

## 2011 Drought and Cotton Planting/Replanting Decisions <sup>1</sup>

Don Shurley  
Department of Agricultural and Applied Economics  
The University of Georgia

The 2011 planting season is off to a very dry start. Some parts of south and east Georgia have had little or no measurable precipitation the entire month of May. Planting progress is not too far behind normal but moisture at planting has been marginal and cotton that has been planted is stressed and/or emerging poorly with spotting stands. The short-term outlook for rainfall is not promising and conditions could worsen.

As of May 22, 56% of the expected Georgia cotton acreage had been planted. This compares to 59% on average at that date and compares to 62% planted the same date last season. So, the crop is not too far behind in terms of planting on schedule but some of the crop that has been planted is not emerging well. Further, with cotton prices over \$1 per pound, producers could feel pressed to plant the crop even in marginal moisture situations, to meet the May 31 crop insurance deadline, and hope for rain.

In fields with poor emergence, the question is whether or not to replant and, if so, when.

If a field has not yet been planted at all, the question is whether or not to go ahead and plant and hope for rain, or continue to wait and plant if and when moisture has improves.

### Crop Insurance

For south Georgia, the crop insurance planting deadline is May 31. This is the deadline to plant and still receive the full Yield Guarantee or Revenue Guarantee. Suppose 300 acres are planted and the farm APH yield is 790 lbs per acre and the producer elects coverage of 70%. The Guarantee would be:

$$\begin{aligned}\text{Yield Guarantee} &= 300 \text{ acres} \times 790 \text{ lbs} \times 70\% = 165,900 \text{ lbs} \\ \text{Revenue Guarantee} &= 165,900 \text{ lbs} \times \$1.15/\text{lb} = \$190,785^*\end{aligned}$$

\*Minimum based on the Projected Price

For cotton planted after May 31, the Guarantee is reduced 1% per day for up to 15 days. This is called the Late Planting Period. For cotton planted after June 15<sup>th</sup>, the Guarantee will be 50% of the full Guarantee. Suppose 50 acres of the 300 on the farm are planted 10 days late, the Yield Guarantee would be:

$$(250/300 \times 165,900) + (50/300 \times 165,900 \times 90\%) = 163,135 \text{ lbs}$$

The Revenue Guarantee would be  $163,135 \times \$1.15 = \$187,605$ .

### Replanting

In the case of replanting, there is no reduction in the Guarantee provided the crop was initially planted on or before May 31. Even if replanted after May 31, the Guarantee is not affected. The Guarantee is reduced only if initially planted after May 31.

June cotton is not uncommon in Georgia but producers are not required to plant or replant after May 31-- producers may and do plant during the Late Planting Period but are not required to do so.

For replanting, if the producer is not able to replant due to continued lack of moisture and it is determined impractical to plant and approved by the insurance adjuster, the acreage is eligible for the full Guarantee. Suppose, the farm APH is 790 lbs per acre and coverage is 70%. The Yield Guarantee would be 553 lbs per acre (790 x 70%). If the crop is appraised as a 30% stand, the Production to Count would be 237 lbs (790 x 30%) and the Loss would be 316 lbs (553 – 237).

If the producer then decides to plant a second crop (other than cotton), the initial payment is 35% of this full amount. If the second crop is not insured or has no Loss, the remaining 65% of the Loss on the first crop (cotton) will be received. Essentially, there is no penalty or discount on the cotton payment provided there is no loss on the second crop.

#### Prevented Planting

Although planting is currently close to a normal pace, continued lack of rainfall could have producers questioning the practicality of planting (not replanting, but initially planting for the first time). Producers may plant in dry conditions and hope for rainfall and good emergence or, if it is determined by the crop insurance adjuster that planting is not practical, the producer may be eligible for “prevented planting” coverage.

Under prevented planting coverage, the producer is paid 50% of the Guarantee. If it is determined the producer is eligible for prevented planting coverage, the producer may elect to plant a second crop such as grain sorghum, etc. but must do so after the Late Planting Period ends on June 15 and receive 35% of the Prevented Planting Payment (or 17.5% of the Guarantee).

### **Replant Decision Alternatives**

Some producers are reporting poor emergence due to lack of rainfall and are considering replanting. With the lingering drought and the May 31 planting deadline approaching, producers must determine the best course of action to take.

#### Replant Now or ASAP (by May 31)

Regardless of when you replant, the crop insurance Guarantee is not affected if the acres being replanted were initially planted on or before May 31. The net income from this decision is the expected crop income minus the costs of replanting and all other costs from planting through harvest. Even if replanting, the second planting or entire crop could still incur loss if conditions do not improve. So, an insurance indemnity is also received if below the Guarantee.

#### Wait on Moisture Before Replanting (possibly after May 31)

If the areas to be replanted were initially planted on or before May 31, there is no reduction in Guarantee and no penalty in waiting. From an agronomic standpoint, however, the later you plant there may need to be some changes made in variety and other management practices. Yield may also be impacted although it is not uncommon to plant June cotton in Georgia with good results provided the remainder of the growing season is favorable. As above, the net income from this decision is the expected crop income minus the costs of replanting and all other costs through harvest. Even if replanting, the second crop or entire crop may still incur loss if conditions do not improve. So, an insurance indemnity is also received if below the Guarantee.

### Do Not Replant

Depending on the severity of the problem with emergence, the additional yield and production to be gained by replanting may or may not justify the costs. If you do not replant, you receive payment for Loss based on the appraised stand.

### Do Not Replant, Plant a Second Crop

If a second crop is planted (after the Late Planting Period) and either uninsured or has no Loss, the payment received is not reduced—would be the same as if no second crop were planted. So, the decision to plant a second crop is a matter of comparing expected income to costs and the risk of planting a crop this late in the season.

## **Prevented Planting**

Despite the dry conditions, cotton planting in Georgia is still near normal pace. With cotton prices above \$1, producers have incentive to plant even in risky situations. In some situations, however, producers may not consider it practical to plant. The producer may be eligible for Prevented Planting coverage but this must be determined by the crop insurance adjuster. If determined eligible for Prevented Planting, the producer has several options.

### No Second Crop

Only if determined eligible for prevented planting coverage, the producer will receive 50% of the Guarantee on the acreage not planted. The income from this decision would be the payment.

### Plant a Second Crop

Only if determined eligible for prevented planting coverage, the producer may plant a second crop (other than cotton) and will receive 17.5% of the first crop Guarantee on the acreage planted to the second crop. The net income from this decision would be the payment plus expected income from the second crop minus costs of the second crop. Net income from a second crop must be higher than the amount of payment reduced.

## **Cotton Costs**

The following are estimates of production costs for cotton production. These are the variable costs or direct/operating costs only. Fixed or overhead costs are incurred even if production does not take place and are thus irrelevant to the planting decision. These costs are revised and adapted from 2011 UGA Extension crop budgets for non-irrigated, conventional tillage cotton.

Variable costs incurred to date are estimated at \$92 per acre. These costs are “sunk” and thus irrelevant to the decision at this point. Remaining cost to be incurred if planting/replanting is done and production taken through harvest are estimated to be \$329 per acre.

At \$1.15 per pound for cotton (the Projected Price on crop insurance and also near the current market opportunity), the yield needed to cover the remaining variable cost is 286 pounds per acre. This includes seed and associated technology fees and seed treatments. In poor emergence and replant situations, these costs may not apply and producers need to discuss this with their seed company sales representative. If these costs are not re-incurred, it impacts the replant decision greatly.

**Estimated Variable Costs, 2011 Georgia Non-Irrigated Conventional Tillage**

	<b>Total</b>	<b>Pre-Plant</b>	<b>At Planting or Later</b>
BWEP	\$1		\$1
Crop Insurance	\$22		\$22
Fertilizers and Lime	\$103	\$66	\$37
Seed (incl. tech fee and treatments)*	\$93		\$93
Weed Control	\$44	\$8	\$36
Insect and Nematode Control	\$20		\$20
PGR, Boll Opener, Defoliant	\$15		\$15
Fuel, Lube, and Repairs	\$65	\$11	\$54
Labor	\$26	\$4	\$22
Interest	\$13	\$3	\$10
Net Ginning, Warehouse, and Storage	\$19		\$19
<b>Estimated Total Variable Costs</b>	<b>\$421</b>	<b>\$92</b>	<b>\$329</b>

\*Producers considering replanting need to discuss this with their seed company sales rep. The seed cost and technology fee may be forgiven on the replant acreage. Seed treatments also need to be discussed and considered.

**Summary**

If a producer is considering replanting or thinks it is not practical to plant or replant, he/she should contact their crop insurance provider. The insurance adjuster will determine the acreage affected and appraised yield in replant situations or the eligibility for prevented planting.

In situations where there is a poor stand, there is little advantage for a producer to replant now into dry conditions. As long as the field was initially planted on or before May 31, the crop insurance Guarantee is not affected by replanting after May 31 if waiting for moisture.

If deciding not to replant, the crop insurance payment will be determined from the appraised stand. The payment will be the difference between the Guarantee and the adjusters' appraisal. If deciding to replant, expected net income from the replanted cotton must be greater than the payment given up.

For cotton not yet planted, if dry conditions persist as we move into June, the producer may be eligible for prevented planting coverage but this must be determined by the adjuster. Prevented planting acreage may be planted to a second crop at a reduced payment rate.

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1/ Reviewed by USDA Risk Management Agency, Valdosta, GA. Any errors or misleading statements are the responsibility of the author. This report is intended as a general discussion and guide for decision making. Producers should consult with their crop insurance provider and adjuster for more specific details, information, and interpretation.