Georgia Cotton Production Workshop breakout sessions (TBA) (UGA Cotton Team)
10 – 10:15 a.m.	Break
10:15 a.m. – 1:30 p.m.	Annual Meeting Program (TBA), Lunch & Grand Prize Drawing
1:30 – 3:20 p.m.	Georgia Cotton Production Workshop breakout sessions (TBA) (UGA Cotton Team)
3:20 – 3:40 p.m.	Break
3:40 – 5:30 p.m.	Georgia Cotton Production Workshop breakout sessions (TBA) (UGA Cotton Team)

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Your local County Extension Agent is a source of more information on these subjects.

Edited by: A. Stanley Culpepper, Extension Agronomist-Weed Science

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