



\$20-\$50 More Cash per Acre!

By: Hannah Lipps and Chris Cogburn

“I’ll finance you for another crop, but I won’t finance you for sorghum. If you lose your sorghum, 88 percent of the replacement value isn’t going to pay back your operating loan.”

Farmers across the country have heard a similar sentiment from their bankers and loan officers when discussing production loans for an upcoming crop season. In 2010, expect a change of tune as persistence from the National Sorghum Producers (NSP) has delivered a major crop insurance victory to farmers.

“NSP has worked for eight years to bring transparency to crop insurance price elections and improve sorghum price elections with relationship to corn,” said NSP Chairman of the Board, Gerald Simonsen.

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The new price election could mean between \$20 and \$50 more coverage per acre in 2010 depending on your region and individual conditions.

What’s all the buzz about?

The sorghum crop insurance price election is the amount a bushel of sorghum is worth when calculating an insurance reimbursement if a crop fails to generate the guaranteed bushels or revenue. Sorghum’s price election is set at a percentage of corn because, unlike larger commodities, sorghum is not traded on a major exchange. Since sorghum is traded in the country on a corn basis, the price elec-

tion is set as a percentage of the corn price election. While sorghum can often bring a nice profit and environmental paybacks to boot, sorghum farmers are sometimes unable to secure financing for planting a sorghum crop because, should that crop fail, they would not be insured based on its real value. Previous disaster programs and the new Supplemental Revenue Assurance Program (SURE) calcu-

late their sorghum payments on the price election of sorghum.

Moreover, sorghum crop insurance price elections were previously based on an unpublished formula housed at the U. S. Department of Agriculture (USDA). Without the formula, it was impossible to tell how USDA models determined sorghum price elections.

Because of the disparity between corn and sorghum price elections and the uncertainty of the price election, many farmers did not insure their sorghum.

In fact, sorghum is the least insured of all row crops according to 2009 USDA figures. Only 64 percent of planted sorghum acreage is covered by crop insurance compared to 78 percent of corn, 80 percent of cotton and 76 percent of wheat.

How did they do it?

The long process to improve sorghum crop insurance price elections began more than eight years ago. Numbers from the Economic Research Service (ERS), which is charged with reporting data for establishing crop insurance price

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elections, did not deliver enough data to show higher sorghum prices due to new domestic and international demand. Recognizing a problem with the ERS data, NSP worked administratively through the U.S. Department of Agriculture's Risk Management Agency (RMA) to bring sorghum price elections to a more competitive level. As a result, NSP first secured a change in the price election calculation for Crop Revenue Coverage (CRC) insurance in 2004. Previous to 2004, the CRC price election was fixed at

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95 percent of the value of corn. Beginning in 2004, the CRC price election was changed to reflect market conditions. However, after securing the change, RMA only set the sorghum price election above 95 percent once, even the year sorghum was 108 percent of the value of corn, according to marketing year average prices.

Another problem was the calculation of the CRC price election. It did not match the price election used for Approved Production History (APH) insurance policies. This disparity between price elections caused some producers to choose an APH policy when a CRC policy, with its revenue protection, was actually a better risk management tool.

After exhausting administrative options with RMA to correct the price election, including references to the now equal loan rates for corn and sorghum in the 2002 Farm Bill, NSP turned attention to the 2008 Farm Bill.

“We set our sights on repairing this in the 2008 Farm Bill and made that our goal,” said NSP CEO, Tim Lust. “Sorghum producers are fortunate to have some real champions in Congress who care about farmers, and with a dogged determination from the NSP board and staff, price elections are now much more realistic than in the past.”

Congressman Jerry Moran from Kansas made sure that a crop insurance price election provision made it into the farm bill and followed that important piece of language all

the way through the legislative process.

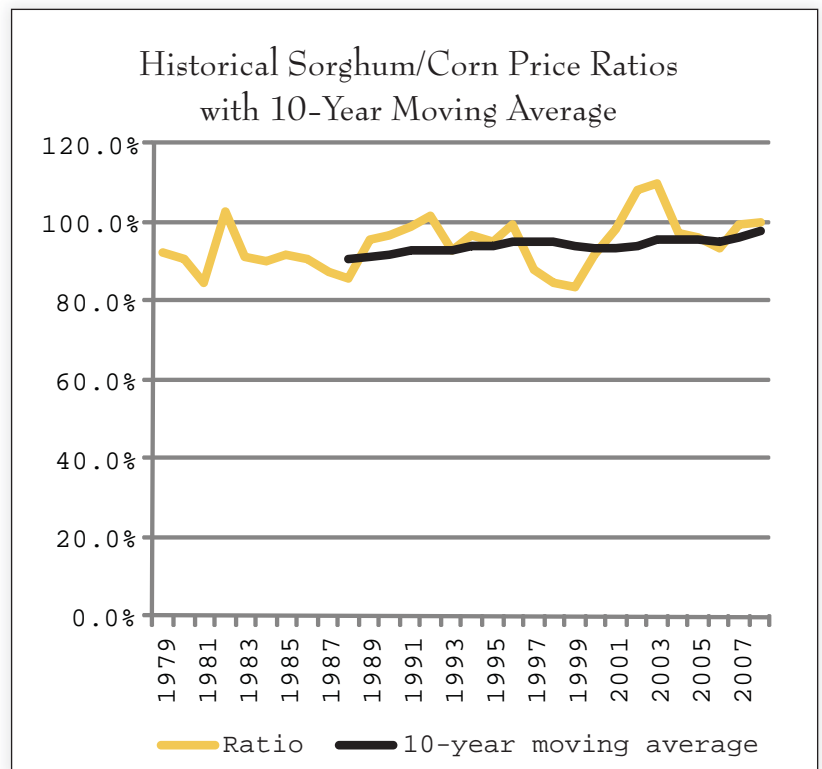
“Effective grain sorghum crop insurance policies are essential to the success of grain sorghum farmers,” Congressman Jerry Moran said. “Going into the 2008 Farm Bill, we knew there were problems with how federal

crop insurance policies valued grain sorghum. I worked with my colleagues to get a provision added to the farm bill that required RMA to identify and implement a new pricing formula designed to more accurately reflect market conditions.”

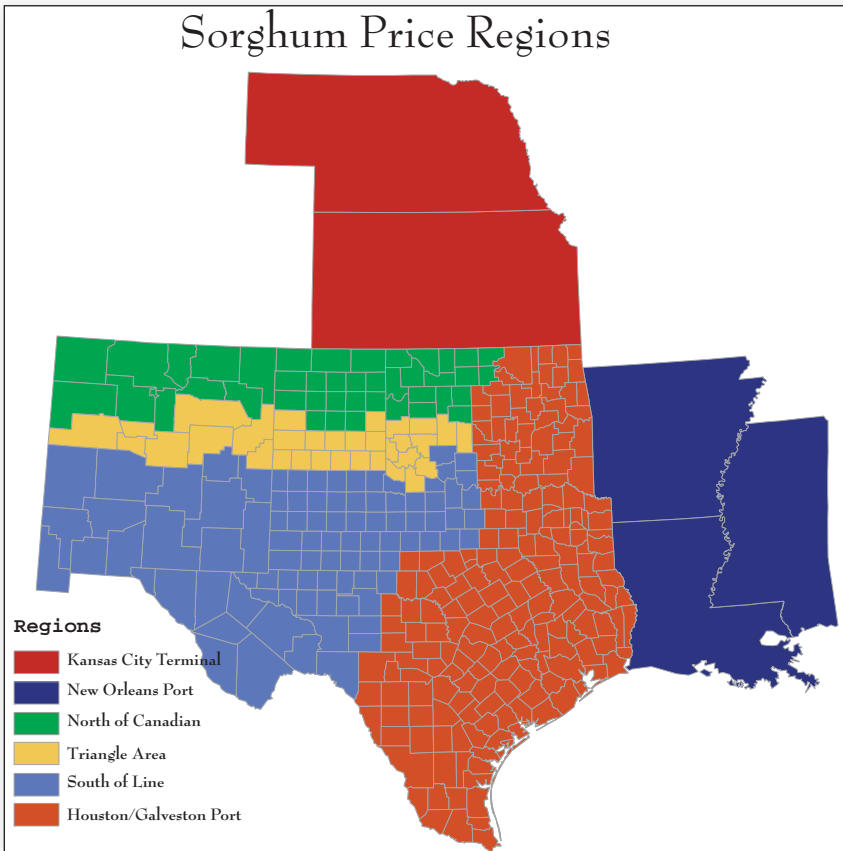
Results!

NSP’s work during the 2008 Farm Bill paid off, delivering a legislative fix for price elections that instructed RMA to re-evaluate its methodology for calculating

sorghum price elections. The farm bill language required RMA to consider recommendations for calculating price elections from five independent reviewers and choose one



or a combination of methods to calculate price elections. The new methodology was to be transparent and replicable. When reviewers submitted their recommendations, a model from Texas A&M University won the approval of



sorghum in ethanol. By using a rolling 10-year average, the price election will be more reactive to future industry changes.

“Grain sorghum is an important crop to us,” said Burl Scherler, a Sheridan Lake, Colo. farmer. “Having the insurance straightened out is another piece of the puzzle to try to make a profit in agriculture these days. This price relates better to the markets, unlike in the past, and that will help producers to budget for their cash flows next year.”

Price elections will still go up and down from year to year based on market conditions, but the starting prices are much more realistic today than they were even a year ago. Farmers will now have the information they need to make plans early in the fall and winter to plant sorghum in the spring.

Still on the to-do list

While changing sorghum crop insurance price elections is a huge and hard fought victory for sorghum producers and NSP, the crop insurance offerings for sorghum are still far from

perfect. NSP will now turn attention to improving county-specific transitional-yields (T-yields), the number used to establish coverage for new producers. NSP will work to ensure producers who are growing sorghum for the first time have a T-yield that gives them representative coverage of expected yields in their county.

Sorghum growers have also let NSP know that double crop sorghum is important to their operations because it can fit into rotation using moisture left after wheat harvest. NSP will be working to expand the geographic area where you can get double crop insurance.

At the same time, a real need is emerging for insurance products to cover dedicated energy crops and sorghum is likely to be one of the most widely planted crops for dedicated energy production. NSP has submitted comments to RMA reiterating the need for some type of energy crop insurance product that will cover sweet and high biomass sorghum.

All this contributes to NSP’s commitment to represent the entire sorghum industry, taking a lead for all types of sorghum so you can rest assured that NSP is on your side when it comes to protecting your sorghum crop. 🌾

RMA. NSP testified at the public hearing regarding the Texas A&M model and encouraged producers to submit comments to RMA about the model. After the hearing, NSP continued to work with RMA on refining the model’s methodology. After these refinements, RMA published the methodology, using it to calculate the 2010 price elections. The new methodology will be used on all sorghum policies so a sorghum APH policy will have the same price relationship to a corn APH policy as a sorghum CRC policy will have to a corn CRC policy. This will allow producers to base decisions on the risk management they need – not just the price election.

“I am pleased RMA has now completed this process,” said Moran. “The new pricing formula was developed with substantial input from the sorghum industry, and it should prove more equitable for sorghum producers across the country.”

How does it work?

The new methodology is a rolling 10-year average of corn and sorghum price ratios as calculated in six different regions (see map). The new methodology helps account for regional variations in sorghum prices and also captures industry-wide changes such as the increased use of