Agricultural Marketing Policy Center

B R I E F I N G

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Crop Insurance for Cherries in Lake County, Montana

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Introduction

Irrigated sweet cherries produced for the fresh market may be insurable in Lake County. To be insurable, cherries must be of a variety adapted to the area and trees must be of a certain minimum age.

This crop insurance is a multiple peril product offered under a pilot program with oversight from the United States Department of Agriculture's Risk Management Agency.

Cherry producers with eligible cherry production can purchase this product from crop insurance agents. The multiple peril product is intended to cover costs of production with a production guarantee based on a fixed dollar amount of insurance based on selected coverage levels.

Sweet Cherries for the Fresh Market

Sweet cherries are considered grown for the fresh market if a producer's acreage consists of 66 percent fresh marketable varieties intended to be harvested and delivered for the fresh market at the time the acreage is reported for insurance (tree count basis), or if 66 percent of the production from the acreage is expected to be harvested for the fresh market. The 66 percent production expectation can be verified by a current year production contract or historical records of delivery for fresh market purposes. Acreage of cherries not meeting the tree count or expected production criteria is not considered as fresh market cherries.

Adaptable varieties of sweet cherries are those recognized by the Extension Service as compatible with agronomic and weather conditions in the county.

Age of Trees and Prior Production

To be insurable, the cherry trees in a unit must have completed **four** growing seasons after being set out or grafted.

Additionally, the trees must have produced at least 4,000 pounds of fruit per acre during **one** of the **three** preceding crop years (prior to the year the insurance is first attached).

There are several forms of acceptable supporting documentation of prior production. Cooperative pool statements, pool summary statements, receipts from packing houses, processors or other buyers showing quantities (delivered and sold) and preharvest estimates of production certified by neutral third parties not involved in the insurance contract are acceptable supporting documentation. For direct sales to consumers, a complete daily accounting of harvested production is acceptable to verify production.

Under limited conditions, pick records may be acceptable.

Perils Covered by Insurance:

Insurance is provided only against the following causes of loss that occur during within the insurance period: (1) adverse weather conditions; (2) fire, unless undergrowth has not been controlled or pruning debris has not been removed from the orchard; (3) insects, but not damage due to insufficient or improper application of disease control measures; (4) plant disease, but not damage due to insufficient or improper application of disease control measures; (5) wildfire; (6) earthquake; (7) volcanic eruption; or (8) failure of the irrigation water supply, if caused by any of the above-specified causes that occur during the insurance period.

The insurance does not cover damage or loss due to: (1) mechanical damage; (2) failure to harvest in a timely manner; or (3) the inability to market cherries for any reason other than actual physical damage from an insurable cause listed in the previous paragraph. For example, insurance indemnities are not paid if cherries were deemed to be unmarketable because of a purchaser's decision to quarantine, boycott, or refusal to accept production.

Basics of Cherry Insurance

In Montana, the insurance period for multiple peril cherry insurance begins November 21* or at a later date when the producer's insurance application is accepted. The sales closing date for cherry insurance in Lake County is November 20.

Cherry insurance periods end the earlier of: (1) the total destruction of a crop; (2) August 31; (3) harvest; (4) the abandonment of a crop; or (5) the final adjustment of a loss to the crop.

The cherry insurance is based on **fixed dollar amounts.** The **reference dollar amount** for the 2004 crop in Lake County is $2,884 per acre. A producer is allowed to select a single percentage of the reference dollar amount (a coverage level). Table 1 presents allowable coverage levels and resulting dollar amounts that were available for the 2004 cherry crop.

Table 1: Coverage Levels and Corresponding Dollar Amounts of Cherry Insurance, 2004

Coverage Level	Amount of Insurance
CAT	$ 794
50.0%	$1,443
55.0%	$1,587
60.0%	$1,731
65.0%	$1876
70.0%	$2,020
75.0%	$2,163

Once insurance coverage is in place, a cherry producer must annually report to the insurance company by the production reporting date any damage, removal of trees, changes in practices, or any other circumstance that may reduce the quantity or quality of cherries produced on insured acres–and the number of acres impacted. The insurance company will reduce a producer's dollar guarantee when necessary, as derived from Table 1, based on its estimate of the impacts of changes in the stand on the quantity and quality of cherries that are expected to be produced.

In Montana the dollar amount of insurance is reduced if live trees represent less than 80 percent of initial or acceptable adjusted plant densities. The underlying concept is to reduce coverage for declining stands or stands not appropriately maintained. For units with reduced plant densities, the dollar amount of insurance is reduced based on the applicable reduction factor in Table 2.

* All dates and price data for this briefing are based on insurance for the 2004 crop. From year-to-year these dates may change slightly to be consistent with working days and prices may change to reflect current conditions. The last day to purchase 2004 coverage was 11/20/03.

Table 2: Guarantee Reduction Factors for Specified percent of Stands

Percent Stand	Selected Coverage Level	Guarantee Reduction Factor
80 to 100	50 to 75	1.000
60 to 79	75	0.867
	70	0.929
	50 to 65	1.000
40 to 59	75	0.667
	70	0.714
	65	0.769
	60	0.833
	55	0.909
	50	1.000
Less than 40	50 to 75	Uninsurable

Take as an example a producer who has historically selected a 75 percent coverage level that resulted $2,163 of insurance per acre. In the seventh year, plant densities were reduced by 50 percent. If the producer continues to select a 75 percent coverage level, the dollar amount of the insurance is reduced from $2,163 per acre to $1,442 per acre ($2,163 x 0.667, the coverage reduction factor for a 50 percent stand and a 75 percent coverage level).

Cherry crop insurance is available at the basic unit level but insured cherries may be divided into optional units if, for each proposed optional unit: (1) a producer can provide acceptable written, verifiable records of cherry production for at least the previous crop year; and (2) the acreage of insured cherries is located on non-contiguous land, separated by tracts of other ownership. Unlike multiple peril crop insurance for most commodities, optional units are not determined by section, section equivalent, or FSA Farm Serial Number.

In summary the basics of cherry crop insurance are: (1) cherry crop insurance is a **fixed dollar amount of insurance** based on an annually-specified **reference dollar amount;** (2) **coverage levels** are available at the 27.5 percent (CAT) level and 50, 55, 60, 65, 70, and 75 percent buy up election levels; (3) if stands are reduced from their acceptable original plantings, the fixed dollar amount of insurance may be reduced by an application of a guarantee reduction factor ; and (4) cherry crop insurance is available at the **basic unit** level and may be available at the **optional unit** if a producer has noncontiguous orchards.

Producer Responsibilities in the Event of Cherry Damage or Loss

One, or perhaps more, of the following requirements may apply to a producer, depending on particular circumstances: (1) the producer must notify their insurance company representative within **three** days of the date harvest should have started if the crop will not be harvested; (2) if damage occurs when the cherries are mature and ready for harvest, their insurance company representative must be notified within **24 hours** so that an insurance company representative can inspect the insured acreage; (3) if damage occurs during harvest, and the producer does not intend to completely harvest a crop, the producer must notify the insurance company representative **immediately** so that the representative can inspect the insured acreage; (4) the producer must notify the insurance company representative at least **15 days** before any production from any unit will be sold by direct marketing so an insurance company representative can conduct an inspection, and appraisal if needed, to determine the producer's **production to count** for production sold by direct marketing; (5) if the producer intends to claim an indemnity on any unit, they are expected to notify their insurance company representative **15 days** prior to the beginning of harvest, or immediately if damage is discovered during harvest; (6) a producer **must not destroy** the damaged crop until after the insurance company representative has given written consent to do so; and (7) for appraisal purposes, the producer may be required to harvest a sample selected by the insurance company representative.

A word of caution is noted with respect to points 4 and 6, above. Relative to point 4, the inspection conducted by the insurance company representative and any acceptable records you provide will be used to determine your **production value to count.** Failure to give timely notice that production will be sold by direct marketing will result in an appraisal amount of not less than the dollar amount of insurance per acre if such failure results in the inability of the insurance company representative to make the required inspection or appraisal. (In other words a producer could jeopardize an entire indemnity). Relative to point 6, if a crop is destroyed before a producer has received written consent from an insurance company representative and this makes an inspection of the damaged production impossible, a producer's **production to count** will be set at that amount which equals the amount of insurance. This results in a producer foregoing an entire indemnity.

Indemnification of Losses

Similar to other dollar value insurances the general calculation for an indemnity is:

Indemnity = Total Dollar Coverage - Production to Count.

Production to Count reduces an indemnity**.** For cherry insurance, production to count can be generally segmented into three categories – insured acres impacted by management not consistent with the insurance coverage, the value of appraised production on insured acres , and the value of production from insured acres.

For acreage that has: (1) been abandoned; (2) put to another use without consent; (3) had production sold by direct marketing without appropriate notice given to an insurance company representative; (4) damage resulting solely from

uninsured causes, and (5) unacceptable marketing records, a producer will be given a production to count equal at least as large as the amount of insurance.

Appraised production will be valued by multiplying the pounds of appraised cherries by a **minimum value** per pound. (For the 2004 cherry crop, the standard minimum value is $0.26 per pound). This calculation will apply to: (1) potential production on any acreage that has not been harvested; (2) unharvested production that is marketable but that is damaged or defective due to uninsurable causes; (3) production lost due to uninsured causes; and (4) potential production on insured acres a producer intends to put to another use or abandon.

The total value of harvested production will be the dollar amount obtained by subtracting an **allowable cost** from the average net price per pound of cherries multiplied by the pounds of marketable cherries. (The allowable cost, perhaps more easily thought of as picking costs, is $0.20 per pound for the 2004 cherry crop). The allowable cost is specified as an element in the insurance agreement. The difference between the net price and allowable cost per pound of cherries cannot be less than the minimum value specified as an element in the insurance agreement (for the 2004 cherry crop the minimum value is $0.26 per pound). Harvested production that is damaged or defective due to insurable causes and is not marketable will not be counted as production.

Production to count may be more easily understood if expressed in its general components:

Production to Count = [(insured value of acres managed inconsistently with insurance provisions) + (appraised production x **minimum value per pound) + (total value of harvested production)]**

The total value of production is calculated as the net price per pound of cherries the producer receives from the buyer less the allowable cost per pound times the pounds of harvested production.

Consider an example one acre cherry orchard for which the following dollar amount of coverage applies:

Contract Data	Value	Calculation/Source
Reference Dollar Amount	$2,884 per acre	RMA
Coverage Election	75%	Producer (27.5, 55, 60, 65, 70 or 75%)
Guarantee Reduction Factor	1.00	Producer and RMA: (Producer with 75% coverage election reports a 100% stand/ RMA specifies 1.00 as reduction factor
Dollar Amount of Coverage	$2,163	RMA: ($2,885 x 0.75) x (1.00)

A week before planned harvest, an insurable cause of loss resulted in a substantial loss of cherries. The producer immediately reported the event to the insurance company who sent a representative to the orchard. The insurance company representative determined that the orchard had been properly managed. The representative determined that 50 percent, or 3,000 pounds per acre were not harvestable but that 50 percent of the expected production could be harvested for sale at $0.42 per pound.

The producer's indemnity was calculated as:

Contract Data	Value	Calculation/ Source
Dollar Amount of Coverage	$2,163/ acre	Insurance contract
Production to Count: Improperly managed Appraised production Value of harvest	 $0 $0 $780	Insurance co. representative 3,000 pounds at standard minimum value of $0.26 per pound > ($0.42 per pound sold less $0.20 allowable cost per pound) x 3,000 pounds
Indemnity	$1,383	$2,163 — $780

Alternatively, suppose this producer had decided to purchase a ***buy up*** option on the minimum value per pound of cherries. Such options increase premiums relative to the standard minimum value of $0.26 per pound for the 2004 crop. For the 2004 crop the Option I buy up level is $0.17 per pound and the Option II buy up level is $0.09 per pound.

If the example producer had purchased either buy up level, an indemnity of $1,503 per acre would have been received, [$2,163 - ($0.42- 0.20)(3,000 pounds)], because the difference between $0.42 and $0.20 is greater than either $0.17 or $0.09 per pound.