Malting Barley Endorsement Program Review 2017 Crop Year Implementation

Update and Program Details

DISCLAIMER

The purpose of this material is to promote awareness of risk management concepts and to highlight USDA's risk management products, features, benefits and availability.

This information is provided for training only. Any discrepancy between the training material and the policy is not intended. The information provided in this training does not supersede policy and procedure. Any changes to the policy and procedures may make this training material obsolete. ***If you use this training material check to assure it is still relevant.***

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Background

- Development of the Malting Barley Endorsement (MBE) was a joint project between Watts and Associates, Inc. (W&A) and the North Dakota Barley Council (NDBC).
  - With the support of the National Barley Growers Association and barley grower organizations in Idaho, Montana, and Minnesota.

Background

- The MBE is a privately-developed product submitted and approved, by the FCIC Board of Directors, in accordance with section 508(h) of the Federal Crop Insurance Act to extend and enhance yield and revenue coverage to producers of malting barley.
- AIPs are not required to offer the MBE to producers. AIPs that elect to offer the MBE must offer it to all eligible producers in the approved pilot area, and must administer the program according to RMA approved policy and procedure.

Background

- The MBE is available beginning with the 2016 crop year.
- The MBE is available in Alaska, Colorado, Idaho, Minnesota, Montana, Nebraska, North Dakota, Oregon, South Dakota, Washington, and Wyoming in all counties where the current Malting Barley Price and Quality Endorsement is available.
- The MBE replaced the MBPQE, which is no longer available.

Background

- Simply put, the optional MBE provides additional quality protection* for each unit of malting barley acreage insured under a yield or revenue protection insurance plan with projected and harvest prices established based on the producer's Malting Barley Contract, Malting Barley Price Agreement, or Malting Barley Seed Contract under the terms of the MBE.

  * Based on the specifications from a malting barley contract or the Special Provisions if insuring under a price agreement (except seed). A very similar concept to an apple producer purchasing the Optional Coverage for Quality Adjustment on their apple acreage.

2017 Changes

- MBE Definitions
  - **Malting barley contract –** A document in writing:
    - (a) Between you and a buyer that is a brewery or any other buyer that produces or sells malt or malt products to a brewery, or a business enterprise owned by such brewery or business,
    - (b) That specifies the amount of contracted production and the purchase price or a method to determine such price; and
    - (c) That establishes the obligations of each party to the agreement.
  - Added the “and” in paragraph (b) to clarify the need for both the contracted production and the purchase price or a method to determine such price.

2017 Changes

- Section 4(a) – added paragraph (3):
  - *If the contract provides for a premium amount above a feed barley price that is determined after the acreage reporting date, the contract price will be the result of adding the premium amount to the published projected price for barley in accordance with the Small Grains Crop Provisions.*
  - Added to address situations where the premium amount is above the feed barley price.

2017 Changes

- Section 4(a) – added paragraph (3):
  - *If the contract provides for a premium amount above a feed barley price that is determined after the acreage reporting date, the contract price will be the result of adding the premium amount to the published projected price for barley in accordance with the Small Grains Crop Provisions.*
  - Added to address situations where the premium amount is above the feed barley price.

2017 Changes

- Sections 4(a)(4) and 4(a)(5) - added “by unit” to clarify the calculations for the weighted average price is by unit. The Insurance Standards Handbook examples have been updated to match.
- Added Section 4(a)(6)
  - The price used will be the price in the contract without regard to incentives or discounts.

2017 Changes

5. Report of Acreage.

- In addition to section 6 of the Basic Provisions, you must provide us with copies of all your contracts on or before the acreage reporting date. ***For malting barley insured under the Winter Coverage Endorsement the earlier acreage reporting date applies for the winter type.*** If there are multiple contracts and one or more of the contracts are not provided by the acreage reporting date, the barley acres determined for the missing contract(s) will be considered non-contracted acres.
  - Added for clarification with regards to fall malting barley insured under the Winter Coverage Endorsement.

2017 Changes

- Settlement of Claim Section 8(a)(9)
  - Deleted this paragraph and renumbered the remaining paragraphs under (a).

    (9) The amount of any production eligible for reduction under sections 8(a)(5), 8(a)(6), or 8(a(7) will not exceed the difference between the contracted quantity and the accepted delivered quantity.
- Settlement of Claim Section 8(c)(2):
  - Deleted this paragraph and renumbered the remaining paragraphs under (c).

    (2) All production from any unit of malting barley in excess of the amount under contract for that unit will be included as production to count for another unit if such production meets the terms of the contract for the other unit;

2017 Changes

- Settlement of Claim Section 8(c)(4):
  - Changed the “30 days” to “90 days” in accordance with MGR-16-001 Malting Barley Endorsement – Obtaining and Grading Samples for Quality Adjustment for the 2016 Crop Year.
  - For 2016, section 8(c)(4) of the MBE specified that all samples of farm-stored production used to determine eligibility for quality adjustment must be obtained no later than 30 days after the end of the insurance period. RMA published MGR-15-008 on November 5, 2015, extending the timeframe to 60 days after the end of the insurance.

2017 Changes

- Settlement of Claim Section 8(c)(4) continued:
  - In consultation with the malting barley industry and after further review, RMA noted that extending the timeframe from 60 days to 90 days does not result in any additional risk of degradation of the condition of the barley in storage or the quality of the sample.
  - Added the following to the end of the paragraph:
  - *All quality deficiencies based on the timely obtained samples must be determined no later than 90 days after the end of the insurance period. Damage that occurs after the EOIP is not covered.*

2017 Changes

- Settlement of Claim Section 8(c)(7) added:

  (7) Whenever any production fails one or more of the quality criteria specified in section 8(a)(2) of this endorsement, we will not agree upon the amount of loss until the earlier of:

  (1) The date you sell, feed, donate, or otherwise utilize such production for any purpose; or

  (2) The spring sales closing date of the calendar year immediately following the calendar year in which the insured malting barley is normally harvested. If you still retain any insured production on or after this date, we will:

  (i) Defer completion of your claim if you agree to such deferment; or

  (ii) If you do not agree to defer your claim, we will complete your claim; however, no adjustment for quality deficiencies will be made and all remaining unsold insured production will be considered to have met the quality standards specified in this endorsement.

2017 Changes

- **MBE Actuarial Documents**
  - Added a Statement to Section 8 General Section of the Special Provisions Tab

    Only production to count as determined under the terms of the Small Grains Crop Provisions is used for Actual Production History (APH). Further reductions in production to count under the terms of the MBE are not included in determining APH.

  - This is a clarification that was also added to the MBE Insurance Standards Handbook.

2017 Changes

- **MBE Actuarial Documents**

  Changed Table: Malting Barley Price Agreement Quality Standards

	Six-rowed Malting barley	**Two-rowed Malting Barley**
Protein (dry base)	14.0% maximum	13.5% maximum
Plump Kernels	70.0% minimum	75.0% minimum
Thin Kernels	10.0% maximum	10.0% maximum
Germination	96.0% minimum	96.0% minimum
Blight Damaged	4.0% maximum	4.0% maximum
Injured by mold	5.0% maximum	5.0% maximum
Mold Damaged	0.4% maximum	0.4% maximum
Injured by sprout	1.0% maximum	1.0% maximum
Injured by frost	5.0% maximum	5.0% maximum
Frost damaged	0.4% maximum	0.4% maximum
DON	1.5 ppm maximum	1.0 ppm maximum

2017 Changes

- Insurance Standards Handbook
  - **Para. 21 A.** Clarified determination of eligible prevented planting acres and replanting and prevented planting payments. Prevented planting acres are not considered when calculating the weighted average price.
    - *All malting barley acreage is not required to be under contract to be insured; therefore, eligible prevented planting acres are determined in accordance with section 17(e)(1)(i) of the BP. Replant and prevented planting payments are based on the projected price as determined in section 4 of MBE. Weighted average prices are all based on planted acres, so prevented planting acres are not considered when calculating the weighted average price.*

2017 Changes

- Insurance Standards Handbook
  - **Para. 26.** Clarified that only production to count as determined under the terms of the Small Grains CP is used for Actual Production History.
    - *Only production to count as determined under the terms of the Small Grains CP is used for Actual Production History (APH). Further reductions in production to count under the terms of the MBE are not included in determining APH.*

2017 Changes

- Insurance Standards Handbook
  - **Para. 28.** Changed the 60-day requirement for obtaining samples to 90 days and added clarification that all quality deficiencies based on the timely obtained samples must be determined within 90 days after the EOIP.
  - **Para. 28. A.** Added procedure for deferring the requirement for documenting the ultimate disposition of the crop as detailed in the MBE
    - *If the insured retains any insured production after this date, the AIP may defer this requirement until such a time as the production is disposed of. If adequate documentation of the disposition of such production is not provided by the applicable deadline, it will be considered to be production accepted by the buyer.*

2017 Changes

- Insurance Standards Handbook
  - **Para. 28 A.** Added a section on duties and responsibilities of the insured and loss adjuster as it relates to losses and quality adjustment. Also added procedures to clarify adjustments to coverage if the insured over-reports liability for a unit. See notes.
  - **Para. 32.** Removed paragraph dealing with production in excess of amount under contract as this was removed from the MBE.
  - **Para 49.** Replaced the procedures for compensating the insured for the cost of conditioning and the example. Addressed later in the presentation.

2017 Changes

- Insurance Standards Handbook
  - **Para 50. Example 1(B)** Modified the example to reflect removal of the excess production clause in the MBE.
  - **Para 50. Example 4** Modified the example to show how the MBE works with optional units. The provision to allocate excess production to non-loss units was removed from the MBE.

2017 Changes

- Insurance Standards Handbook
  - **Para 52.** Clarified that written agreements to add the MBE to an underlying policy when the MBE is not provided in the actuarial documents cannot be issued. Modified references and made changes to align with the 2016 CIH.
  - **Para. 53.** Modified references and made changes to align with the 2016 LAM.
  - **Para. 54.** Modified references and made changes to align with the 2016 Small Grains LASH.
  - **Definitions** Modified “Malting barley contract” definition slightly to correspond to change made in the MBE.

Policy and Handbook

- Small Grains Crop Insurance Malting Barley Endorsement

17-0091b

UNITED STATES DEPARTMENT OF AGRICULTURE
Federal Crop Insurance Corporation
SMALL GRAINS CROP INSURANCE
MALTING BARLEY ENDORSEMENT

(This is a continuous Endorsement. Refer to Section 2 of the Common Crop Insurance Policy.)

- Malting Barley Endorsement Insurance Standards Handbook

USDA

United States Department of Agriculture

Federal Crop Insurance Corporation

FCIC-20240 (06-2016)

MALTING BARLEY ENDORSEMENT
Insurance Standards Handbook

2017 and Succeeding Crop Years

MBE Training Materials

- MBE Presentation updated for 2017
- MBE Fact Sheet updated for 2017
- MBE Detailed Example added for 2017
- MBE FAQ’s updated for 2017

- All are posted on RMA’s Website

Eligibility Requirements

- The producer must have at least one eligible contract
  - A malting barley contract, a malting barley price agreement or a malting barley seed contract.
- The producer must provide the AIP with copies of all contracts on or before the acreage reporting date.
  - Failure to provide at least one contract by the acreage reporting date requires that all planted acres be insured under the terms of the Small Grains Crop Provisions.
  - If there are multiple contracts and one or more of the contracts are not provided by the acreage reporting date, the barley acres determined for the missing contract(s) will be considered non-contracted acres.

Eligibility Requirements

- All acreage in the county planted to malting barley is insured under the MBE if all requirements are met.
  - Contracts are not required to include all planted acreage of malting barley (must have one).
  - Includes contracted and non-contracted acreage.
  - Planted acreage that exceeds the number needed to produce the contracted quantity is also insurable under the MBE.
  - There is no minimum requirement for contracted acres.

Contracts

- Eligible contracts include a Malting Barley Contract, Malting Barley Price Agreement or a Malting Barley Seed Contract.
- **Malting Barley Contract**
  - Must be in writing between the insured and a buyer that is a brewery or any other buyer that produces or sells malt or malt products to a brewery, or a business enterprise owned by such brewery or business, **and** that has one or more qualified representatives at the point where the contracted malting barley is received from growers.
  - The contract must specify the amount of contracted production and the purchase price or a method to determine such price; and establish the obligations of each party to the agreement.

Contracts

- **Malting Barley Price Agreement**
  - A document in writing that meets all conditions required for a malting barley contract except that it is executed with a buyer who is not described in the definition of a malting barley contract, but who normally contracts to purchase malting barley production.
- **Malting Barley Seed Contract**
  - A document in writing between the insured and a buyer under which the insured agrees to produce malting barley seed and that meets all the conditions to otherwise be considered a malting barley contract.

Contracts

- **Buyer –** Any person who is in the business of acquiring malting barley, malting barley seed, or both, by contracting with agricultural producers and who has facilities appropriate to handle and store malting barley production and that has one or more qualified representatives at the point where the contracted malting barley is received from growers.

Insurable Types and Practices

Insurable types:

Type	Code
Malting (Spring)	873
Malting (Winter)	973

Insurable practices:

Practice	Code
Irrigated	002
Non-Irrigated	003
Organic (Certified) Irr	702
Organic (Transitional) Irr	712
Organic (Certified) Non-Irr	713
Organic (Transitional) Non-Irr	714
Continuous Cropping	004
Summerfallow	005
Continuous Cropping (OC)	715
Continuous Cropping (OT)	716
Summerfallow (OC)	717
Summerfallow (OT)	718

*refer to the actuarial documents for types and practices by county

Approved Malting Barley Varieties

- Approved malting barley varieties will include all varieties approved for malting by the American Malting Barley Association for the current crop year or any variety grown under the terms of a malting barley contract.
- Test varieties are not allowed per Basic Provisions section 8(b)(5)
  - "…That is planted for the development or production of hybrid seed or for experimental purposes, unless permitted by the Crop Provisions or by written agreement to insure such crop;"

Units

- One of the major improvements of the MBE over the previous endorsement is that unit choices follow the underlying coverage:
  - Basic units are allowed.
  - Optional units are allowed.
  - Enterprise units are allowed.
  - <u>Whole farm units are not allowed;</u> therefore, if the underlying policy is insured under a whole farm unit, the producer is not eligible for MBE.
- All units planted to malting barley type (type codes 873 and 973) are included under the MBE if the insured has elected it and all units must be insured as revenue protection (plan code 02 or 03) or yield protection (plan code 01).

Coverage Levels

- The insured must elect an additional coverage level on the underlying Small Grains Crop Provision policy to be eligible for MBE.
  - Additional coverage is available in 5% increments from 50% to 85% unless specified otherwise on the actuarial documents.
- The catastrophic (CAT) level of coverage is available only when taken in accordance with the terms of section 3(b)(2)(ii) of the Basic Provisions (high risk land exclusion).

Approved Yields and Transitional Yields

- Approved yields are based on a malting barley type database following standard APH rules in the CIH.
  - The database uses the malting type database currently used to insure malting barley.
  - The approved yield from the malting barley type database (by practice) is the basis for the guarantee.
  - Includes all planted acres and all production from the insured malting barley acres in the unit.
- Transitional yields are published in the actuarial documents for the malting barley type.

Insurance Plan Choices

There are 3 ways to insure Malting Barley:

1. Under yield protection or revenue protection based on prices determined in accordance with **CEPP**.
2. Under a specialty type yield protection policy based on a price contained in a contract. No additional quality coverage.
3. Under yield protection or revenue protection <u>with added coverage</u> provided in accordance with the **MBE**. The projected and harvest prices used are in accordance with the **MBE** not the **CEPP**.
   MBE provides additional quality protection for malting barley acreage that is insured under the Small Grains Crop Provisions.

- If the insured choses number 1 above, they don’t get the MBE projected and harvest prices (they use the CEPP) and they don’t get the additional quality protection provided with the MBE.

Insurance Plan Choices for MBE

01 Yield Protection (YP)

YP provides protection against losses in yield due to unavoidable, naturally occurring events. The YP guarantee will be determined by multiplying the production guarantee (based on the individuals malting barley APH) by the projected price (**determined in accordance with the MBE**). The projected price is also used to determine the premium, any replant payment or prevented planting payment, and to value the production to count. The harvest price is not used for YP.

02 Revenue Protection (RP)

RP provides protection against losses in yield due to unavoidable, naturally occurring events, price decline or increase, or a combination of both. The RP guarantee will be determined by multiplying the production guarantee (based on the individual producer's malting barley APH) by the greater of the projected price or the harvest price (**determined in accordance with the MBE**). The projected price is used to determine the premium, and any replant payment or prevented planting payment. The harvest price is used to value the production to count.

03 Revenue Protection Harvest Price Exclusion (RPHPE)

RPHPE is similar to RP, however RPHPE coverage provides protection against loss of revenue caused by low yields, price decrease, or a combination of both. The RP guarantee will be determined by multiplying the production guarantee by the projected price (and doesn't increase if the harvest price is greater than the projected price). The projected price (**determined in accordance with the MBE**) is used to determine the premium, and any replant payment or prevented planting payment. The harvest price (**determined in accordance with the MBE**) is used to value the production to count.

Insurable Causes of Loss

- Rejection of any production by the buyer for failure to meet the standards contained in a **malting barley contract** is an insurable cause of loss provided said failure is due to an insurable cause of loss as specified in the Small Grains Crop Provisions.
- Rejection of production by the buyer under a **malting barley price agreement** is also an insurable cause of loss provided such rejection is due to an insurable cause of loss as specified in the Small Grains Crop Provisions.
  - However, if rejected by the buyer, the relevant standards for quality adjustment are specified in the Special Provisions, not the standards in the malting barley price agreement.

Insurable Causes of Loss

- Rejection of production is not an insurable cause of loss for a **malting barley seed contract**.
- The buyer must cooperate with the AIP and the AIP must be assured that the rejection was due to an insurable cause of loss and that the condition resulting in rejection is in accordance with the malting barley contract or the Special Provisions (in the case of a price agreement).

Projected Price and Harvest Price

- The projected price for malting barley under the MBE may not exceed the applicable projected price for barley under the CEPP multiplied by 2.50.

W&A Crop Insurance

Projected Price and Harvest Price

- The Chicago Board of Trade's soft red winter wheat September contract pertaining to the crop year (discovery periods shown below) along with the determined "contract price(s)" are used to establish the projected and harvest prices for contracted production under the MBE.
  - The projected price discovery period for the fall planted malting barley type is August 15 through September 14 of the calendar year preceding the crop year.
  - The projected price discovery period for the spring planted malting barley type is February 1 through the last calendar day of February of the calendar year of the crop year.
  - The harvest price discovery period for all malting barley types is August 1 through August 31 of the calendar year of the crop year.

Projected Price and Harvest Price

- RMA's price discovery application will not be tracking daily projected and harvest prices for the MBE prices for 2017.
- RMA will be tracking these prices (Watts Website) http://www.rma.usda.gov/policies/2017policy.html.
- Prices will be shown on the AIB shortly after the discovery period ends.

W&A Crop Insurance

Projected Price and Harvest Price

Selections

Malting Barley Endorsement ▾ | Winter ▾ | Idaho ▾ | Cassia ▾

MBE Price Discovery Details

Value Type	Values
Crop:	Malting Barley Endorsement
State:	Idaho
County:	Cassia
Sales Closing Date:	9/30/2015
Commodity Exchange:	CBOT
Commodity Contract:	Soft Red Winter Wheat
Futures Month:	September 2016
Price Discovery Period:	Aug 15 - Sept 14
Start Date:	8/15/2015
End Date:	9/14/2015
Volatility:	Not Available
Projected Price:	$5.23

Price Discovery Values by Date

Date	Price
8/17/2015	5.2575
8/18/2015	5.1950
8/19/2015	5.1775
8/24/2015	5.2675
8/20/2015	5.2850
8/21/2015	5.2150

Projected Price and Harvest Price

- Determination of the projected price and the harvest price are similar to the rules for determining those prices under the Contract Price Addendum.
- There are two general kinds of malting barley contracts.
  1. Fixed Price Contract.
  2. Basis Priced Contract – a contract that provides a premium amount above or below a base price to be determined in accordance with the terms of the contract.

Projected Price and Harvest Price

1. Fixed Price Contract

Example: If the malting barley contract provides a fixed price for the contracted production, **the projected price** for that malting barley contract is the contract price.

Item	Priced	Commodity	Quantity	Date	Price
DO1	Yes	US 2016 ABI Voyager 2Row	10,000.000	12/02/2016	6.00

The contract states that the price to be paid to the insured is $6.00 per bushel.

Projected price = $6.00

Projected Price and Harvest Price

2. Basis Priced Contract

   The contract provides for a premium amount (assume minus $1.00 per bushel (-$1.00)) relative to a base price to be determined (i.e., for soft red winter wheat) and the contract price is set on or before the acreage reporting date, the projected price for that malting barley contract is the contract price.

Pricing

Price Lock Begin Date:	12/02/2016
Price Lock End Date:	07/02/2016
Reference Market:	Chicago Board of Trade
Basis Amount:	1.00 (Less)
Option Year:	2017
Option Month:	September

Item	Priced	Commodity	Quantity	Date	Price
001	No	US 2016 Conrad 2Row	10,000.000		

Projected Price and Harvest Price

2. Basis Priced Contract (cont.)

   Example 1:

   - The insured chooses to price the contract on February 28.
   - The closing price for soft red winter wheat on that date is $7.25 per bushel.
   - The base price for that malting barley contract is $7.25.

   The projected price equals the base price +/- the premium amount.

   - In this case $7.25 base price - $1.00 (premium amount) = $6.25 per bushel.

   [This determination is made by the buyer and documented in the malting barley contract the producer must submit under the terms of the MBE.]

Projected Price and Harvest Price

2. Basis Priced Contract (cont.)

Example 2:

- Same scenario, but now assume the insured has not established the base price on or before the acreage reporting date.
- Therefore, the base price for that contract equals the projected price for soft red winter wheat in accordance with section 10 of the MBE.
  - The contract provides for a premium amount of minus $1.00 (-$1.00) per bushel from a future price for wheat.
  - The projected price for soft red winter wheat in the county is $6.75 per bushel.
  - The base price is $6.75 - $1.00 (premium amount) = $5.75 per bushel.

[This determination is made by the AIP based on the insured's contract and the projected price in accordance with section 10 of the MBE.]

Projected Price and Harvest Price

Harvest Price

- For revenue protection, determined by subtracting the projected price for wheat in accordance with section 10 of the MBE from the projected price determined in section 4(a), and adding that result to the harvest price for wheat in accordance with section 10 of the MBE.
- For yield protection, the harvest price is the projected price as there is no price change coverage.

Projected Price and Harvest Price

Harvest Price (cont.)

Example:

- Assume the insured's malting barley contract provides premium amount of minus $1.00 per bushel.
- The base price is not available by the ARD.
- The projected price for soft red winter wheat is $6.75 per bushel.
- The projected price for the contracted malting barley acreage is $6.75 + (-$1.00) = $5.75 per bushel.
- The harvest price for the soft red winter wheat (in accordance with section 10 of the MBE) is $7.50 per bushel.
- The harvest price for malting barley under MBE is:
- $5.75 per bushel - $6.75 per bushel = -$1.00 per bushel.
- $7.50 per bushel - $1.00 = $6.50 per bushel harvest price.

Multiple Contracts

- If there are multiple malting barley contracts, a weighted average of the contract prices is calculated (by spring and winter if applicable).
  - Multiply each contract price by the quantity applicable to the contract;
  - Add those results; and
  - Divide by the total contracted quantity.

The result is the production weighted average of the contract prices.

Multiple Contracts

Example:

- There are two malting barley contracts, one for 5,000 bushels and one for 7,500 bushels.
  - The price for the 5,000 bushel contract is $5.75.
  - The price for the 7,500 bushel contract is $6.00.

  The weighted average contract price is

  ($5.75 x 5,000 bushels + 7,500 bushels x $6.00) ÷ 12,500 bushels = $5.90.

Contracted and Non-Contracted Acres

- Using the previous example, if there are both contracted and non-contracted acres, a weighted average projected price must be calculated for each unit:
  - Multiply the contracted acreage by their applicable projected price(s);
  - Multiply the non-contracted acreage by the barley projected price determined by the CEPP;
  - Add those results; and
  - Divide by the total planted acres.

The weighted average projected price is applicable to all planted acres in the unit.

Contracted and Non-Contracted Acres

Example:

- The insured's contract calls for delivery of 12,500 bushel
- The APH applicable to the insured acreage in the unit is 50 bushels
- The minimum acreage to produce the contracted quantity is 12,500 ÷ 50 bushels = 250 acres
- The insured plants 260 acres
- The projected price for all other type barley is $4.25 per bushel
- The weighted average projected price is ($5.90 x 250 acres + $4.25 x (260.0 – 250.0 acres)) ÷ 260 acres = **$5.84**

This weighted average projected price is applicable to all planted acres in the unit.

Contracted and Non-Contracted Acres

- Prorating Three Units and One Contract

Planting 100 Acres — Planting 35 acres — Planting 20 acres

2017	Crop: Barley (0091)			**2017**	Crop: Barley (0091)			**2017**	Crop: Barley (0091)		
UNIT #	Practice: NI (003)			UNIT #	Practice: NI (003)			UNIT #	Practice: NI (003)		
0001OU	Type: **Malting (873)**			0002OU	Type: **Malting (873)**			0003OU	Type: **Malting (873)**		
Year	Production	Acres	Yield	Year	Production	Acres	Yield	Year	Production	Acres	Yield
2011	0	0	Z	2011	2066	30	A69	2011	0	0	Z
2012	4040	105	A38	2012	0	0	Z	2012	1200	12	A100
2013	0	0	Z	2013	966	10	A97	2013	0	0	Z
2014	2720	40	A68	2014	2220	36	A62	2014	0	0	Z
2015	5520	80	A69	2015	2090	35	A60	2015	1134	14.8	A77
T-YLD 45	Approved Yield 55			T-YLD 45	Approved Yield 72			T-YLD 35	Approved Yield 60		

100 X 55 Bu = 5,500 35 X 72 Bu = 2,520 20 X 60 = 1,200

Proration Factors for each unit Total Bushels all three units = 9,220

5,500/9,220 = 0.596529 2,520/9,220 = 0.273319 1,200/9220 = 0.130152

Prorate contracted bushels for each unit by multiplying the above factor by the total contracted bushels. Total bushels included under the contract are 9,000

9,000 X 0.596529 = 5,369 9,000 X 0.273319 = 2,460 9,000 x 0.130152 = 1,171

Determine the contracted acres by dividing by the APH Yield

5,369/55 = 97.6 acres 2,457/72 = 34.1 acres 1,170/60 = 19.5 acres

Determine the non-contracted acres by subtracting contracted acres from total acres by unit

100 – 97.6 = 2.4 35 – 34.1 = 0.9 20 – 19.5 = 0.5

Quality Adjustment

Insured acreage under MBE qualifies for two types of quality adjustment

1. **Contract Specifications:**
   Rejected by the buyer because production fails quality specifications in the malting barley contract or Special Provisions in the case of a malting barley price agreement.

2. **Quality adjustment in accordance with the Small Grains Crop Provisions:**
   This includes production of malting barley rejected by the buyer as described in 1; unharvested production; all production that exceeds the contracted quantity; and seed contract production.

Note: **Malting barley seed contracts** are not eligible for quality adjustment under No. 1. Only eligible for quality adjustment that is allowed for barley under the Small Grains Crop Provisions.

Quality Adjustment

- **Special Provisions Contract Standards**
  - In accordance with section 6(b)(2) of the MBE, malting barley insured under a **malting barley price agreement**, <u>if rejected</u>, is eligible for quality adjustment if the production fails to meet one or more of the following quality requirements irrespective of the contract specifications in the malting barley price agreement.

	Six-rowed Malting barley	**Two-rowed Malting Barley**
Protein (dry base)	14.0% maximum	13.5% maximum
Plump Kernels	70.0% minimum	75.0% minimum
Thin Kernels	10.0% maximum	10.0% maximum
Germination	96.0% minimum	96.0% minimum
Blight Damaged	4.0% maximum	4.0% maximum
Injured by mold	5.0% maximum	5.0% maximum
Mold Damaged	0.4% maximum	0.4% maximum
Injured by sprout	1.0% maximum	1.0% maximum
Injured by frost	5.0% maximum	5.0% maximum
Frost damaged	0.4% maximum	0.4% maximum
DON	1.5 ppm maximum	1.0 ppm maximum

Quality Adjustment

- Eligible contracted malting barley production rejected by the buyer in accordance with the terms of the MBE is reduced by:
  - Multiplying the amount of such production by the applicable harvest price of barley from the **CEPP** divided by the harvest price determined in accordance with **section 4 of the MBE**.
  - This applies for both yield and revenue protection for purposes of quality adjustment on eligible rejected production only.
  - Does not apply to acreage insured under a malting barley seed contract.

Quality Adjustment

One Important Exception

- On occasion a buyer will accept production that fails to meet the standards of the malting barley contract or a malting barley price agreement (or Special Provisions) at a reduced price because supplies are low.
- In these cases, eligible malting barley production that fails to meet the standards applicable to a malting barley contract or a malting barley price agreement (or Special Provisions) and is accepted by the buyer at a purchase price lower than the contract price will be reduced by multiplying the amount of such production by the purchase price divided by the contract price.

Quality Adjustment

Exception Example:

- A buyer rejected 1,000 bushels of harvested production because it failed one or more of the quality standards applicable to the contract but decided to accept the production at a purchase price lower than the contract price.
  - The 1,000 bushels will be reduced by multiplying the amount of rejected production by the purchase price divided by the contract price. The contract price for the contracted malting barley acreage is $8.00 + (-$1.50) = $6.50 per bushel. The purchase price agreed upon by the buyer is $5.75 per bushel.

- The adjusted quantity or production to count is 1,000 bushel x ($5.75 ÷ $6.50) = 884.6 bushels.

Quality Adjustment

Additional Verification

- Paragraph 28 A of the Insurance Standards Handbook provides a number of criteria for verifying rejection of malting barley.
- Section 8(c)(5) of the MBE also provides that: *We may, at our sole discretion, submit samples of any rejected production to any grain grader or laboratory of our choice for verification that the deficiencies, substances, or conditions causing rejection do fail to meet the specifications contained in the malting barley contract or the Special Provisions.*

Quality Adjustment

Appraised Production

- For any acreage that is appraised BEFORE the grain is mature, the entire appraisal will be counted.
- Any acreage that is appraised AFTER the grain reaches maturity may be adjusted as specified in section 8(a)(5) of the MBE.

Quality Adjustment

Farm Stored Production

- All samples of farm stored production used to determine insurable quality deficiencies under this endorsement must be obtained in accordance with the Quality Adjustment Statements of the Special Provisions, but not later than 90 days after the end of the insurance period, otherwise such production will not be adjusted for quality.
- These samples will be sent to the buyer for grading. Samples MUST be graded within 90 days after the end of the insurance period.
- Any rejections due to deterioration after the end of the insurance period are not insured causes of loss.

Disposition of the Crop

- Notwithstanding the AIP's initial acceptance of the buyer's decision to reject certain production and payment of an indemnity, the insured must document to the AIP the ultimate disposition of the production on or before the spring sales closing date for the next crop year.
  - If the insured retains any insured production after this date, the AIP may defer this requirement until such a time as the insured disposes of the production.
  - Such production will not be eligible for the quality adjustment described in section 8(a)(5) of the MBE if the insured fails to provide such documentation or if the documentation demonstrates the production was sold or used for any purpose other than livestock feed.
    - Any indemnity previously paid will be recomputed accordingly and the insured must repay the amount of any indemnity the AIP determines to have been overpaid.

Disposition of the Crop

- Acceptable evidence of ultimate disposition is a bill of sale from a disinterested third party that is not involved in the procurement of barley for malting purposes.
- The bill of sale must include the quantity sold and the amount paid for the production.
- If the insured fed such production to livestock they own, there must be evidence that the total quantity of barley used for the livestock operation at least equals the quantity in question.

Conditioning

- If the malting barley initially fails any quality standards in the MBE but is conditioned and accepted by a buyer the cost incurred for the conditioning may be allowed, provided the failure of such production to meet the standards is due to insurable causes of loss.

Conditioning

EXAMPLE:

- It cost $90.00 to condition 1,000 bushels of production. The insured sold 900 bushels of conditioned malting barley. The conditioning cost per bushel is ($90.00 ÷ 1,000 bushels) = $0.09 per bushel.
- The conditioning cost per bushel is subtracted from the harvest price for the insured malting barley.
- The harvest price for the insured malting barley from the MBE is $7.41.
- Harvest price minus average conditioning cost = $7.32.

Conditioning

EXAMPLE:

- The cost of conditioning cannot exceed the discount the insured would have received had they sold the barley without conditioning.
  - For example, if the price per bushel of the production without conditioning is $6.40 and the price for such production after conditioning is $6.50, the cost of conditioning cannot exceed $0.10 per bushel.

Conditioning

- EXAMPLE (cont.):
  In the case of conditioning, the total amount of production to count is determined as follows: Assume that 900 out of 1,000 bushels delivered were conditioned. The barley harvest price from the CEPP is $5.50 and the harvest price determined in accordance with section 4 of the MBE is $7.41.

  (1) Damaged production that is not reconditioned: 100 bushels x $5.50 ÷ $7.41 = 74 bushels.

  (2) Damaged production that is reconditioned and sold as malting barley: 900 bushels X $7.32 ÷ $7.41 = 889.1 bushels.

  (3) Total production to count against the malting barley guarantee: 963.1 bushels (74 + 889.1).

Claim Examples

Example 1

- The insured has a malting barley contract for delivery of 5,000 bushels of malting barley. The malting barley contract provides premium amount of minus $1.50 per bushel. The approved yield for the malting barley type database is 60 bushels per acre, the share is 1.000 and the insured plants 90 acres to malting barley.
- The contracted acres are the lesser of the 5,000 bushels divided by 60 bushels (APH Yield) or the 90 planted acres.
  - The result of this comparison is (5,000/60) 83.3 acres of contracted acres.
  - The remaining 6.7 acres are non-contracted acres and must be insured at the barley projected price from the CEPP.

Example 1

- The base price is not available by the acreage reporting date. The projected price for wheat (see section 10 of the MBE) is $8.00 per bushel.
  - The contract price for the contracted malting barley acreage is $8.00 + (-$1.50) = $6.50 per bushel.
  - The projected price for barley in accordance with the CEPP is $5.25.
- Because the insured has both contracted and non-contracted acres in the unit, the weighted average projected price for the 90-acre unit planted to malting barley is determined as follows:

  (83.3 acres x $6.50 + 6.7 acres x $5.25) ÷ 90 acres

  ($541.45 + $35.18) ÷ 90 acres = **$6.41 per bushel**.

Example 1

- The insured chose revenue protection at the 70 percent coverage level. The initial revenue guarantee is:
  60.0 bushels per acre x 0.70 x $6.41 = $269.22 per acre x 90.0 acres x 1.000 share = **$24,229.80**.
- The harvest price for wheat (section 10 of the MBE) is $9.00 per bushel. The harvest price for the insured's malting barley is determined as follows:
  $6.41 - $8.00 = minus $1.59 per bushel
  $9.00 - $1.59 = $7.41 per bushel
- The final revenue guarantee is 60 bushels per acre x 0.70 x max($6.41 projected price, $7.41 harvest price) = $311.22 per acre x 90 acres x 1.000 share = **$28,009.80**

Example 1

- Due to drought, only 3,000 bushels are produced, all of which are accepted by the buyer.
- The indemnity is determined as follows:

  (1)The revenue protection guarantee is (60 bushels per acre x 0.70 x max ($6.41, $7.41)) = $311.22 per acre; $311.22 per acre x 90.0 acres = $28,009.80.

  (2) The revenue guarantee for the unit is $28,009.80.

  (3) Revenue to count = 3,000 bushels x $7.41 per bushel = $22,230.00;

  (4) There is only one type; thus the total value of the production to count is $22,230.00;

  (5) $28,009.80 - $22,230.00 = $5,779.80 and

  (6) $5,779.80 x 1.000 (share insured) = **$5,780** indemnity.
-

Example 2

- Using the same scenario with the exception that production to count is 5,000 bushels, of which the buyer rejects all of it due to an insurable cause. The revenue guarantee for the purpose of determining the loss is unchanged.
- The 5,000 bushels of rejected production are also eligible for quality adjustment for failing to meet the contract specifications in accordance with the MBE and for grading at U.S. No. 5 Barley in accordance with the Small Grains Crop Provisions, all due to weather.

Example 2

- The harvest price for barley according to the CEPP is $5.50.
  - The adjusted quantity under the MBE is 5,000 bushel x ($5.50 ÷ $7.41) = 3,711.2 bushels.
  - The additional adjusted quantity (Small Grains Crop Provisions) is (1 – 0.262) for grading US No. 5.
- Total production to count:
  - 3,711.20 adjusted bushels under MBE X (1 – 0.262) = 2,738.9 bushel.

Example 2

- To calculate an indemnity (following the steps specified in the Small Grains Crop Provisions):
  – The revenue guarantee is $28,009.80;
  – 2,738.9 bushels x $7.41 = $20,295.25;
  – The value of the production to count is $20,295.25;
  – $28,009.80 - $20,295.25 = **$7,715** indemnity payable.

Questions

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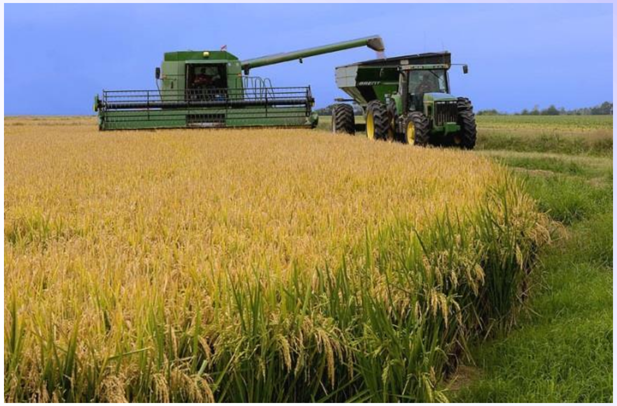

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