



United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

BULLETIN NO.: MGR-01-021

TO: All Reinsured Companies
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Phyllis W. Honor /s/ Marian C. Jenkins 7-25-01
Acting Administrator

SUBJECT: Guaranteed and Quota Tobacco Issues for 2001 and Succeeding Crop Years

BACKGROUND:

Major changes continue to occur in the way United States tobacco is being marketed. The Risk Management Agency (RMA) has received estimates that between 70 and 80 percent of all tobacco will be purchased through contracts between tobacco buyers and producers for the 2001 crop year. This change from the traditional auction process requires a review of how the Guaranteed Tobacco Crop Provisions (99-071) and Quota Crop Provisions (99-070) (Crop Provisions) will apply to contracted tobacco.

In addition, RMA issued Managers Bulletin No. MGR-00-036 on November 30, 2000, to advise how the quality adjustment provisions would be implemented for the 2001 and succeeding crop years for Guaranteed Tobacco Types 32, 41, 51, 52 and 61. In that bulletin, RMA announced the true average value for quality adjustment purposes would be based on buyer sales records for the current marketing season. RMA is unable to obtain such records and cannot publish the true average value as previously announced.

This bulletin is issued to provide guidance for the application of the Crop Provisions for insured Guaranteed and Quota Tobacco for 2001 and succeeding crop years.



1400 Independence Ave., SW • Stop 0801 • Washington, DC 20250-0805

The Risk Management Agency Administers and Oversees
All Programs Authorized Under the Federal Crop Insurance Corporation

An Equal Opportunity Employer

DISCUSSION:

Issue No. 1: End of Insurance Period:

The Guaranteed and Quota Crop Provisions state in the Insurance Period:

“In accordance with the provisions of section 11 of the Basic Provisions, insurance ceases at the earliest of:

- (a) Total destruction of the tobacco on the unit;
- (b) Weighing-in at the tobacco warehouse;
- (c) Removal of the tobacco from the field where grown except for curing, grading, packing, or immediate delivery to the tobacco warehouse; or”

Guaranteed Crop Provisions:

“(d) The calendar date for the end of the insurance period.

Quota Crop Provisions:

“(d) The February 28 immediately following the normal harvest period.”

“Tobacco warehouse” is not defined in the Crop Provisions and would mean the location where the tobacco is delivered for sale.

Issue No. 2: Quality Adjustment for Types 11, 12, 13, 14, 21, 22, 23, 31, 35, 36, 37, 42, 44, 54, 55 and Types 32, 41, 51, 52 and 61:

The Guaranteed Crop Provisions state in Section 12, Settlement of a Claim:

“(d) Mature tobacco production that is damaged by insurable causes will be adjusted for quality based on the USDA Official Standard Grades for the insured type if it has an average value less than the market price . . .”

The Quota Tobacco Crop Provisions state in Section 13, Settlement of a Claim:

“(d) Mature tobacco production that is damaged by insurable causes will be adjusted for quality based on the USDA Official Standard Grades for the insured type of tobacco.”

Tobacco that is sold at auction on a warehouse floor is graded by an Agricultural Marketing Service (AMS) Grader according to USDA Official Standard Grades. A review of the tobacco contracts between the tobacco buyers and the producer indicates most buyers will use AMS Graders and USDA Official Standard Grades. At least one contracting buyer will provide grading according to their own standards they believe are equivalent to USDA Official Standard Grades.

Grading in any manner other than the USDA Official Standard Grades **cannot** be used for quality adjustment purposes under the Crop Provisions. All losses must be adjusted in accordance with the policy.

ACTION:

For the 2001 and succeeding crop years:

1. Tobacco warehouse as used in the Crop Provisions is the location where tobacco is delivered for sale.
2. All Guaranteed and Quota Tobacco Types must be graded using the USDA Official Standard Grades to qualify for quality adjustment due to an insured cause of loss. The cost of such grading will continue to be paid by the producer. Producers should be reminded of this policy requirement.

DISPOSAL DATE:

This Manager's Bulletin will remain in effect until incorporated into the Tobacco (Guaranteed Production and Quota) Loss Adjustment Standards Handbooks.