USDA United States Department of Agriculture

A Risk Management Agency Fact Sheet

Contract Price Addendum

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The Contract Price Addendum (CPA) allows you, as a certified organic or transitioning producer, who has a written contract from a buyer by the acreage reporting date, the ability to insure your crop at the contract price. You can buy a Federal crop insurance guarantee that is more reflective of the actual value of your certified organic crop or crop which is transitioning to organic. You will have the ability, where available and at your choice, to use either the contract price or the published RMA price as the crop insurance projected price or price election.

Contract Pricing Availability

If contract pricing is available for your crop, you may use your contract price to determine your projected price, harvest price, or price election, as applicable. A list of crops covered by the CPA is available at www.rma.usda.gov/news/currentissues/organics/cpa_eligibility.html.

Information on applying the CPA can be found in the actuarial and policy tools and documents below.

- For contract pricing and availability for a particular commodity type or practice, follow the prompts on RMA's Actuarial Information Browser at webapp.rma.usda.gov/apps/actuarialinformationbrowser/ and see the 'Prices' tab;
- For commodities that are insured using the Commodity Exchange Price Provisions (CEPP), CPA information can be found in the CEPP at www.rma.usda.gov/policies/cepp.html; and
- For commodities that do not have revenue protection insurance plans available, CPA information can be found in the Special Provisions of Insurance. Please ask your crop insurance agent for a copy of the Special Provisions of Insurance for your crop.

If a commodity type or practice allows or requires the use of a contract price through the Crop Provisions or Special Provisions of Insurance, the CPA is not applicable.

To choose contract pricing, you must select it by the sales closing date and provide a copy of the contract to your crop insurance agent by the acreage reporting date. CPA coverage continues while your insurance policy is active.

How to Use Your Contract Price

Methods to determine the contract price depend on which of the following plans of insurance apply to your crop.

Yield Protection or Actual Production History - If the contract provides a fixed price for the contracted production, the contract price will serve as the projected price or price election. If the contract provides for a premium amount over a base price to be determined and the base price is set on or before the acreage reporting date, then the contract price (premium plus the base price) is the projected price or price election.

If the contract provides for a premium amount over a base price to be determined and the base price is not available by the acreage reporting date, the projected price or price election is the sum of the premium amount and the applicable projected price or price election. For example, assume your contract specifies the price you will receive for your production is $2 per bushel over a base price. Your price election (base price) would be $10 per bushel if you did not choose to use the CPA, and therefore $12 per bushel ($10 + $2) if you choose to use the CPA.

Revenue Protection - If the contract provides a fixed price for the contracted production, the contract price under the CPA serves as the projected price. For example, assume your contract specifies the price you will receive for your contracted production is $10 per bushel. Your projected price is $6 per bushel, per the CEPP, if you did not choose the CPA. Under the CPA, your projected price is $10 per bushel, which is the contract price.

If the contract provides a fixed price for the contracted production, the harvest price under the CPA is the difference of the applicable projected price and the contract price added to the applicable harvest price. For example, assume if you did not choose the CPA, your harvest price is $5 per bushel, per the CEPP. Under the CPA, your harvest price is $9 per bushel ($10 - $6 + $5 = $9).

If the contract provides for a premium amount over a base price that is available by the acreage reporting date, as in the above example, the contract is considered to be a fixed price contract.

If the contract provides for a premium amount over a base price that will not be available until after the acreage reporting date, the projected price under the CPA is the sum of the premium amount and the applicable projected price. For example, assume your contract specifies the price you will receive for your contracted production is $4 per bushel over the base price and the base price will be determined after the acreage reporting date. Your projected price is $7 per bushel, per the CEPP, if you did not choose the CPA. Under the CPA your projected price is

$11 per bushel ($7 + $4). The harvest price is the sum of the $4 premium amount and the applicable harvest price. For example, assume if you did not choose the CPA, your harvest price is $8 per bushel, per the CEPP. Under the CPA, your harvest price is $12 per bushel ($8 + $4).

Limits and Maximum Prices

Each contract price will have an upper limit, referred to as the maximum contract price, which can vary by crop. Most crops have a maximum value of 2 times the announced conventional price election or 1.5 times the announced premium organic price election. You can find the maximum contract price under the 'Prices' tab of the Actuarial Information Browser at webapp.rma.usda.gov/apps/actuarialinformationbrowser/.

More than One Contract Price

If you have multiple contracts with different prices for the commodity type or practice, a weighted average projected price or price election under the CPA is calculated by:

- Multiplying the acreage for each contract by the contract price; and
- Dividing the results by the total acres of all the contracts. Each contract price is subject to the maximum contract price. For example, assume there are 50 total acres of a commodity. There are two fixed price contracts that cover all of the production from the 50 acres.

One contract is for 25 acres of production at $7 per bushel and the second contract is for 25 acres of production at $8 dollars per bushel.

Step 1 $(25 \times \$7) + (25 \times \$8) = \$375$
Step 2 $(\$375 \div 50) = \$7.50$

Contracted and Non-Contracted Acreage

The weighted average price of contracted and non-contracted acreage for the commodity crop type or practice is calculated by all of the following:

- Multiplying the contracted acreage by the contract price. Each contract price is subject to the maximum contract price;
- Multiplying the non-contracted acreage by the price determined by the CEPP or the policy, as applicable;
- Adding the results; and
- Dividing the result by the total acres of the commodity.

For example, assume there are 100 total acres of a commodity. There are two fixed price contracts that cover all of the production from 50 acres. One contract is for 25 acres of production at $7 per bushel and the second contract is for 25 acres of production at $8 dollars per bushel. For the remaining non-contracted 50 acres, a price election of $5 per bushel is used.

Step 1 $(25 \times \$7) + (25 \times \$8) = \$375$
Step 2 $(50 \times \$5) = \$250$
Step 3 $(\$375 + \$250) = \$725$
Step 4 $(\$725 \div 100) = \$7.25$ weighted avg. price.

For More Information

You can find the Contract Price Addendum at www.rma.usda.gov/policies/2017policy.html.

Where to Buy Crop Insurance

All multi-peril crop insurance, including Catastrophic Risk Protection (CAT) policies, are available from private insurance agents. A list of crop insurance agents is available at all USDA service centers and online at the RMA agent locator at www.rma.usda.gov/tools/agent.html. A list of insurable crops is available on the policies website at www.rma.usda.gov/policies/2017policy.html.

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