UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
Washington, DC 20250

Notice DAP-106

For: State and County Offices

Quality Loss Program for Apples and Potatoes (QLP-AP)

Approved by: Acting Deputy Administrator, Farm Programs

Robert Stephenson

1 Overview

A Background

Pub. L. 106-387, the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001, authorizes the implementation of a special $38 million quality loss program for apples and potatoes. The Act provides for payments to producers of 1999 and 2000 year apple or potato crops with a minimum of 20 percent loss because of quality.

QLP-AP covers 1999 and 2000 apple and potato producers experiencing quality losses that were not covered under the 1999 or 2000 Crop Disaster Program (CDP).

This program will assist producers that were previously affected by payment limitations or were ineligible because of gross revenue restrictions.

In addition, some producers who discovered quality losses for apples or potatoes in storage after the signup deadline for the 1999 CDP may be covered if the losses were because of adverse weather conditions which originated before harvest.

B Purpose

This notice provides:

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

Disposal Date	Distribution
January 1, 2002	State Offices; State Offices relay to County Offices

2 Program Provisions

A Eligibility

Eligible production is any harvested or unharvested production of 1999 and/or 2000 crop apples or potatoes suffering a quality loss of 20 percent or greater. Eligible causes of quality loss are listed in 3-DAP, paragraph 9.

Note: No unharvested payment factor will be used under QLP-AP.

B Payment Formula

QLP-AP payments are calculated by multiplying not less than 65 percent of the affected production times 100 percent of the CDP primary price minus the affected price. The affected price is the assigned value of the quality-reduced crop, as defined under paragraph 3.

Note: The payment rate for QLP-AP is based on 100 percent of the difference between the CDP primary price and the affected price; whereas, the payment rate under QLP for all other crops is based on only 65 percent of the difference.

Program payments will be initially calculated using 65 percent of the affected production. That percentage may be increased if the value of all approved applications does not exceed the total funds appropriated.

C Payment Reduction

The calculated QLP-AP payment will be reduced by the portion of the CDP payment attributed to quality losses. Software is being developed to automatically make the reduction.

D Affected Production

Affected production is the harvested and unharvested crop year production affected by a quality loss of 20 percent or more. Affected production may be calculated using the smallest measurable unit for which acceptable records exist, such as truck load or bin.

Example:

- The total production on the unit was 100,000 bu. of apples.
- Only 25,000 bu. suffered a quality loss of at least 20 percent.
- Affected (eligible) production under QLP-AP will be 25,000 bu.

Note: Affected production may exceed expected production for the unit.

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2 Program Provisions (Continued)

E
Payment Limitation

There is no per "person" payment limitation or gross revenue restrictions under QLP-AP.

F
National Payment Factor

Funding under this program is limited to $38 million. If the total value of all applications exceeds the authorized funding level, a national payment factor will be applied to each participant's calculated payment.

G
Unit

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

H
Documentation for Harvested Production

Producers must provide the County Office with written documentation substantiating a quality loss for harvested production. The documentation must be specific for all harvested production listed on the application.

Examples of acceptable documentation include:

- grading receipts from a buyer, warehouse, or packer
- sales receipts indicating a price reduction because of low quality
- University or other commercial lab test results acceptable to COC
- sales receipts showing disposition to a secondary market because of poor quality.

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2 Program Provisions (Continued)

I
Documentation for Unharvested Production

The producer may certify the quantity and quality of any unharvested or unmarketable production. COC may substantiate the producer's certification by requiring any documentation needed to reasonably verify the claim including:

- an acreage report
- crop insurance records
- field appraisals
- disposal records
- certified statements from consultants, Extension, University or Government personnel, pesticide or chemical applicators
- any other available documentation to substantiate the claim.

J
Sign Up Dates

Sign up dates, forms, and additional program procedure will be provided in a future notice. Apple and potato producers are required to apply using the QLP-AP application, not the QLP application.

3 Determining the Amount of Loss

A
Loss Levels

Production affected by a minimum of a 20 percent quality loss will be divided into several loss levels.

Apples: 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 be required to submit additional records to receive quality payments for multiple marketed crops because the information needed to complete the payment and eligibility is very similar to that previously submitted under CDP. However, producers are required to apply for QLP-AP.

The affected price for apples 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.

Quality loss levels and payment rates for apples are in the following chart.

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

See Exhibit 1 for an example of the apple payment calculation.

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3 Determining the Amount of Loss (Continued)

A
Loss Levels (Continued)

Potatoes: For purposes of operating QLP-AP, 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.

All 5 quality loss levels are available for potatoes. However, STC does not have to use all 5 levels if all levels are not needed.

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.

See Exhibit 2 for an example of the potato payment calculation.

B
Normal Marketing Percentage

The normal marketing percentages established under CDP will apply to QLP-AP.

4 Preparation Required

A STC Action

STC's shall ensure that each county's CDP crop table is up to date with applicable prices for the primary, secondary, and tertiary markets.

Apples:

It is not necessary for STC to establish criteria for the various quality uses. Separate prices have already been established on the CDP crop table where applicable.

The CDP primary market price will be the base price. Secondary and tertiary levels will apply if established on the CDP crop table. An additional level of "Unmarketable" will be available in addition to the markets established on the crop table. Production allocated to the unmarketable level will be assigned a value equal to 5 percent of the CDP primary price.

If a county has only 1 price on the crop table, the only quality payment available will be for production attributed to the unmarketable use.

Potatoes:

STC shall establish the criteria for each of the 5 quality uses in the same manner as the single market crops under QLP. See Notice DAP-105.

Payment Calculation Example - Apples

A Situation

The basis for this example is as follows.

2000 CDP price for Fresh Apples (Primary Market)			$ 6.00
2000 CDP price for Processed Apples (Secondary Market) There is no Juice (Tertiary) price established on the crop table.			$ 2.50
2000 Total Apple Production	-	harvested	15,000 bu.
	-	unharvested	5,000 bu.
Apples Sold in the Fresh Market			4,000 bu.
Apples Sold in the Processed Market			11,000 bu.
Apples (unharvested because of poor quality)			5,000 bu.

Normal Marketings 90% Fresh
10% Processed

B Payment Processing

This is the process to determine the affected production for each quality level.

- The 4,000 bu. sold in the Fresh market did not experience a quality loss and do not qualify for a quality payment.
- Of the 11,000 bu. sold in the processed market, 2,000 bu. are normally sold in that market (10% of 20,000 bu.). Therefore, the affected production sold in the processed market is reduced to 9,000 bu.

  9,000 bu. will qualify for a quality adjustment using the processed price.
- The 5,000 bu. apples were unmarketable and remained unharvested because of poor quality. These bushels qualify for a quality adjustment using the unmarketable price.

  The unmarketable price is 5% of the Primary market price.
  ($6.00 primary price times 5%) = $ .30.

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Payment Calculation Example - Apples (Continued)

C
Payment Calculation

The Apple QLP-AP payment is determined according to the following table.

Payment Calculation - Apple Example		
Secondary Market	65% of 9,000 bu. times 100% of ($6.00 - $2.50)	$20,475
Tertiary Market	None established on the crop table	NA
Unmarketable Production	65% of 5,000 bu. times 100% of ($6.00 - (5% of $6.00))	$18,525
Calculated Apple QLP-AP Payment		$39,000 (before the application of a national payment factor)

Note: The calculated payment will be reduced by the portion of any disbursed crop disaster payment which was attributed to a quality loss.

Payment Calculation Example - Potatoes

A
Quality Levels

The Crop Table "Primary" Price for Potatoes in County A is $ 5.85 per cwt.

Quality Level	Range of Quality Loss	Assigned Quality Loss	STC Level Criteria	ALP-AP Payment Rate
Level I	20 - 29.9 %	25 %	N/A per STC	$ 5.85 - (75% of $5.85)
Level II	30 - 49.9 %	40 %	N/A per STC	$ 5.85 - (60% of $5.85)
Level III	50 - 69.9 %	60 %	Processed Potatoes (quality losses from 50 % to 69.9%)	$5.85 - (40% of $5.85)
Level IV	70 - 89.9 %	80 %	N/A per STC	$ 5.85 - (20% of $5.85)
Level V	90 - 100 %	95 %	Unmarketable	$ 5.85 - (5% of $5.85)

B
STC Action

Level Criteria: In this example, STC determined Level III is equivalent to the processed market, the only market available to producers in addition to their primary market . No other markets are available. Therefore, STC determined Levels I, II, and IV will not be used. Level V will always used for unmarketable production.

Price: The price for each level is determined by the established formulas based upon the primary crop table price. No STC action is needed to establish prices for each level.

C
Actual Production

Producer A harvested 10,000 cwt. of potatoes in 2000. Of the harvested production:

- 1000 cwt. were sold in the intended fresh market
- 6000 cwt. were sold in the lower priced processed market because of reduced quality
- 3000 cwt. could not be sold in any established potato market because of poor quality.

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Payment Calculation Example - Potatoes (Continued)

D
Payment Processing

This is the process to determine the affected production for each level and payment calculation.

- The 1,000 cwt. sold in the intended market did not experience a quality loss. These potatoes will not be used in the payment calculation.
- The 6,000 cwt. sold in the processed market will qualify for the Level III adjustment.
- The 3,000 cwt. were unmarketable through normal channels and these potatoes qualify for a Level V adjustment.
- Any portion of the crop disaster payment attributed to quality losses will be subtracted from the calculated payment to avoid a duplicate payments.

Payment Calculation		
Level	**Calculation**	**Result**
Level III	(65% of 6,000 cwt.) times 100% of ($5.85 - (40% of $5.85))	$ 13,689
Level V	(65% of 3,000 cwt.) times 100 % of ($5.85 - (5% of $5.85))	$10,837
Calculated Potato Quality Payment		$ 24,526 (before the application of a national payment factor)

Note: The calculated payment will be reduced by the portion of any disbursed crop disaster payment which was attributed to a quality loss.