

# CROP MARKETING STRATEGIES

## Revenue Crop Insurance Losses Triggered

Adverse growing conditions in 2008 triggered crop losses and indemnity payments. However, the recent decline in commodity prices has increased the probability that crop insurance products which insure revenue may trigger indemnity payments for loss. These revenue products include Crop Revenue Coverage (CRC), Revenue Assurance (RA) and Group Risk Income Protection (GRIP).

The CRC and RA products insure revenue using farm-level yields to establish guarantees and payments. The GRIP product uses average county yields. The final county yield numbers will not be released by USDA's National Ag Statistics Service until mid-February or mid-March of next year. Thus, indemnity payments will not be made until these yields are established.

## Spring Base and Harvest Prices

These CRC, RA and GRIP products use spring base prices to determine their revenue guarantees. These base prices are determined using daily settlement futures prices on the Chicago Board of Trade (CBOT) during the month of February. The corn price reflects the December contract and soybeans the November contract. The 2008 spring base prices are \$5.40 per bushel for corn and \$13.36 per bushel for soybeans.

Crop	Spring Base Price	Harvest Price
Corn	\$5.40/bu	CRC - \$4.13/bu GRIP - \$4.13/bu RA – determined in the month of November
Soybeans	\$13.36/bu	CRC- \$10.36/bu GRIP - \$10.36/bu RA - \$9.22/bu

Source: USDA Risk Management Agency. Harvest prices can be tracked daily at: [www.rma.usda.gov/tools/pricediscovery.html](http://www.rma.usda.gov/tools/pricediscovery.html)

These same CBOT futures contracts are used to determine harvest prices that enter into the revenue calculations. When actual harvest revenue falls below the guaranteed level, crop insurance coverage triggers an indemnity payment. The lower harvest prices witnessed in October resulted in lower crop revenue and the likely payments to insured farmers.

The soybean harvest price determined for CRC, RA and GRIP products is the daily average settlement price for the November soybean futures contract during the month of October.

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For corn, the December corn futures contract is used to determine the harvest price. Both CRC and GRIP use daily average settlement prices for the month of October. The RA product uses the month of November to determine the harvest price. Given current price volatility, the CRC harvest price for corn could be substantially different from the RA harvest price.

## **CRC and GRIP Price Limits**

There are price limits for the amount by which the harvest price can increase or decrease from the spring base price. Both CRC and GRIP policies have price limits of \$1.50 per bushel for corn and \$3.00 per bushel on soybeans. The RA policies have no price limits.

Thus in 2008, the fall price for CRC and GRIP cannot fall below \$3.90 per bushel for corn and \$10.36 per bushel on soybeans. The likelihood is harvest prices will be below these limits, especially for soybeans as noted for RA Harvest Price in the table. Because of these price limits, RA coverage will trigger larger indemnity payments than would CRC.

## **GRIP Payments**

Farms that use GRIP coverage may collect large indemnity payments next spring. Most farms that purchase the GRIP product do so at the 90% coverage level in order to more easily trigger losses. Therefore, lower harvest prices in combination with average county yields do not have to decline very far before loss payments are triggered.

## **Conclusion**

Producers with CRC or RA policies should contact their crop insurance agent as soon as possible with questions regarding potential revenue loss for 2008. Some recommendations from the crop insurance industry include:

- Keep production separate for each unit
- Mark scale tickets by unit, farm name or reference number
- Follow crop insurance guidelines for commingling units in the same bin and maintain good records
- Report production right after harvest to your crop insurance agent to determine the actual production history (APH) and to check for a potential revenue loss
- Keep track of feed records as production is being fed before a final production is verified.

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