

Medium and Short Grain Rice

Pricing Methodology

2014 and Subsequent Crop Years

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Beginning with the 2014 CY, the Risk Management Agency (RMA) sets distinct prices for medium grain and short grain rice types.

Rice is traded on the Chicago Board of Trade (CBOT). The CBOT futures contract is for long grain rice. Historically, prices received for medium grain and short grain rice have been substantially higher than nearby futures prices for long grain rice.

RMA is authorized to set distinct medium grain type and short grain type rice prices in accordance with the Common Crop Insurance Policy Basic Provisions and the Commodity Exchange Price Provisions: Section II – Rice (CEPP). The CEPP informs stakeholders that medium grain type and short grain type rice prices are derived by applying a *price factor* “as determined by RMA” to the exchange-based projected rice price and harvest rice price. The calculated prices are employed for all applicable plans of insurance.

RMA utilizes the following sources to derive price factors for rice:

- National Agricultural Statistics Service (NASS) Marketing Year Average Rice Prices (California: October-September)
- CBOT November Rice Contract, Rough Rice U.S. Number 2 or Better – Long Grain Rice
- Agricultural Marketing Service (AMS) Monthly Reports for Medium Grain Rice, U.S. Number 2 (Arkansas and California).

A medium/short grain price factor is derived for: 1) All California counties; 2) Other States – All counties in Arkansas, Florida, Illinois, Louisiana, Mississippi, Missouri, Oklahoma and Tennessee, as well as Texas Counties with a February 28 Sales Closing Date; and 3) Texas Counties with a January 31 Sales Closing Date. This price factor is used to derive both medium grain type and short grain type rice prices, i.e., the same prices are used for both types.

Price Factor Methodology for CALIFORNIA

Ratios between the following data are derived for each year of the most recent five or ten years of data, depending on which time frame is used*:

- NASS California rice price estimates
- RMA rice harvest prices for California (RMA harvest price is the average daily settlement price during October for the nearby CBOT November Rice Contract).

Yearly Ratios (i) = California NASS Price (i)/RMA Harvest Price (i)

The California price factor is the average of the five or ten yearly ratios, rounded to two decimal places.*

Price Factor Methodology for OTHER STATES – All Counties in Arkansas, Florida, Illinois, Louisiana, Mississippi, Missouri, Oklahoma and Tennessee, as well as Texas Counties with a February 28 Sales Closing Date

Monthly ratios between the following data are derived:

- The midpoint of Arkansas low-high bid prices from the AMS monthly rice report for medium class rice
- The mid-point of California low-high bid prices from the AMS monthly rice report for medium class rice

Monthly Ratios (i) = Arkansas midpoint price (i)/California midpoint price (i)

The average of 12 monthly ratios (Oct-Sep of each year) provides a yearly Arkansas-California factor. The most recent five or ten* yearly Arkansas-California factors are averaged together to obtain the Arkansas-California factor.

The Other States price factor is the Arkansas-California factor multiplied by the California price factor, rounded to two decimal places.

Price Factor Methodology for TEXAS COUNTIES with a JANUARY 31 SALES CLOSING DATE

The price factor for Texas Counties with a January 31 sales closing date is derived using the OTHER STATES methodology described above. However, NASS does not release marketing year rice price estimates until the end of the following January. For example, the NASS California price estimate for the 2011-12 marketing year was not released until the end of January 2013. The projected price discovery period for Texas Counties with a January 31 sales closing date is December 15 – January 14. Consequently, the latest NASS price estimate is not available in time for RMA's release of the projected price. As a result, data used to derive the price factor for Texas Counties with a January 31 sales closing date lags one year behind the data used to derive the other price factors.

The price factor for Texas counties with a January 31 SCD is calculated using the same steps listed above for the Other States price factor, but will use data from one year earlier since NASS data is not released by the start of the projected price discovery period.

** RMA will assess price trends in recent NASS data to determine whether a short five-year series (more likely with trending data) or a longer 10-year series (more likely with non-trending data) should be utilized.*