

## **2023 Tobacco Contract Provisions**

### **What are the changes to the tobacco insurance program for 2023?**

1. The contract provisions initially implemented for the flue cured tobacco type have been extended to four additional types of tobacco. Beginning with 2023, the contract provisions will also be applicable to the burley, dark air, fire cured, and Maryland types.
2. The contract provisions relating to quality adjustment have been modified to work with the price comparison method used for the dark air, fire cured, and Maryland tobacco types.

RMA updated the tobacco program with the following contract provisions for insured tobacco, beginning with the flue cured tobacco type:

1. Two price elections are provided for tobacco. Tobacco grown under a valid contract from a processor or manufacturer will receive one price, while tobacco grown without a valid contract will receive a different price. Producers with a valid contract who choose to grow more tobacco than they have contracted will receive a weighted average price for all their insured tobacco. Additional contract price options will continue to be available for organic certified and transitional organic practices under the Contract Price Addendum (CPA).
2. The pounds of tobacco eligible for quality adjustment will be limited to the amount of tobacco grown under a contract.

### **Which kinds of tobacco are impacted?**

These provisions apply to the burley, dark air, fire cured, flue cured, and Maryland types of tobacco, in all states where the crop is grown. Other insurable types of

tobacco, such as cigar binder, cigar filler, or cigar wrapper tobacco, are not affected by these changes.

## **Why did RMA make these changes?**

RMA, along with representatives from the tobacco industries for each affected type of tobacco, has worked on this change for several years. There were concerns from USDA, program participants, and other stakeholders about program integrity, the long-term sustainability of the program, and about the program negatively impacting the market for tobacco sold under contract. These changes are designed to address those issues, while still providing a useful risk management safety net for tobacco producers.

## **Why is RMA valuing contracted tobacco differently from non-contracted tobacco?**

RMA has found through program reviews, as supported by feedback from stakeholders, that the marketing of tobacco grown under contract is different from the marketing of tobacco not grown under contract. Contracted tobacco of the same quality and leaf position typically receives a higher market price. Going forward, this difference will be reflected in the RMA price elections.

## **Can I use the CPA to value my tobacco production?**

The CPA only applies to certified organic and transitional organic production. To use the CPA, the contract must be issued by an eligible processor and must include a price. The price is limited to the maximum contract price shown in the actuarial documents.

## **What if I don't have a contract?**

For producers who do not have a valid contract, their entire tobacco crop will still be insurable and will be valued at the non-contracted price election. However, producers without a contract will not be eligible for quality adjustment on their crop.

### **What if I have a contract for some of my tobacco, but not all of it?**

Producers with a valid contract from a processor or manufacturer for a portion of the tobacco they expect to grow will receive a weighted average price election for each type of tobacco they will grow. This price election will be applied across all tobacco grown by that producer and will be based on their reported acreage, their production guarantee, and the amount of tobacco they have contracted.

### **When is the deadline for providing my contract to my agent/insurance company?**

Your contract must be provided to your agent/insurance company on or before the acreage reporting date (ARD) in your county. If your tobacco is grown in Florida or Georgia, your ARD is May 15. If your tobacco is grown in any other state your ARD is July 15.

### **How do I know if my contract is valid?**

A valid contract for crop insurance purposes is a written agreement between you and a valid processor or manufacturer of tobacco, containing at a minimum:

1. Your commitment to produce tobacco on your farm operation during the insurance period and deliver the production to the processor or manufacturer;
2. The processor or manufacturer's commitment to purchase the tobacco stated in the contract; and
3. The total number of pounds of tobacco to be delivered.

## **Who can issue a valid contract?**

To issue a valid contract, an entity must be legally authorized to manufacture processed tobacco and/or tobacco products and must have all required state and federal permits, including a permit as a manufacturer of tobacco products or processed tobacco under 26 U.S.C. Chapter 52. Federal permits are issued by the Alcohol and Tobacco Tax and Trade Bureau. Depending on the state in which they are located, a processor or manufacturer may need to meet additional permitting or licensing requirements.

## **How do I know if my contract is with a buyer that can issue a valid contract?**

When entering into a contract to grow tobacco, if producers are uncertain whether the buyer is a processor or manufacturer, they should check that the buyer has all required permits for processing or manufacturing tobacco. If the buyer does not possess these permits, tobacco contracted with that company will not receive the price election for contracted tobacco or be eligible for quality adjustment.

## **What if I grow tobacco under someone else's contract?**

Even if it is from a permitted processor or manufacturer, a contract issued to another entity will not be considered valid for the purposes of crop insurance. The contract must be issued to the insured entity.

## **What if my tobacco contract is not under the same name as my crop insurance policy?**

The name of the producer on the tobacco contract must match the name of the insured entity. For individuals who insure their tobacco under their own name but have their tobacco contract in a shortened version of their name, for example in an abbreviated first name or in a middle name, the production agreement will still be

eligible for insurance purpose.

A production agreement issued in either spouse's name will be considered sufficient for a married individual's insurance policy. This flexibility will only apply to a policy that meets the definition of "Individual-Married" contained in RMA's FCIC 18190 General Standards Handbook (GSH). For any policy that does not meet the definition of "Individual-Married," the name on the production agreement must match the name of the insured entity.

**What if I am a shareholder for tobacco production, but only my partner's name appears on the contract?**

Only the producers whose names appear on the production agreement will be eligible for insuring contracted tobacco under that contract.

**What if my name appears on the contract along with another producer but we each have individual acreage and do not have a share arrangement?**

Unless the contract specifies a proportion of production expected from each named producer, the amount of production considered to be grown under a contract will be split evenly between all applicable producers.

**What if I grow tobacco under a valid contract and later sell some or all my crop to another entity instead of the original contract provider?**

That decision would not have an impact on a producer's crop insurance.

**What if I grow tobacco under a valid contract and the contract provider discontinues accepting contracted leaf before the end of the season for any reason other than poor leaf quality?**

That decision by the processor or manufacturer would not have an impact on the validity of the contract or the crop insurance guarantee for the producer. However, that would not constitute an insurable cause of loss for the producer.

### **How will my contract impact quality adjustment on my tobacco?**

A producer will be eligible for quality adjustment on as much tobacco as they have covered under a valid contract.

### **What if I have more pounds of tobacco with quality damage than I have covered under a valid contract?**

Any tobacco that exceeds the total amount of tobacco covered under valid contracts will not be eligible for quality adjustment and will be included as production-to-count when determining losses. When this occurs, quality adjustment is applied to the least damaged tobacco until eligible pounds are exhausted.

### **How will the weighted average price election mechanism work for these types of tobacco?**

Example: A producer has contracts for 100,000 lbs. of tobacco. This producer planted 60 acres, with an approved yield of 2,000 lbs. per acre, and has a total approved yield of 120,000 lbs. of tobacco. .

The producer would first calculate the maximum pounds eligible to be insured at the contract price. This is equal to 110% of all the producer's contracted tobacco pounds. For a producer with a contract for 100,000 lbs. of tobacco, their maximum pounds eligible for the contract price would be 110,000 lbs. This number is then compared to the producer's approved yield across all their insured tobacco acres. Any insured tobacco beyond the maximum pounds eligible to be insured at the contract price would be valued at the non-contract price.

The weighted average price for all of this producer's tobacco would be the maximum pounds eligible to be insured at the contract price (110,000 lbs.) multiplied by the contracted tobacco price election (\$1.95) plus any additional insured tobacco (10,000 lbs.) multiplied by the non-contracted tobacco price election (\$0.90). This sum would then be divided by the producer's total approved yield across all insured acres (120,000). In this case, the resulting weighted average price would be \$1.86 per lb.  $(110,000\text{lb} \times \$1.95) + (10,000\text{lb} \times \$0.90)/120,000 = \$1.86 \text{ per lb.}$

## **How will these changes impact organic tobacco?**

Certified or transitional organic tobacco produced under a valid production agreement will be valued at the maximum over established price for certified or transitional organic tobacco, or at the price in the producer's organic contract (limited to the maximum contract price), if insured using the CPA. To use the CPA, the contract must be issued by an eligible processor and must include a price. The price is limited to the maximum contract price. Organic tobacco that is not produced under a valid production agreement will be valued at the non-contracted price election for transitional or certified organic tobacco.

## **I have certified organic production and I have a valid production agreement, but my production agreement doesn't specify the production must be certified organic. Can I use the organic maximum over established price for my certified organic production?**

Yes, the maximum over established price for organic practice may be used for tobacco grown under a contract on certified organic acreage when the contract does not specify the tobacco must be certified organic.

## **For my certified organic production, I see a Maximum Over Established Price and a Maximum Contract Price. I have a valid contract issued by an eligible processor. Which price do I use?**

For an organic producer to access a price higher than the Maximum Over Established Price, they must qualify to use the CPA option. This option is available for organic producers and allows them to use the price schedule in their tobacco contract to establish the insurable value for their tobacco. If you have elected to use the CPA and your contract includes a price for the insured tobacco, you may use the price contained in your contract, up to the Maximum Contract Price. If you are not using the CPA, or your contract does not have a price, the Maximum Over Established Price will apply.

**My contract is for "semi-fired" tobacco. Which type can I insure my tobacco under?**

Insurable tobacco types are defined in the Special Provisions, following the USDA's Agricultural Marketing Service (AMS) regulation at 7 C.F.R. Part 30, which classify types depending on how the tobacco is cured (see definitions at 7 CFR 30.12 for fire-cure and 7 CFR 30.13 for air-cure). Semi-fired tobacco cannot be insured as "fire-cured," but it may be insurable as an air-cured type (e.g., dark air).