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MEMORANDUM RE CROP INSURANCE - CONTRACT PRICE ADDENDUM

Due to the severe restrictions on water allocations for many California producers, especially those served water from the Sacramento River/Shasta Dam, the Federal crop insurance program[1] which is administered by the Risk Management Agency ("RMA") of the United States Department of Agriculture is being closely examined by all growers, as it is their primary revenue source. On the administration side, the participation and premium payments that are being applied for will be closely scrutinized both under RMA's Large Claims procedure and Program Performance reviews. All producers should also be aware that if they "willfully and intentionally provides any false or inaccurate information to [FCIC] or to an approved insurance provider"[2] serious sanctions may be imposed.

As producers reviewed their crop insurance policies many saw for the first time the Contract Price Addendum as an approved program provision that could increase their indemnities if their contract price is greater than the expected price ($25.50). This provision has been available to all California rice producers for several years but was generally used only by organic producers. Fixed Price Contracts for commercial production before planting were rare, if any. Now, some producers who elected Contract Price Addendum on their insurance policies are considering its use.

The rules for adding the Contract Price Addendum to a yield protection crop insurance policy are:

1. The Contract Price Addendum applies to insured crops grown under contract with a buyer, executed on or before the ARD (Acreage Reporting Date – July 15, 2022), and in effect for the crop year. The insurance policy executed on or before SCD (Sales Closing Date – February 28, 2022) must elect "CP".
2. The Contract must contain:
   a. The Insured's commitment to plant, grow, harvest, and deliver an insurable crop to the buyer.
   b. The buyer's commitment to purchase the production stated in the contract at the contract price.
   c. The contract identifies the specific crop, type, or variety.
   d. The contract must state the amount of production subject to the contract or a statement that the buyer will accept all production from a specified number of acres.
   e. The contract must state the price or a method to determine the contract price.

Producers who elected "CP" on their crop insurance policy in previous years will automatically have that election for the 2022 crop year. Given the uncertainty of the water supply for the 2022

[1] 7 U.S. Code §1508
[2] 7 U.S.Code §1508(h).

rice crop year, timing of the rice contract execution is critical. For the producers who in prior years elected "CP" and provide rice sale contracts that committed acres or production for at a price in 2022, the first question would be are the acres and rice types in the 2022 contract consistent with past practices? The next question that should be asked if when the producer signed the 2022 contract should they have known that due to the expected water cutbacks the contract includes acres that they could not expect to plant? If the answer is "yes," it is difficult to conclude that the contract should apply to all historically planted acres.

Producers who elect "CP" for the first time in 2022, must do so before Sales Closing Date, or February 28, 2022. Again, contract execution is critical. A grower who executed a contract in December 2021 following the record rainfall and snowfall could expect to produce and harvest the acreage covered by the contract. A contract executed in late February would be questionable since they should have known that due to the expected water cutbacks the contract should not include acres that they could not expect to plant.

All growers and agents should follow their common sense in deciding whether to submit to their insurer a rice purchase contract with a stated acreage or production and a buyer's commitment to purchase that production at a stated price. Since the date of contract execution is critical, the date should be double-checked and consistent with all communications between the insured and the insurer.

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Enclosures: (none)
cc: file