

Cotton Prevented Planting Situation and Update ¹

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As of May 20, the state's cotton acreage was 41% planted compared to 66% typically by that date and 71% at that time last year. The lack of rainfall and soil moisture continues to worsen. Many farmers are waiting on much needed rainfall before planting. Others are deciding to plant anyway and then just hope for rain. The precipitation outlook for the next week or more is not good, however. The cost of cotton seed including technology fee could be about \$60 to \$65 per acre. With little or no moisture and an unfavorable outlook for rainfall, the decision to plant and incur this expense is an important and risky one.

The crop insurance Final Planting Date for cotton is May 31 (the planting deadline for north Georgia counties was May 20). May 31 is the deadline for full crop insurance coverage. After May 31, planting may continue for up to 15 days (Late Planting Period) but with a decline in coverage of 1% per day. Cotton planted after the Late Planting Period will be covered but at 50% of the Production Guarantee for timely planted cotton.

The farmer is not required to plant after May 31 if they were prevented from planting due to an insured cause such as drought. If the farmer is not able to plant by May 31 and decides not to plant, he/she may be eligible for "prevented planting" coverage. Otherwise, the farmer may plant after May 31 for up to 15 days at reduced coverage. For example, if a farmer had an APH yield of 700 lbs per acre and was insured at the 70% level, the Production Guarantee would be 490 lbs per acre. If planting was delayed 10 days, the Production Guarantee would be 441 lbs per acre (90% of the 490 lbs Production Guarantee).

The purpose of this letter is to attempt to list and discuss the alternatives that the farmer may have and factors that need to be considered as we approach the planting deadline and continue to hope for much needed rain.

Don't Plant, Eligible For Prevented Planting, No Second Crop

If unable to plant by May 31 and determined eligible for prevented planting coverage, the farmer will be paid at 50% of the Production Guarantee if an APH policy or 50% of the Minimum Guarantee if a CRC policy. His/her net return from this decision will be the prevented planting payment less the costs already incurred on the crop. But these are "sunk" (already incurred) and thus irrelevant to the decision. These costs are probably minimal at this point. The full crop insurance premium is subtracted from the PP payment.

Prevented Planting Payment ² \$ _____ (50% of Production Guarantee or CRC Guarantee)

Don't Plant, Eligible For Prevented Planting, Plant a Second Crop

The farmer may choose to plant a second crop (other than cotton in this case). If eligible for prevented planting and a second crop is planted, the farmer will receive 35% of the Prevented Planting Payment (note-not 35% of the Production Guarantee) provided the second crop is not planted prior to the end of the Late Planting Period. In this case, the question becomes will the second crop net enough to offset the difference in indemnity paid and is it worth the risk of producing? If the second crop is insured, the farmer will owe only 35% of the crop insurance premium on the cotton).

Prevented Planting Payment ³	\$ _____	(35% of Prevented Planting Payment)
+ Expected Second Crop Income	\$ _____	
- Estimated Costs of Second Crop	\$ _____	
Net Return	\$ _____	

Plant By May 31 Regardless

The costs incurred to date are probably limited to some fertilizer and pre-plant herbicides. These costs are “sunk” no matter which way the farmer goes from this point and are thus irrelevant. The big costs start once the crop is planted. Planting by May 31 will insure full coverage– but once the crop is planted, the farmer is also committed to production and must follow good management practices. If making this decision and planting, net return will be crop income minus costs plus any insurance indemnity received if crop yield is below the insurance guarantee. If after planting the crop does not get a good stand, a separate decision will come later on whether or not to abandon the crop.

Expected Cotton Income	\$ _____	
- Estimated Pre-Harvest Costs	\$ _____	(exclude costs already incurred)
+ Indemnity If Applicable	\$ _____	
- Estimated Harvest Costs	\$ _____	
Net Return	\$ _____	

Continue to Wait, Plant After May 31

Rather than plant in extreme dry conditions (“dusting in” the crop), the farmer could continue to wait on rain and be prepared to plant after May 31, with a reduced guarantee. With the cost of seed, this would reduce risk when compared to planting without moisture but coverage, and any subsequent indemnity, would be reduced if the crop would later be eligible for an indemnity. If we get rain and the growing season cooperates from that point on, a loss indemnity would likely not be forthcoming whether the crop is planted before May 31 or not. If waiting and planting after May 31, net return would be the same as planting before May 31 only adjusted for yield and indemnity (if applicable) and perhaps some difference in costs.

Expected Cotton Income	\$ _____	
- Estimated Pre-Harvest Costs	\$ _____	(exclude costs already incurred)
+ Indemnity If Applicable	\$ _____	
- Estimated Harvest Costs	\$ _____	
Net Return	\$ _____	

Based on UGA Extension Service budget estimates (non-irrigated strip-till production) and updated for increase in fuel cost, Variable Cost incurred to date are estimated to be approximately \$70 per acre or less. These costs would include lime, some fertilizer, pre-plant herbicides, and some fuel, labor, and repairs. These costs are “sunk” and thus irrelevant in what to do at this point. Remaining Variable Costs (cost yet to be incurred if full production takes place) are estimated to be about \$315 per acre which would include about \$215 in pre-harvest costs including crop insurance premium and \$100 in harvest costs (including defoliation and net ginning and warehousing). If cotton is custom picked, harvest cost will be higher.

The farmer must report a prevented planting claim within 72 hours after the final planting date (May 31) or within 72 hours after the late planting date (June 15) if trying to plant during the late period. If the farmer decides not to plant and is determined eligible for prevented planting, he/she will receive 50% of the Production Guarantee or CRC Guarantee, if applicable. The price election on APH is 53 cents per pound. Assuming an APH of 700 lbs, 70% yield coverage election, and 100% price election the prevented planting payment would be \$130 per acre (700 lbs x 70% x 50% x 53 cents/lb).

Farmers considering prevented planting should monitor closely and analyze their situation carefully. Farmers must document the reasons for their decision not to plant. The Extension Service may be called upon to provide information on what is acceptable practice (Note- UGA has provided comments on reasonable approaches given the current situation). The farmer will not be required to plant after May 31 but may choose to do so at reduced coverage. It may be difficult for an insurance adjuster to accept a prevented planting

claim if neighboring farmers decided to plant– i.e. 2 farmers each with the same drought conditions and agronomic circumstances but 1 chooses to take the risk of planting while the other does not.

A farmer has multiple options and decisions to make regarding delayed planting, prevented planting, and planting a second crop. If the farmer decides to plant and the crop does not come up or has a poor stand, there are other options available at that point. The best source of crop insurance information relative to these decisions is their crop insurance agent.

1/ Reviewed by USDA-RMA, Valdosta Regional Office.

2/ If a producer is prevented from planting and does not plant another crop, the producer is eligible for a Prevented Planting (PP) Payment of 50% of the Production Guarantee. The full crop insurance premium would be payable and deducted from the payment. If the producer, for example, had a 700 lb APH yield and 70% coverage level, the Production Guarantee would be 490 lbs (700 APH x 70%). The PP Payment would be \$130 per acre (490 lbs x 50% x 53 cents).

3/ If a producer qualifies for PP on cotton and elects to plant another crop, the producer is eligible for a PP Payment equal to 35% of the “full” PP Payment. Using the example above, this would be approximately \$45 per acre. The producer would pay only 35% of the cotton crop insurance premium and this would be deducted from the payment.