

For: State and County Offices

2000 Quality Loss Program (QLP)

Approved by: Acting Deputy Administrator, Farm Programs



1 Overview

A

Background

Pub. L. 106-387, the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001, authorized the implementation of a crop quality loss program. The Act provided for payments to producers of 2000 year crops with a minimum of a 20 percent quality loss.

The 2000 Crop Disaster Program (CDP) already includes quality loss payments for many crops. However, QLP is a supplemental quality program for those situations where the quality loss payments were inadequate or nonexistent.

B

Purpose

This notice provides:

- general information on QLP
- instructions for preparation by STC's to implement the program.

Disposal Date

January 1, 2002

Distribution

State Offices; State Offices relay to County Offices

Notice DAP-105

2 General Provisions

A

Eligible Affected Production

QLP payments are determined using the eligible affected production. The eligible affected production is the harvested production of a 2000 crop that suffered a minimum of a 20 percent reduction in quality as a result of an eligible cause of loss. Eligible causes of loss are provided in 3-DAP, paragraph 9. Eligible crops are those designated on the 2000 CDP crop table, based upon crop, type/variety, practice, and intended use.

Note: Unharvested production is not eligible for QLP.

Affected production may be calculated using the smallest measurable unit for which acceptable records exist, such as bale, truck load, bin, and bunk.

Example :

- Total production on the unit is 100,000 bu.
- 15,000 bu. suffers a quality loss of at least 20 percent.
- Eligible production under QLP is 15,000 bu.

Affected production is limited to actual harvested production. Affected production may exceed the expected production for the unit.

B

Ineligible Crops

The following crops are not eligible for QLP:

- all value loss crops as determined under the 2000 CDP because they are compensated on the value of inventory at the time of loss
 - honey, turfgrass sod, maple sap, and ginseng because quality losses cannot be determined to be caused by adverse weather or the nature of the crop.
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C

Apples and Potatoes

Quality losses for apples and potatoes are covered under a special \$38 million program authorized for those commodities under Pub. L. 106-387. All eligible apple and potato applicants shall file for quality loss payments under the Apple and Potato Quality Loss Program rather than QLP. Provisions for the Apple and Potato Quality Loss Program will be announced in a separate notice.

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2 General Provisions (Continued)

D

Documentation of Quality Loss

For COC to approve an application, producers must provide the County Office with written documentation substantiating the quality of the production. The documentation must be specific for the production listed on the application. County "average" quality adjustment factors for loan commodities used under CDP according to 3-DAP, subparagraph 70 E, are not applicable to QLP.

Examples of acceptable documentation include:

- grading receipts from a warehouse or licensed grader
- sales receipts providing the grade of the crop
- University or other commercial lab test results acceptable to COC
- sales receipts showing disposition to a secondary market because of poor quality, such as malting barley sold for feed.

Applications for QLP shall not be approved without acceptable documentation providing the quality of the production.

E

Payment Formula

QLP payments are calculated by multiplying 65 percent of the affected production times 65 percent of the result of CDP primary market price minus the affected price. The affected price is the assigned value of the quality-reduced crop, as defined in paragraph 4.

F

Limitations

Combined total payments issued for QLP and CDP are limited to \$80,000 per "person" as defined in 7 CFR Part 1400 and 1-PL, Part 4.

The \$2.5 million per "person" gross revenue provision for the 1999 tax year applies to both QLP and CDP.

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2 General Provisions (Continued)

G

Multiple Cropping

The multiple cropping provisions contained in 3-DAP, paragraph 37, apply to QLP. QLP payments cannot be earned for losses on more than one 2000 crop on the same acreage unless there is an established practice on the farm of planting and harvesting 2 or more crops in the same crop year on the same acreage.

If a producer with multiple cropped acreage received a CDP payment, the producer's QLP payment will be made on the same crop as designated under CDP if not an approved multiple cropping area.

H

Unit

The unit structure under QLP is identical to the unit structure used under the 2000 CDP.

I

Sign Up Dates

Sign up dates, application forms, and additional program procedure will be provided in a future notice. Producers are required to apply for QLP separately from CDP.

3 Establishing QLP Levels

A

Determination of Quality Losses

Price, although indicative of quality, also reflects other factors such as timing and location of sales, competition, and other market conditions. Products sold on the same day, but in different locations, may have different quality discounts. Also, quality discounts may vary from day to day. For these reasons, sales price may not be the sole determinant of quality and can only be used in conjunction with written documentation substantiating the quality.

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3 Establishing QLP Levels (Continued)

**B
Single Market
Crops**

Production determined to have quality losses will be divided into 1 or more of 5 levels according to the extent of the quality loss. Level I would be for that portion of the production that suffers the smallest quality reduction, that is, quality losses between 20.0 and 29.9 percent. Production in subsequent levels would suffer progressively severe quality losses until Level V is reached where production suffers between a 90.0 and 100.0 percent loss in quality.

STC shall establish Statewide crop-specific criteria for each of the 5 quality loss levels for County Offices to use when distributing production to the applicable level. For crops that received quality payments under CDP, the STC shall establish criteria for each level using similar quality standards as those used in CDP. By establishing the same quality discount schedule for this program as under CDP, the QLP payment would be similar to CDP. For this reason, producers that received compensation for quality under CDP may not need to apply for a QLP payment.

Note: All 5 quality loss levels are available for each crop; however, STC does not have to use all 5 levels if all levels are not needed.

**C
Quality Loss
Levels For Single
Market Crops**

The following table shows each level's applicable quality loss range, affected price, and payment rate.

IF Level...	THEN quality losses between...			RECEIVE an assigned quality loss equal to...	AND receive a QLP payment rate based on the difference between 100% of CDP price and the following affected price...
I	20.0%	and	29.9%	25.0%	75% of the CDP price.
II	30.0%	and	49.9%	40.0%	60% of the CDP price.
III	50.0%	and	69.9%	60.0%	40% of the CDP price.
IV	70.0%	and	89.9%	80.0%	20% of the CDP price.
V	90.0%	and	100.0%	95.0%	5% of the CDP price.

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3 Establishing QLP Levels (Continued)

**D
Multiple
Marketed Crops**

Developing criteria and grouping quality losses into 5 levels is not necessary for multiple marketed crops (crops with both fresh and processed markets) because quality usually determines the available market for the crop. Quality loss will be determined when the quality of the crop caused normal marketings to shift from 1 market to another, such as from fresh to processed. This is the same process used under CDP. Producers that previously applied for CDP payments may not need to submit additional records to receive quality payments because the information needed to compute the payment and eligibility criteria are very similar to that previously submitted under CDP. However, producers are required to apply for QLP.

The affected price for multiple marketed crops is the secondary or tertiary market price for the market in which production was sold. The affected price for unmarketable production is equal to 5 percent of the primary market price.

**E
Quality Loss
Levels for
Multiple
Marketed Crops**

The following table shows the quality loss levels for multiple marketed crops.

IF quality losses for...	THEN the QLP payment rate is based on the difference between 100% of the CDP price for the primary market and...
secondary market	the secondary market price.
tertiary market	the tertiary market price.
unmarketable	5% of the CDP primary market price.

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4 Calculating QLP Payments

A

Payment Calculation

Payments are calculated for each level of loss by multiplying 65 percent of the affected production times 65 percent of the result of CDP primary market price minus the affected price. The affected price is calculated in the last column of the chart in subparagraph 3 C.

B

Single Marketed Crop Payment Calculation Example

The following is an example of the QLP payment calculation for a single marketed crop.

Situation:

- Total production on the unit is 100,000 bushels (bu.) of durum wheat.
- Affected production is 15,000 bu.
- 10,000 bu. meet Level III requirements.
- 5,000 bu. meet Level IV requirements.
- The crop table price for durum wheat is \$3.40 per bu.

QLP payment is calculated as follows:

Level III: 65 percent of 10,000 bu. times 65 percent of (\$3.40 minus (\$3.40 x .40)) = \$8619.

Level IV: 65 percent of 5,000 bu. times 65 percent of (\$3.40 minus (\$3.40 x .20)) = \$5746.

Gross QLP payments for the unit are \$14,365 less any deductions attributed to quality under CDP.

Note: Software will be developed to automatically recalculate CDP by removing the quality adjustment, subtracting this result from the original CDP payment and then deduct the difference from the \$14,365 gross QLP payment.

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4 Calculating QLP Payments (Continued)

C
Multiple
Marketed Crop
Payment
Calculation
Example

The following is an example of the QLP payment calculation for a multiple marketed crop.

Situation:

In County A, the crop table prices for peaches are:

- Fresh Market Price (Primary) \$ 10.25 per bushel
- Processed Market Price (Secondary) \$ 4.55 per bushel
- Tertiary Market Price N/A (price not established on crop table)
- Unmarketable Market Price \$.5125 per bushel (5% of the primary price).

Producer A harvested 50,000 bu. of peaches. Of the harvested production:

- 35,000 bu. were sold in the “Fresh” market
- 10,000 bu. were sold in the “Processed” market
- 4,000 bu. could not be sold in an established peach market because of poor quality.

Historical marketing percentages are 85 percent fresh and 15 percent processed.

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4 Calculating QLP Payments (Continued)

C
Multiple
Marketed Crop
Payment
Calculation
Example
(Continued)

Payment Process:

Step	Action
1	<p>Determine the affected production. The 35,000 bu. sold in the fresh market did not experience a quality loss. Therefore, these bushels are not considered affected production.</p> <p>Of the 10,000 bu. sold in the processed market, 7,500 would normally have been sold as processed in a nondisaster year (50,000 bu. total production times the 15 percent historical marketing percentage). The affected production sold as processed is 10,000 bu. minus 7,500 bu., or 2,500 bushels.</p> <p>4,000 bu. were unmarketable through normal channels. These peaches qualify for a quality adjustment based upon the unmarketable market price.</p>
2	<p>Calculate the QLP payment for each applicable market.</p> <p>Secondary - (.65 X 2,500 bu.) X (.65 X (\$10.25 - \$4.55)) = \$6,021. Unmarketable - (.65 X 4,000 bu.) X (.65 X (\$10.25 - \$.5125)) = \$16,456.</p>
4	<p>Calculate net QLP payment.</p> <p>\$6,021 + \$16,456 = \$22,477*</p> <p>* The calculated QLP payment will be reduced by the portion of CDP payment which was attributed to a quality loss.</p>

D
Reductions for
Previous
Compensation

If a portion of the CDP payment includes a quality adjustment, the calculated QLP payment will be reduced by the portion of the CDP payment attributed to quality losses. Software is being developed to automatically make the reduction.

Note: CDP applications shall not be revised unless it is determined the application is incorrect

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5 Preparation Required

A

STC Action

STC shall immediately establish Statewide crop-specific criteria for County Offices to use when assigning production among the 5 quality levels. See subparagraph 3 B.

B

Establishing Levels for Crops Eligible for Quality Under CDP

For crops eligible for quality payments under CDP, STC shall establish criteria using the similar QLP adjustment factors as quality discounts used in CDP. Additional adjustment factors shall be established only when CDP did not adequately address quality concerns, such as falling numbers for durum wheat.

Example 1: Wheat producers under CDP have their production to count based on a quality adjustment factor (producer’s loan rate divided by County average loan rate).

Producer’s Loan Rate	\$1.55
County Average Loan Rate	\$2.58
Quality Adjustment Factor	.60

The producer’s loan rate of \$1.55 is determined using the discount tables in the applicable 2-LP handbook. The quality adjustment factor is 0.60 and is calculated by dividing \$1.55 by \$2.58, according to 3-DAP, subparagraph 72 B. The producers affected production equates to Level II.

Criteria for Loan Commodities	
Level	CDP Quality Adjustment Factor 3-DAP, subparagraph 72 B
I	.80 to .701
II	.70 to .501
III	.50 to .301
IV	.30 to .101
V	.10 or lower

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5 Preparation Required (Continued)

**B
Establishing
Levels For Crops
Eligible For
Quality Under
CDP (Continued)**

Example 2: A wheat producer suffered quality losses solely because of low falling numbers, a factor not accounted for in 2-LP. Therefore, this producer did not receive a quality adjustment under CDP, because CDP does not account for falling numbers. To account for falling numbers under QLP, STC developed the following table:

Level	Quality Loss Percentages	STC Determined Grading Factors for Falling Numbers
I	20.0 to 29.9	300 to 400
II	30.0 to 49.9	250 to 299
III	50.0 to 69.9	200 to 249
IV	70.0 to 89.9	150 to 199
V	90.0 to 100	Below 150

**C
Establishing
Levels for Crops
Not Eligible for
Quality Under
CDP**

Quality adjustments for crops that were not eligible for quality adjustments under CDP may be added to the criteria for the applicable loss level.

Example: For hay, STC may establish the criteria for the 5 quality loss levels based on such items as:

- feed value
 - protein
 - a combination of factors normally associated with forage tests available in the State.
-

**D
Exception to
Establishing
Levels**

For crops that have a separate price established on the CDP crop table for multiple markets, additional criteria does not need to be established for QLP. QLP for these crops will be very similar to CDP. See subparagraph 3 D.
