

## **MGR-16-004**

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Date

June 29, 2016

To

All Approved Insurance Providers

All Risk Management Agency Field Offices

All Other Interested Parties

From

Brandon C. Willis, Administrator

Subject

Destruction of "N" Grade Tobacco

### **Background**

Beginning with the 2012 crop year, the Risk Management Agency (RMA) added Quality Adjustment provisions to the Special Provisions of Insurance (Special Provisions) for Burley and Flue-Cured tobacco. In order to receive a quality adjustment, the tobacco must be graded by a tobacco grader who is employed by the Agricultural Marketing Service (AMS) in accordance with the USDA Official Standard Grades for Tobacco.

Specific grades listed in the Discount Factor Chart in the Special Provisions designated by double asterisk (\*\*), generally referred to as "N" grade, are considered to have zero market value for insurance purposes. Such production will not be included as production to count if the production is destroyed in a manner acceptable to the Approved Insurance Provider. If the insured chooses not to destroy such production, the full amount of the N Grade production will count as production to count.

Current RMA loss adjustment procedure directs adjusters to verify the destruction of zero market value production either by actually witnessing the destruction, or

through the completion of a Certification Form by the producer. In the latter case, the insured is given the Certification Form, and after the destruction of the production is completed without the adjuster present, the insured signs and returns the form to the adjuster. The adjuster is then required to make a follow-up inspection to verify the destruction.

RMA has determined it is not possible to adequately verify destruction of the tobacco if the destruction is not witnessed by the loss adjuster.

## **Action**

For the 2016 and succeeding crop years, the adjuster must, in all cases, physically witness the destruction of “N” grade tobacco and document in the claim file:

1. Date of destruction;
2. Method in which the tobacco was destroyed;
3. Location where destruction occurred;
4. Photos (GPS preferred);
5. Amount of tobacco destroyed; and
6. Bale tags from each of the bales being destroyed.

The procedure for producer self-certification of destroyed production in section 1102(H)(2)(b) of the Loss Adjustment Manual are not applicable and the Certification Form will not be an acceptable form of documentation.

The following scenarios will apply to the tobacco production to count:

1. If the tobacco is assigned an “N” grade by AMS, it must not be tampered with, broken down (if baled), resorted or reconstituted in any way (up to the point of destruction); if evidence suggests this is taking place, no quality adjustment will be allowed and the full unit guarantee may be included as production to count.
2. Once the tobacco is destroyed in the presence of the loss adjuster, none of the destroyed tobacco will be included as production to count.
3. If the tobacco is destroyed, but not in the presence of the loss adjuster, no quality adjustment will be allowed for the tobacco and the full production amount will be included as production to count.
4. If the tobacco is not destroyed, no quality adjustment will be allowed for the tobacco and the full production amount will be included as production to count.

**DISPOSAL DATE:**

Until incorporated into procedure.