

# 2011 BARLEY CROP INSURANCE COVERAGE OPTIONS: Fact Sheet for PNW Barley Producers

By Kellen Corbett

**Spring Barley: Sales closing date 3/15/2011  
Acreage reporting date 6/30/2011**

**Multi-Peril Crop Insurance (MPCI)** – provides protection against weather-related production losses, with coverage options from 50 to 85% of the producers actual production history (APH) average yields.

**Producers now have three choices under one insurance plan:**

• **Yield Protection**

Insurance coverage only providing protection against a production loss. The production guarantee is based on the projected price (Approved APH yield X Coverage level X Projected price). Production to count is based on the projected price.

• **Revenue Protection**

Insurance coverage providing protection against loss of revenue due to a production loss, price decline or increase, or a combination of both. The revenue guarantee is based on the greater of the projected or harvest price (Approved APH yield X Coverage Level X Greater of the Projected Price or Harvest Price). Production to count is based on the harvest price

• **Revenue Protection with Harvest Price Exclusion**

Insurance coverage providing protection only against loss of revenue due to a production loss, price decline or a combination of both. The revenue guarantee is based on the projected price only (Approved APH yield X Coverage Level X The Projected Price). Production to count is based on the harvest price

**Price Determination:** Both the Revenue and Yield Protection plans will use the Chicago Board of Trade Corn Futures Contract to derive the projected price used to establish the insurance guarantee and premium for the crop and the harvest price used to value production to count under the Revenue Protection Plan. This pricing method is new to policies converting from the APH plan to the Yield Protection plan. These prices are adjusted for barley based on a factor determined by RMA that will be published ahead of the sales closing date. The factor will be based on the historical relationship of the corn futures contract price and the season average cash price for barley. The deadline for the factor is the first day of the discovery period – which is when it will appear on the price discovery page.

**The Commodity Exchange Price Provisions (CEPP)** contains information necessary to derive the projected price and the harvest price for the insured crop, as applicable. This information includes the price discovery period, release dates, board of trade's utilized, and additional pricing information. It is available

at your agent's office and at the RMA web site: <http://www.rma.usda.gov>.

**Malting Barley:** There are 3 ways to insure malting barley:

- Under a yield protection policy or revenue protection policy based on a price election published by RMA or calculated in accordance with Commodity Exchange Price Provisions (CEPP).
- Under yield a protection or revenue protection policy with added protection provided in accordance with the Malting Barley Price and Quality Endorsement. In this case, the prices are used to determine the coverage under the Small Grains Crop Provisions as stated above, plus an additional value price determined in accordance with the Endorsement.
- Under a yield protection policy based upon a price contained in a production contract (specialty malting type).

**Malting Barley Price and Quality Endorsement (MBPQE)**

MBPQE provides supplemental coverage for malting barley in addition to the coverage provided for barley by the Small Grains Crop Provisions.

Two malting barley coverage options are available under the MBPQE, Option A and Option B.

**Option A** provides supplemental coverage for insured's that grow approved malting barley varieties, with or without a malting barley contract(s), or a malting barley price agreement.

**Option B** provides supplemental coverage for insured's that grow approved malting barley varieties under malting barley contract(s) only.

Option A or B must be elected by indicating the option selected on the Application (new insured's) or Policy Change (carryover insured's).

**MBPQE Changes for 2011:**

For counties with both fall and spring Sales Closing Dates (SCD), producers may elect this endorsement until the spring SCD only if they don't have any fall planted acreage of approved malting varieties.

If production is retained past May 31 of the year following the insured crop year, the claim may be deferred until the disposition of the production if the insured agrees, or if the insured does not agree the claim will be settled with no adjustment for quality.

Any damaged production sold for any use at a price greater than the projected price will be production to count.

**Option A** – Added provisions to allow the additional value price to be determined based on

a contract price contained in a malting barley contract or price agreement, and to limit the additional value price to no more than \$1.25.

**Option B** – Insured's need to provide malting barley contracts and sales records to show at least 75% of the contracted amount of production was produced in 1 of the last 3 crop years in which malting barley was planted.

**COVERAGE EXAMPLES:**

**Yield Protection and Revenue Protection:**

Assume: 50 acres of barley have been planted with an approved yield of 60 bu/A and a production guarantee of 45 bu/A at the 75% coverage level. The projected price is \$3.02. The harvest price is \$3.14. Actual production is 2,000 bu.

**Yield Protection:**

Value of production guarantee:

50 acres X 45 bu/A X \$3.02 = \$6,795

Number of acres X Bushel protection guarantee X Projected price = Value of production guarantee

Value of the production to count:

2,000 bu X \$3.02 = \$6,040

Number of bushels produced X Projected price = Value of the production to count

Indemnity:

\$6,795 - \$6,040 = \$755

Value of production guarantee – Value of the production to count = Indemnity

**Revenue Protection:**

Value of revenue protection guarantee:

50 acres X 45 bu/A X \$3.02 = \$6,795

Number of acres planted X Bushel production guarantee X Projected price = Value of revenue protection guarantee

Value of production to count:

Recalculate guarantee because harvest price is greater than the projected price.

50 acres X 45 bu/A X \$3.14 = \$7,065; THEN

2,000 bu X \$3.14 = \$6,280

Number of bushels produced X Projected price = Value of the production to count.

Indemnity:

\$7,065 - \$6,280 = \$785

Value of revenue protection guarantee – Value of production to count = Indemnity

**Revenue Protection With the Harvest Price Exclusion\*\*:**

Value of revenue protection guarantee:

50 acres X 45 bu/A X \$3.02 = \$6,795

Number of acres planted X Bushel production guarantee X Projected price = Value of revenue guarantee

Value of production to count:

2,000 bu X \$3.14 = \$6,280

Number of bushels produced X Harvest price = Value of production to count

Indemnity

\$6,795 - \$6,280 = \$515

Value of revenue protection guarantee – Value of production to count = Indemnity

\*\*If the harvest price exclusion is elected, the revenue protection guarantee is only multiplied by your projected price, providing protection only against loss of revenue due to a production loss, price decline, or a combination of both.

**Specialty Malting Type:**

Assume: 50 acres of specialty malting type barley has been planted with a production guarantee of 45 bu/A. The projected price is \$3.02. The harvest price is \$3.14. The actual production is 2,000 bu. The producer has a malting barley contract for \$4.00 bu.

**Yield Protection:**

Value of production guarantee:

50 acres X 45 bu/A X \$4.00 = \$9,000

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## COVERAGE EXAMPLES *continued*

Number of acres planted X Bushel protection guarantee X Contract price = Value of production guarantee

Value of production to count:

2,000 bu X \$4.00 = \$8,000

Number of bushels produced X Contract price = Value of production to count.

Indemnity:

\$9,000 - \$8,000 = \$1,000

Value of production guarantee – Value of production to count = Indemnity

### Coverage Examples With a Malting Barley Endorsement:

**Option A:** Assume: 400 acres of barley has been planted, 200 acres of an approved malting variety of barley and 200 acres of feed barley. The APH on the feed barley is 55 bu/A, and the APH for the malting variety barley is 52 bu/A. The malting barley price agreement is to sell 5,720 bu for \$2.72 per bu. The projected price is \$1.92 and the added value for the barley grown under the price agreement is \$0.80. The additional value in the actuarial documents is \$0.40 (RMA's price for production not under contract or price agreement.) Total production on 200 acres of malting barley is 7,250 bu, all of which fails to meet quality standards. Consequently, 4,750 bushels are sold at \$2.31. After conditioning, at a cost of \$0.05 per bushel, an additional 2,500 bushels are sold at \$2.20 per bushel.

#### Amount of bushels eligible for coverage:

The amount of bushels eligible for coverage is determined by the lesser amount of bushels created by these two equations.

$5,720 \times 75\% = 4,290$  bu eligible for coverage

Amount of bushels grown under price agreement X Selected insurance coverage level

OR:  $200 \times 39^* = 7,800$  (52 bu/A X 75% = 39\*)

Number of acres planted of approved malting barley X Bushel production guarantee

#### Amount of insurance protection for bushels grown under malt agreement:

$4,290 \text{ bu} \times \$0.80 = \$3,432.00$

Amount of bushels eligible for coverage X Additional value price = Amount of insurance protection for bushels grown under malt barley price agreement

#### Amount of insurance for bushels not grown under the malt barley price agreement:

$7,800 \text{ bu} - 4,290 \text{ bu} \times \$0.40 = \$1,404$

Total malt barley production – Bushels covered using the additional value price from the price agreement x Additional value price from the actuarial documents

#### Total Amount of insurance protection:

$\$3,432 + \$1,404 = \$4,836$

Total amount of insurance protection under malt barley agreement + Total amount of insurance for bushels not grown under malt barley price agreement

#### Determination of total production to count:

##### Damaged Production that is not reconditioned:

$\$2.31 - \$1.92 = \$0.39$

Sale price per bushel – Projected price

$\$0.39 \div \$0.62 = .63$  [ $\$4,836 \div 7,800 = .62$ ]

Difference in price ÷ Weighted average of additional value price = Factor

$\$0.63 \times 4,750 \text{ bu} = 2,993$  bu to count

Factor X Number of damaged bushels sold @ \$2.31

##### Damaged production that is reconditioned:

$\$2.20 - \$1.92 = \$0.28$

Price per bushel of damaged production – Projected price

$\$0.28 - \$0.05 = \$0.23$

Difference in price – Reconditioning costs

$\$0.23 \div .62 = .37$

Factor ÷ Weighted average of additional value price

$.37 \times 2,500 \text{ bu} = 925$  bushels to count

Factor X Number of bushels of damaged production sold

##### Total production to count:

$2,993 \text{ bu} + 925 \text{ bu} = 3,918$  bu

Damaged production sold that was not reconditioned +

Damaged production that was sold and reconditioned =

Total production to count

##### Value of production to count:

$3,918 \text{ bu} \times \$0.80 = \$3,134$

Total bushels of production to count X Additional price value

= Value of production to count

##### Indemnity:

$\$4,836 - \$3,134 = \$1,702$

Total amount of insurance protection for the unit – Value of production to count = Indemnity

### Coverage Examples With a Malting Barley Endorsement:

**Option B:** Assume: 400 acres of barley has been planted, 200 acres of an approved malting variety and 200 acres of feed barley. The APH on the feed barley is 55 bu/A, and the APH for the malt barley is 52 bu/A. There is a malting barley contract for the sale of 10,000 bu at \$2.60 per bu. The projected price for the feed barley is \$1.92 per bu. The additional value price per bushel for production grown under the contract is \$0.68. Total production from the 200 acres of malting barley is 7,250 bu, all of which fails to meet quality standards contained in the malting barley contract. Consequently, 4,750 bu are sold at \$2.31 per bu, and after conditioning, at a cost of \$0.05 per bushel, the remaining 2,500 bu are sold at \$2.20 per bu.

#### Amount of insurance protection:

The amount of insurance protection is determined based upon the lesser amount of bushels created by the following equations:

$55 \text{ bu/A} \times 75\% = 41.3$  bu

Approved yield protection for feed barley X Percentage of insurance coverage selected = Amount of insurance protection

OR

$10,000 \text{ bu} \div 200 \text{ acres} = 50 \text{ bu}$  [ $50 \text{ bu} \times 75\% = 37.5 \text{ bu}$ ]

Number of bushels contracted ÷ Number of acres planted =

Number of bushels then multiply: Number of bushels X

selected coverage level = Amount of insurance protection

$37.5 \text{ bu} \times 200 = 7,500$  bu

The lesser total from equations X Number of acres of malt barley planted = Total malting barley production guarantee.

#### Total Amount of insurance protection:

$7,500 \text{ bu} \times \$0.68 = \$5,100$

Malting barley production guarantee X Additional value

price = Total amount of insurance for the unit

#### Amount of production to count:

##### Damaged production not reconditioned:

$\$2.31 - 1.92 = \$0.39$

Price per bushel that damaged barley is sold for –

Projected price for feed barley = Factor

$\$0.39 \div \$0.68 = .57$

Factor ÷ Additional price value = New factor

$.57 \times 4,750 \text{ bu} = 2,708$

New factor X Number of bushels sold @ \$2.31 = Amount of production to count

##### Damaged production that is reconditioned:

$\$2.20 - \$1.92 = \$0.28$

Price per bushel that damaged barley is sold for –

Projected price for feed barley

$\$0.28 - \$0.05 = \$0.23$

Subtract Reconditioning costs per bu.

$\$0.23 \div \$0.68 = \$0.34$

Factor ÷ Additional value price = New Factor

$\$0.34 \times 2,500 \text{ bu} = 850$

New Factor X Number of damaged production sold

@ \$2.20 = Amount of production to count

##### Total production to count:

$2,708 + 850 = 3,558$

Total production to count of non-conditioned damaged

production + Total production to count of conditioned

damaged production = Total production to count.

##### Value of production to count:

$3,558 \times \$0.68 = \$2,419$

Total bushels to count X Additional value amount = Value of

production to count

##### Indemnity:

$\$5,100 - \$2,419 = \$2,681$

Total amount of insurance protection – Value of production

to count = Indemnity

Kellen Corbett, a third-year law student at Gonzaga University in Spokane, WA, was an intern with the USDA Risk Management Agency's regional office in Spokane this past summer. Kellen is the oldest son of Craig and Dawn Corbett, barley farmers in Grace, ID. Kellen is a 2004 graduate of Grace High School and a 2008 graduate of Westminster College in Salt Lake City, UT. His interests include insurance law, golf, Gonzaga basketball, along with all other sports. Kellen would like to thank Dave Paul, Jon Burcham, and Rick Williams of the Spokane regional office for all of their help on this project. This fact sheet was created to notify and help explain the new changes the Combo Insurance policy will have on barley producers beginning in 2011.