Malting Barley Endorsement

How does the Malting Barley Endorsement (MBE) change how I can insure my malting barley?

If you insure your malting barley under the MBE, coverage includes additional quality protection for malting barley acreage that is already insured under the Small Grains Crop Provisions. The quality protection is based on the specifications from the malting barley contract or in the Special Provisions if the malting barley is insured under a price agreement. The MBE incorporates projected and harvest prices, based on your malting barley contract, seed contract or price agreement, instead of using projected and harvest prices from the Commodity Exchange Price Provisions (CEPP) which indexes barley to corn using current-year corn futures prices and historical barley/corn price ratios to establish prices for barley.

Are there any special eligibility requirements to obtain the MBE?

Yes, to be eligible for the MBE, you must:

- Have an executed malting barley contract, or seed contract, or price agreement;
- Elect the MBE by the sales closing date; and
- Comply with all terms and conditions of the MBE in addition to the Basic Provisions and the Small Grains Crop Provisions.

Is MBE available under the catastrophic (CAT) level of coverage?

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).

Can a policyholder who does not contract directly with a malting barley company purchase MBE? If yes, are there any special requirements or differences?

Yes; however, to be eligible, you must have an agreement in writing that meets the requirements contained in the definition of “malting barley price agreement”. Eligible contracts for MBE include a malting barley contract, malting barley price agreement or a malting barley seed contract. All three are defined in the MBE. The MBE works differently, depending on the type of contract. For example, quality specifications for purposes of whether the acreage is eligible for quality adjustment under a malting barley price agreement are detailed in the Special Provisions versus the specifications in the price agreement. There is NO additional quality coverage under the MBE for acreage insured under a malting barley seed contract.

Can I pick and choose what acreage I wish to cover under MBE?

No, all acreage in the county planted to malting barley that is insurable under the Small Grains Crop Provisions must be insured under the MBE. One exception to this would be if you (in accordance with the Basic Provisions) took out the high-risk land exclusion. In that case, your acreage, so designated, would not be covered under the MBE.

Are there any restrictions on the malting barley varieties that can be insured under the MBE?

Yes, approved malting barley varieties include all varieties recommended 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. However, section 8(b)(5) of the Basic Provisions excludes acreage 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.

The previous Malting Barley Price and Quality Endorsement insured all malting barley acreage in the county as one basic unit regardless of how the underlying coverage was insured. Does the MBE work the same way?

No, the unit choices follow the underlying coverage. The additional quality protection provided by the MBE extends to each unit of malting barley insured under the Small Grains Crop Provisions. Therefore, you can elect basic, optional, and enterprise units under the Small Grains Crop Provisions and extend the additional malting barley coverage on units of the malting barley type in accordance with the MBE. However, if your underlying policy is insured under a whole farm unit, then the MBE is not available because whole farm units are not available for MBE.

Are there any special Actual Production History (APH) rules for establishing the approved yield for malting barley databases under the MBE?

Approved yields are based on a malting barley type database following standard APH rules. The approved yield includes all planted acres and all production from the insured malting barley acres in the unit, the same as for any other APH database.

If production is quality adjusted on a claim for indemnity according to the MBE, what production will be used for APH purposes?

The production to count as determined on the claim for indemnity in accordance with the Small Grains Crop Provisions and MBE is used for APH purposes.

Do I have to provide the Approved Insurance Provider (AIP) with any more information than I would if I simply elected to insure their malting barley under just the Small Grains Crop Provisions?

Yes, you must provide copies of all contracts on or before the acreage reporting date applicable for the insured acres.

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.

No minimum requirement for contracted acres is specified and the contract(s) is(are) not required to include all planted acreage of malting barley in which you have a share. Planted acreage that exceeds the number needed to produce the contracted quantity also is insurable under the MBE.

What are the main differences among the "eligible contracts"?

Descriptions of the document types, listed below, highlight the main differences between eligible types of contracts.

Malting barley contract: Must be in writing 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, and that has one or more qualified representatives at the point where the contracted malting barley is received from you.

The contract must specify the amount of contracted production and specify the purchase price or a method to determine such price, and establish the obligations of each party to the agreement.

The quality specifications in the malting barley contract are used to determine if your production qualifies for quality adjustment in accordance with the MBE.

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 contracts to purchase malting barley production.

The quality specifications in the Special Provisions are used to determine if your production qualifies for quality adjustment in accordance with the MBE.

Malting barley seed contract: A document in writing between you and a buyer under which you agree to produce malting barley seed and that meets all the conditions to otherwise be considered a malting barley contract. Rejection of production is not an insured cause of loss for a malting barley seed contract.

What if the buyer's contract does not contain the names of each producer whose production will be accepted under the malting barley contract?

For the crop to be considered as being under contract in most instances, the contract must contain the name or names of each individual whose production will be accepted under the malting barley contract. However, in some cases a person’s name may not be listed on the contract even though their share of the production is considered to be under contract by the buyer. In these instances, if the AIP can verify that the production will be accepted under the contract, then the AIP can consider all production under this contract as insurable. Verification that the production is under contract should be documented and maintained in the insurance file.

How does the MBE work if I have a malting barley seed contract?

Your malting barley seed acreage can be insured based on the contract price in the malting barley seed contract in accordance with the MBE. You are able to insure your malting barley seed acreage under a YP or RP policy. Rejection of production is not an insured cause of loss for a **malting barley seed contract** but you are able to insure your seed acreage using the contract price in the malting barley seed contract.

What if I have more than one eligible contract for my malting barley acreage insured in the county?

If there are multiple malting barley contracts, a weighted average of the contract prices is determined for each unit:

- 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.

What if I have contracted and non-contracted acres of malting barley? Are they eligible and if so, how is the projected price determined?

Yes, they are eligible. If eligible for MBE, all malting barley acres planted in the county must be insured under the MBE, if it is elected. Many malting barley contracts are production-based, so often times you may end up with more acres planted than needed to fulfill the contract(s).

If there are both contracted and non-contracted acres, a weighted average projected price must be calculated on a unit basis:

- Multiply the contracted acreage by the 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 applicable unit.

How is the projected price established for malting barley insured under the MBE?

The projected price is established differently depending on the type of contract.

- **Fixed Price Contract** – a contract that includes a contract price that is established on or before the acreage reporting date.

  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.

  The contract states that the price to be paid to you is $6.00 per bushel.
  Projected price = $6.00

- **Basis Price 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.

  Basis Price Contract Example: If the contract provides for a premium amount (assume minus $1.00 (-$1.00) per bushel) 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.

  If the base price is not determined by acreage reporting date, the projected price for MBE, which is based off soft red winter wheat prices determined according to section 10 of the MBE, will be used as the base price.

  Basis Price Contract Example 1:
  You choose to price the contract on February 28.

The closing price for soft red winter wheat on that date is $5.50 per bushel. The base price for that malting barley contract is $5.50.

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

In this case $5.50 base price - $1.00 (premium amount) = $4.50 per bushel.

Basis Price Contract Example 2:
Same scenario, but now assume you have 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 $5.75 per bushel.

The base price is $5.75 - $1.00 (premium amount) = $4.75 per bushel.

Price fluctuation for RP or RPHPE is determined using the Chicago Board of Trade’s soft red winter wheat (CBOT SRWW) September contract pertaining to the crop year (discovery periods shown below).

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 February 28 of the calendar year of the crop year.

Is there a cap on the projected 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.

How is the harvest price established for malting barley insured under the MBE?

The harvest price discovery period for all malting barley types is August 1 through August 31 of the calendar year of the crop year.

For RP, the harvest price is determined by subtracting the projected price for CBOT SRWW in accordance with section 10 of the MBE from the projected price determined in section 4(a) (Malting Barley Contract Price), and adding that result to the harvest price for CBOT SRWW in accordance with section 10 of the MBE.

For YP, the harvest price is the projected price as there is no price change coverage.

- RP Example:

  Assume your malting barley contract provides premium amount of minus $1.00 per bushel.
  The base price is not available by the acreage reporting date.
  The projected price for soft red winter wheat is $5.75 per bushel.
  The projected price for the contracted malting barley acreage is $5.75 + (-$1.00) = $4.75 per bushel.
  The harvest price for the soft red winter wheat (in accordance with section 10 of the MBE) is $6.50 per bushel.

  - The harvest price for malting barley under MBE is:
  - $4.75 per bushel - $5.75 per bushel = -$1.00 per bushel.
    $6.50 per bushel - $1.00 = $5.50 per bushel harvest price.

Could you provide an example showing an insurance guarantee and indemnity calculation?

Below is an example outlining how the insurance guarantee and indemnity are calculated.

Guarantee Calculation Example

- Assume the malting barley APH is 60 bushels per acre. The projected price is established as $6.00 per bushel based on the terms of the producer's contract(s) and the insurable planted acreage.

  The insured chooses the 70 percent coverage level and reports 100 acres in the county. Share is 100 percent. Additionally, assume planted acres are equal to contracted acres, wherein contracted acres are calculated by dividing the contracted quantity of malting barley by the approved yield.

  The guarantee is calculated as APH x Coverage Level x Projected Price x Acres x Share. The guarantee for malting barley is 60.0 x 0.70 x $6.00 x 100 acres x 1.000 share = $25,200.

Indemnity Calculation Example

- Assume the production to count for 100 acres of malting barley is 3,000 bushels. The projected price for malting barley is $6.00 and the harvest price is calculated as $5.00. The indemnity will be determined as follows.

  The guarantee for yield protection is APH x Coverage Level x Projected Price x Acres x Share = 60 bushels x 0.70 (coverage level) x $6.00 x 100 acres x 1.000 share = $25,200.

  The harvest guarantee for revenue protection is APH x Coverage Level x max (projected price, harvest price) x Acres x Share = 60 bushels x 0.70 (coverage level) x max ($6.00, $5.00) x 100.00 acres x 1.000 share = $25,200.

  The value of production to count for yield protection = Production to Count x Projected Price = 3,000 x $6.00 = $18,000.00.

  The value of production to count for revenue protection = Production to Count x Harvest Price = 3,000 x $5.00 = $15,000.00.

  The indemnity for yield protection is (Guarantee – Value of Production to Count) x Share = ($25,200 - $18,000.00) x 1.000 = $7,200 indemnity.

The indemnity for revenue protection is (Revenue Guarantee – Value of Production to Count) x Share = ($25,200 - $15,000.00) x 1.000 = $10,200 indemnity.

Does the malting barley have to be rejected by the buyer to be eligible for additional quality coverage under the MBE? If so, are there any differences among the three types of contracts?

Production must be rejected, or not accepted at the contract price, by the buyer to be eligible for quality adjustment under the MBE. However, there are differences depending on what type of contract you have.

If production is rejected, or not accepted at the contract price, coverage under a:

1) **Malting barley contract** is provided for failure to meet the standards contained in the contract.
2) **Malting barley price agreement** is provided for failure to meet the standards as specified in the Special Provisions regardless of the standards in the price agreement.
3) **Malting barley seed contract** is not provided for failure to meet the standards contained in the malting barley seed contract.

On occasion a buyer will accept production that fails to meet the standards of the malting barley contract (or Special Provisions) at a reduced price because supplies are low. Does the MBE provide any coverage for this type of situation?

Yes, malting barley production that is accepted by a buyer at a purchase price lower than the contract price (discounted purchase price) will be reduced by multiplying the amount of such production by the greater of the local market price or discounted purchase price and dividing that result by the contract price.

How is production to count adjusted for quality when production is rejected by the buyer in accordance with the

specifications of either the malting barley contract or the Special Provisions in the case of a malting barley price agreement?

Eligible contracted malting barley production (under a malting barley contract or price agreement) is reduced by:

- Multiplying the amount of the rejected production by the local market price, as defined in the MBE, divided by the harvest price determined in accordance with section 4 of the MBE. This process compares the local market price with your contract price for the malting barley unit to arrive at the factor to adjust the production.

The above applies for both YP and RP for purposes of quality adjustment on eligible rejected production only.

There is NO additional quality coverage under the MBE for acreage insured under a malting barley seed contract.

Do the quality adjustment provisions of the Small Grains Crop Provisions also apply to acreage insured with the MBE?

Yes, production of malting barley that is eligible for quality adjustment under the MBE and all production under a malting barley seed contract are also eligible for quality adjustment under the terms of the Small Grains Crop Provisions. For example, if malting barley was rejected due to a low germination percentage, the quantity first can be reduced to account for the rejection. This reduction adjusts the quantity of the malting barley so that its value is equivalent to the price of “all other” barley. The premise of the quality adjustment for malting type barley is that, after the quality adjustment, the production now is suitable for sale as “all other” (feed) barley.

However, if the production does not meet the quality standards contained in the Special Provisions for barley, it fails to be marketable at the “all other” barley market price. The quality factors specified in the Special Provisions are intended to compensate for failure of barley production to meet the market standard for that price.

Is mature grain that is not harvested eligible for quality adjustment under the MBE?

Yes, any acreage that is appraised after the grain reaches maturity may be adjusted as specified in section 8(a)(5) of the MBE. The appropriate number of samples must be taken and analyzed by a qualified representative in accordance with the MBE. A qualified representative is an employee or agent of the buyer who has been trained in evaluating malting barley production to determine if such production meets the standards contained in a contract.

If all my production is not delivered or sold by the end of the insurance period, is it eligible for quality adjustment?

Yes, samples of farm stored production used to determine insurable quality deficiencies under MBE must be obtained 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 maltster for grading. All quality deficiencies based on the timely obtained samples must be determined no later than March 15 of the calendar year immediately following the calendar year in which the insured malting barley is normally harvested. Damage that occurs after the end of the insurance period is not covered.

If the harvested production is delivered to a buyer or put into commercial storage within 90 days after the end of the insurance period, samples to determine the quality deficiencies must be taken at time of the delivery to be eligible for quality adjustment as described in section 8(a)(5) of the MBE.

How does prevented planting work under the MBE?

Since all malting barley acreage is not required to be under contract to be insured, eligible prevented planting acres are determined in accordance with section

17(e)(1)(i) of the Basic Provisions. In short, the number of eligible acres will be the maximum number of acres certified for APH purposes, or insured acres reported, for the crop in any one of the four most recent crop years.

Prevented planting payments are based on the projected price as determined in section 4 of the MBE. Weighted average prices are all based on insurable planted acres, so prevented planting acres are not considered when calculating the weighted average projected price. Prevented planting coverage is 60 percent of the production guarantee for timely planted malting barley acreage.

Is there any follow-up verification necessary once a claim is settled based on rejected malting barley production?

Yes, notwithstanding the AIP's acceptance of the buyer's decision to reject certain production and payment of an indemnity, you 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 you retain any production is disposed of.

How does the MBE work if the quantity of malting barley that meets the terms of the malting barley contract can be increased by conditioning?

The AIP will compensate you for the cost of the conditioning but the payment for conditioning will not exceed the increase in the value of the production to count.