

# Malt Barley Endorsement – A New Insurance Product for 2016

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GENERAL BACKGROUND INFORMATION

NORTH DAKOTA BARLEY COUNCIL – SEPTEMBER 2015



# History

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Submitted to Federal Crop Insurance Corporation (FCIC) by Watts and Associates and the North Dakota Barley Council.

Malt Barley Endorsement (MBE) is a private submission.

Approved for deployment in 2016 by USDA-RMA.

Replaces the existing Malt Barley Price and Quality Endorsement product.

# Key Updates in MBE

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Insures malting barley as malting barley.

- 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 insured's Malting Barley Contract, Malting Barley Price Agreement, or Malting Barley Seed Contract under the terms of the MBE.

# Eligibility Requirements

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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

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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

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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, the purchase price or a method to determine such price; and establish the obligations of each party to the agreement.

# Contracts

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## **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

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**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.



# Varieties, Units, and Coverage

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## Varieties

- Varieties approved by American Malting Barley Association are eligible for coverage.
- Any variety grown under the terms of a malting barley contract is allowed.

## Unit Structure

- MBE allows for basic, optional, and enterprise units.
- Whole Farm Units are not allowed.

Coverage available in 5% increments from 50% to 85%.

# 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 Commodity Exchange Price Provisions (**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 with added coverage 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 producer chooses 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.

# Insurable Causes of Loss

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## UNDER A MALTING BARLEY CONTRACT

- 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.

## UNDER A MALTING BARLEY PRICE AGREEMENT

- 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

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## UNDER A MALTING BARLEY SEED CONTRACT

- 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

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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.

Price discovery periods are as follows:

- Fall planted malting barley: August 15 – September 14 of the calendar year preceding the crop year.
- Spring planted malting barley: February 1 through the last calendar day of February of the calendar year of the crop year.
- Harvest price discovery period for all malting barley types is August 1 – August 31 of the calendar year of the crop year.

# Quality Adjustment

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## **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

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## **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.

# Summary

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## **KEY FEATURES OF MBE**

Insurance rating was based upon buyer experience. Approximately 170,000 truckload level observations were obtained from the malting industry.

Insures malting barley based upon production contract specifications.

Pricing is based upon the price in the malt barley contract, or via correlation with a wheat futures market (for non-contracted production).