

Agricultural Act of 2014: Summary of Commodities Programs and Cotton

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Disclaimer

- The following information is our understanding and interpretation of the Act after discussions with colleagues and Ag staff.
- Regulations are in the process of being written and final rules are likely to have differences based on prior experiences.
- Final rules not likely known until after planting, maybe after harvest.

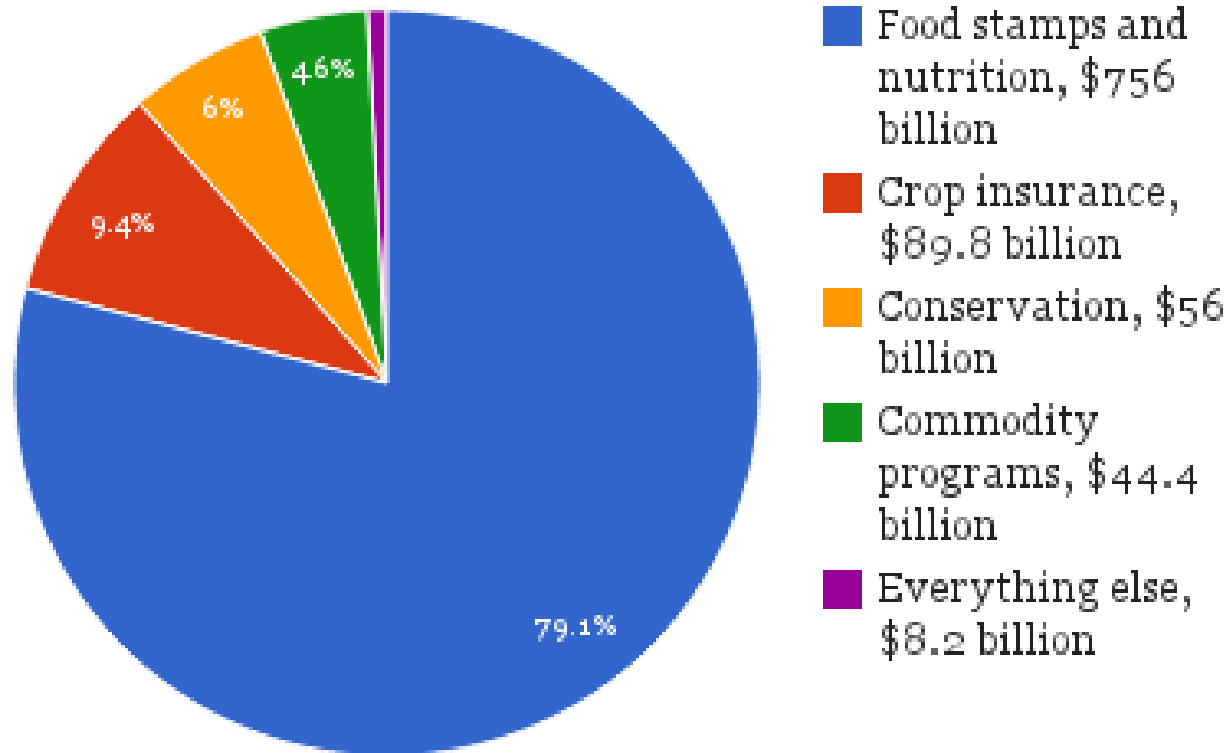
Acknowledgements - Information and discussion with colleagues contributed to the development of this interpretation of the Farm Bill. Special thanks to Stanley Fletcher (UGA), Joe Outlaw (TAMU), Jody Campiche (OSU), Brad Lubben (UNL), Gary Adams (NCC), Ga Peanut Commission, and Ga Cotton Commission.



Farm Bill Titles

1. Commodities
2. Conservation
3. Trade
4. Nutrition
5. Credit
6. Rural Development
7. Research, Extension and Related Matters
8. Forestry
9. Energy
10. Horticulture
11. Crop Insurance
12. Miscellaneous

What's in the farm bill? (Costs from FY2014-2023)



Source: Compiled from CBO estimates, January 28, 2014

Commodity Programs

- Repeals DCP, ACRE and SURE Programs, eliminating Direct Payments and Counter-cyclical Payments.
- Establishes new commodity programs for all covered commodities: (excluding cotton)
 - **Price Loss Coverage (PLC)** – price safety-net,
 - **Agricultural Risk Coverage (ARC)** – revenue safety-net.
- Producers must make a choice for 2014 (a one-time election) between PLC, County ARC, and Individual (Farm) ARC
- One-time opportunity to reallocate Base acres.
- One-time opportunity to update payment yield (used for PLC).
- Cotton Base becomes Generic Base.



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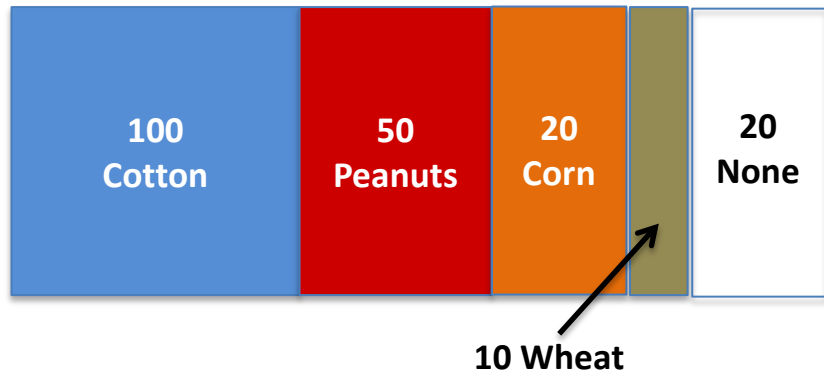
What Are the Main Decisions?

1. “Covered Commodities” Bases: Retain or Reallocate
2. PLC vs ARC-C vs ARC-I (Producer Election)
3. Payment Yield (for PLC): Retain or Update
4. For cotton: STAX or SCO
5. SCO for other crops (not if ARC-C is chosen)

Opportunity to Reallocate Base

- Base Acres are as determined on September 30, 2013.
- Cotton Base is retained and becomes Generic Base.
- 1-Time Election to Reallocate/update Crop Base Acres
 - Retain Base Acres as of September 30, 2013, or
 - Reallocate Base Acres excluding Generic Base Acres
- Reallocation based on the **4-year average (2009-2012)** of acres planted and prevented planted of covered commodities, excluding cotton, not to exceed 2013 total base excluding generic base.

Base Reallocation Example



= 200 acres total
 100 acres cotton/generic base
 80 acres other bases

2009-2012 Acres Planted to Covered Commodities				
	Corn	Peanuts	Soybeans	Wheat
2009	0	100	0	0
2010	90	0	0	0
2011	170	0	0	0
2012	0	160	0	0
Average	65	65	0	0

130 Acres Planted (> available bases)

$80/130 \times 65 = 40$ acres allocated to corn

$80/130 \times 65 = 40$ acres allocated to peanuts

50% 50%

Reallocated Bases Would Be →



Base Reallocation Issues/Implications

- Reallocation is a landowner election.
- Based on 2009-2012 history. Reallocated by proportion of average planted acreage of covered commodities.
- Total base acres cannot be increased.
- Cotton base becomes Generic Base and cannot be increased or decreased.
- If a farm currently has no cotton base, it still will not have any.
- Total base acreage would be reduced if planting history < current total base of covered commodities.
- If farm currently has no peanut base, can reallocate to peanut planting history if the farm has current base of other covered commodities.



Generic Base

- Farm's cotton base in 2013 becomes Generic Base.
- Generic Base does not change during the life of the Farm Bill.
- Can be used on a year to year basis to temporarily allocate to a covered commodity (excluding cotton) planted.
- A covered commodity must be planted to be eligible for any generic base allocation.

Base Acres Definition

Section 1111, (4) (A)

“base acres” with respect to a covered commodity on a farm means the number of acres in effect..... on September 30, 2013 subject to any reallocation....under section 1112....”

The farm’s Total Crop Bases (excludes generic) are decoupled from any planting decisions.

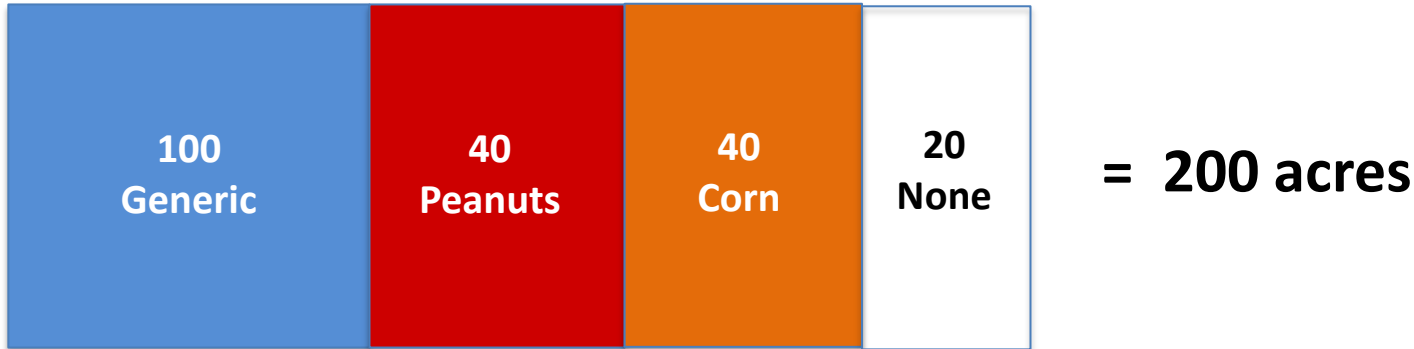
Section 1111, (4) (B)

“The term “base acres” includes any generic base acres planted to a covered commodity as determined in section 1114(b)”



Generic Base Example

Use Previous Reallocated Base Farm Example



In 2014, assume the producer plants:

65 peanut acres

65 corn acres

70 cotton acres

200 acres total

} 130 acres covered commodities > 100 Generic base acres

$65/130 \times 100 = 50$ acres assigned to peanuts

$65/130 \times 100 = 50$ acres assigned to corn

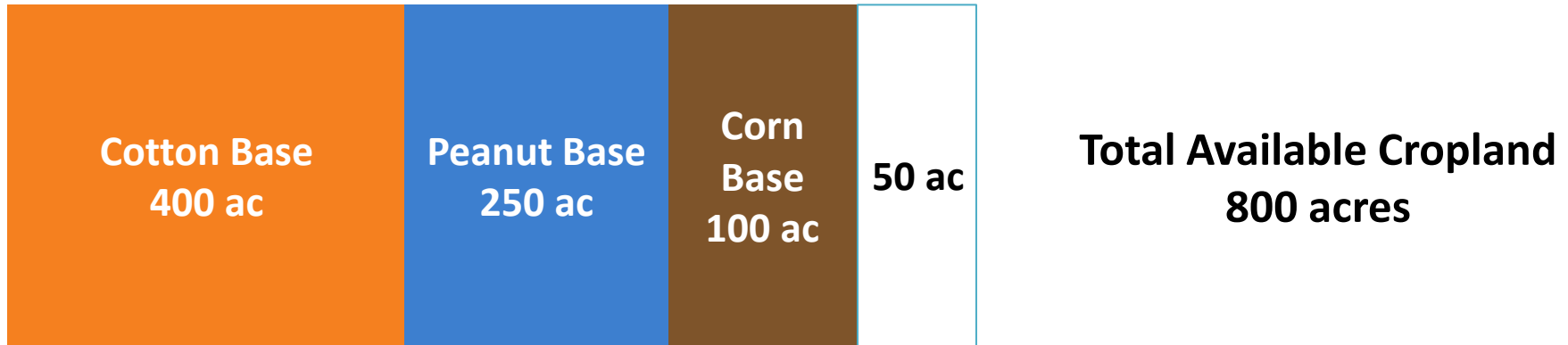
(40 base + 50 generic) = 90 total peanut base acres

(40 base + 50 generic) = 90 total corn base acres



Can have more total base than planted in a year because Crop Base (non-generic) does not have to be planted.

Another Base Acres Example



Total Crop Bases 750 acres

-Cotton 400 ac

-Peanuts 250 ac

-Corn 100 ac

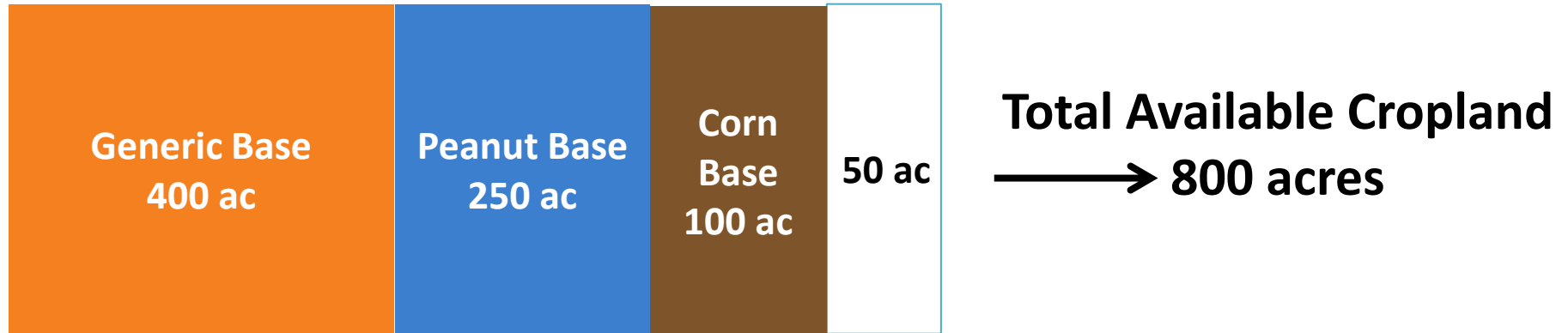
Other Cropland 50 acres

Generic Base 400 acres

Base available for update* = 350 ac

* Update = 2009-2012 Average Acres Planted to covered commodities (excluding cotton)

If Bases were retained as is:



PLC and/or ARC County Payments on:

250 ac x 85% = 212.5 payment acres of peanut base

100 ac x 85% = 85.0 ac payment acres of corn base

plus

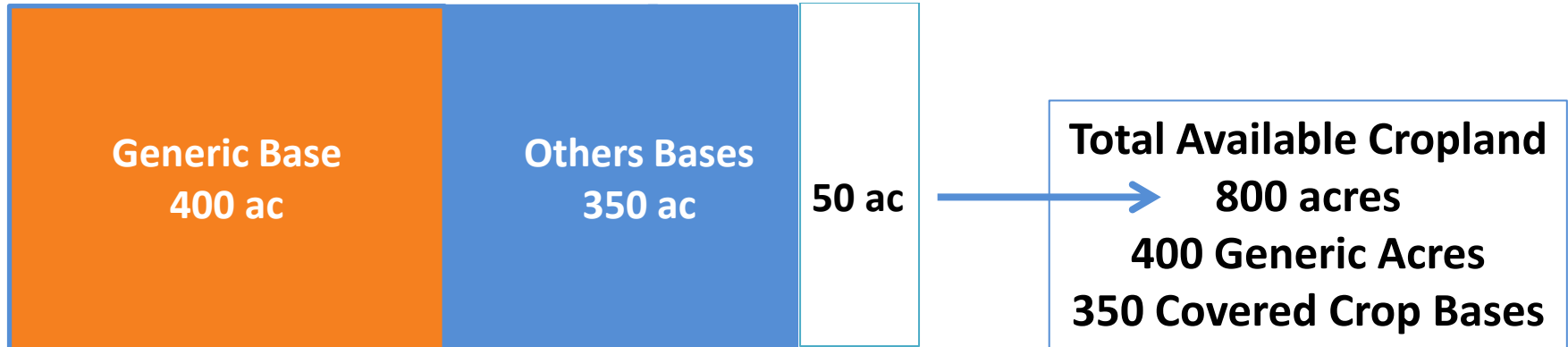
85% of acres planted to “Covered Commodities” on Generic Base

Covered Commodities include peanuts, corn, soybeans, oats, etc.

Excludes cotton.



If Bases Were Updated/Reallocated



2009-2012 Average Acres Planted

Cotton 300 ac

Peanuts 200 ac

Corn 200 ac

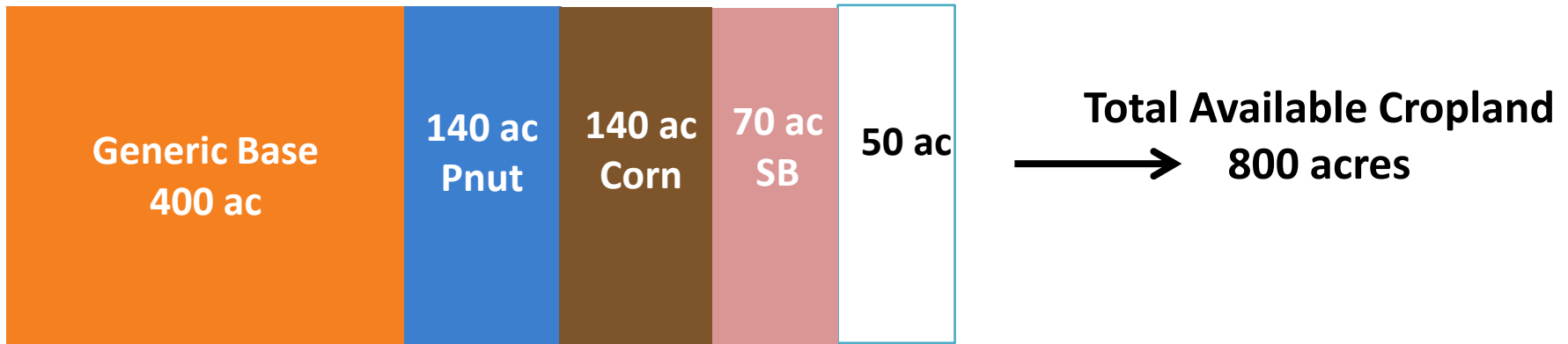
Soybeans 100 ac

TOTAL 800 ac

500 ac > 350

200/500 x 350 = 140 ac Peanut Base
200/500 x 350 = 140 ac Corn Base
100/500 x 350 = 70 ac Soybean Base
TOTAL UPDATED BASE = 350 Acres
Generic Base = 400 acres

New/Reallocated Bases



2014 Acres Planted

Cotton 300 acres
 Peanuts 300 acres
 Corn 200 acres

500 acres covered commodities > 400 acres Generic Base

Generic Base PLC or ARC Payments on:
 $300/500 \times 400 = 240$ Temp Peanut base
 $200/500 \times 400 = 160$ Temp Corn base

2014 Base Acres

Peanuts 380 acres
 Corn 300 acres
 Soybeans 70 acres

PLC or ARC Payments, if applicable, on:

- 140 of peanut base
- 140 of corn base
- 70 of soybean base

} 350 Crop Base

Generic Base Issues/Implications

- Assignment to Generic Base cannot exceed Generic Base acres
- Cotton base = Generic Base, if no cotton base then no generic base
- Assignment is temporary; Generic Base resets after each year
- Current interpretation is that temporary assignment is in addition to any base of the covered commodity already on the farm. This could change.

Opportunity to Update Yields

- PLC Payment Yield (assumed to be the CCP Yield)
- Landowner has 1-time option to update yields on a crop-by-crop, farm by farm basis.
- May retain current yield or update.
- **90%** of the **2008-2012** average yield per planted acre.

Peanut Example			
	Production	Acres Planted	Yield Per Acre
2008	760,000	200	3,800
2009	410,000	100	4,100
2010	500,000	125	4,000
2011	352,500	75	4,700
2012	1,120,000	224	5,000
5-Yr Average Yield			4,320
90% of Average Yield			3,888



Opportunity to Update Yields

- What if did not plant covered commodity every year?
- Exclude any crop year acreage planted was zero.

Peanut Example			
	Production	Acres Planted	Yield Per Acre
2008	760,000	200	3,800
2009	410,000	100	4,100
2010	500,000	125	4,000
2011	0	0	-
2012	1,120,000	224	5,000
Average Yield			4,225
90% of Average Yield			3,803

Peanut Example			
	Production	Acres Planted	Yield Per Acre
2008	0	0	-
2009	410,000	100	4,100
2010	0	0	-
2011	0	0	-
2012	1,120,000	224	5,000
Average Yield			4,550
90% of Average Yield			4,095

Yield Update Issues

Ability to Prove Yields :

- Have not been required to report yields to FSA previously.
- Landowners of rented farms will have to rely on tenant producers to provide the information needed.
- If multiple owners, all owners must agree.
- If for any year, the crop yield is less than 75% of the 2008-2012 county average yield, 75% of the county average yield will be used.



Program Election Decision

Producer Election between one of 3 choices:

- **Price Loss Coverage (PLC)** , crop-by-crop and farm-by-farm basis, or
- **County Agriculture Risk Coverage (C-ARC)**, crop-by-crop and farm-by-farm basis, or
- **Individual Agriculture Risk Coverage (I-ARC)**, all crops on the farm.

Price Loss Coverage

- 2014 Farm Bill establishes a new “countercyclical-like” program called Price Loss Coverage (PLC) for all covered commodities (excludes cotton).
- Price safety-net based on price with new price triggers.

Price Loss Coverage (PLC) Reference Price

Crop	2008 Farm Bill		PLC
	Target Price	Effective Price	Reference Price
Corn	2.63	2.35	3.70
Grain Sorghum	2.63	2.28	3.95
Peanuts	495	459	535
Oats	1.79	1.766	2.40
Soybeans	6.00	5.56	8.40
Wheat	4.17	3.65	5.50

PLC Payment made on 85% of Base Acres



Price Loss Coverage (PLC)

PLC Rate = Reference Price - higher of Average Market Price or Loan Rate

PLC Payment = PLC Rate * Payment Yield * Base Acres * 85%

Peanut Example:

Average Market Price = \$500

Payment Yield = 3,800 (1.9 tons)

Base Acres = 400 acres

Payment made after
October 1 of the
following year.

PLC Rate = \$535 - higher of \$500 or \$355 = \$35/ton

PLC Payment = \$35/ton * 1.9 tons * 400 ac * 85% = \$22,610
(\$56.53 per base acre)



NASS Marketing Year Average Price for Peanuts

Year	\$/Lb	\$/Ton
2013	0.257	514*
2012	0.301	602
2011	0.318	636
2010	0.225	450
2009	0.217	434
2008	0.23	460

*Thru March, 2014



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Price Considerations for PLC

- \$535 Reference Price applies to 85% of Base acres.
- Payment Yield less than Expected/Actual Yield.
- National Marketing Year Average Price higher than contract/cash price for runners.
- The more acres planted, the lower the average price per ton.
- Payments not received until October 1 or later of the next year. (i.e. Oct 2015 for 2014 crop).



Price Considerations for PLC

- Georgia State Average Yield
2008-2012 = 3,365 lbs per acre (90%)
2012-2013 = 4,505 lbs per acre
Difference = 1,140 lbs per acre
- Overplant peanuts
\$535 - \$355 = \$180 per ton
85% x \$180 = \$153 per ton
- \$153 x 1.6825 tons (3,365 lbs) = \$257.43 per base acre
- \$355 x 2.2525 tons (4,505 lbs) = \$799.64 per base acre
- Total per base acre = \$1057.07 or \$469.29 per ton



Agricultural Risk Coverage (ARC)

- If elect ARC, a 1-time election of
 - ❑ County Coverage
 - ❑ Individual Coverage
- Producers who enroll in individual-level ARC must elect individual-level ARC for all crops on the farm

ARC with County Coverage

$$\begin{aligned} \text{BENCHMARK County Revenue} &= \\ &5\text{-Yr Olympic Average Yield Per Planted Acre} \\ &\quad \times \\ &5\text{-Yr Olympic Average Market Price} \end{aligned}$$

$$\text{ARC Guarantee} = 86\% \times \text{Benchmark County Revenue}$$

$$\begin{aligned} \text{ACTUAL County Revenue} &= \\ &\text{Actual County Yield Per Planted Acre} \\ &\quad \times \\ &\text{Higher of Avg Market Price or Loan Rate} \end{aligned}$$

$$\text{ARC Payment}^* = \text{ARC Guarantee} - \text{Actual County Revenue}$$

*Or 10% of Benchmark Revenue, whichever is less



ARC- County, Hypothetical Corn Example

5-Year OA County Yield	150	
5-Year OA Market Price	\$5.65	
Benchmark County Revenue	\$848	
86% of Benchmark Revenue	\$729	ARC Guarantee
10% of Benchmark Revenue	\$85	Maximum ARC Payment
Actual County Yield	140	
Higher of MYA Price or Loan Rate	\$5.00	
Actual County Revenue	\$700	
ARC Payment	\$29	

**Payment received on 85% of Base Acres,
not before October 1 of the following year**



ARC with Individual Coverage

$$\begin{aligned} \text{BENCHMARK Revenue} &= \\ &5\text{-Yr Olympic Yield Per Planted Acre} \\ &\quad \times \\ &5\text{-Yr Olympic Average Market Price} \end{aligned}$$

$$\text{ARC Guarantee} = 86\% \times \text{Benchmark Revenue}$$

$$\begin{aligned} \text{ACTUAL Crop Revenue} &= \\ &\text{Actual Total Production Per Planted Acre} \\ &\quad \times \\ &\text{Higher of Avg Market Price or Loan Rate} \end{aligned}$$

$$\text{ARC Payment}^* = \text{ARC Guarantee} - \text{Actual Revenue}$$

*Or 10% of Benchmark Revenue, whichever is less

Payment received on **65%** of Base Acres
Not before October 1 of the following year



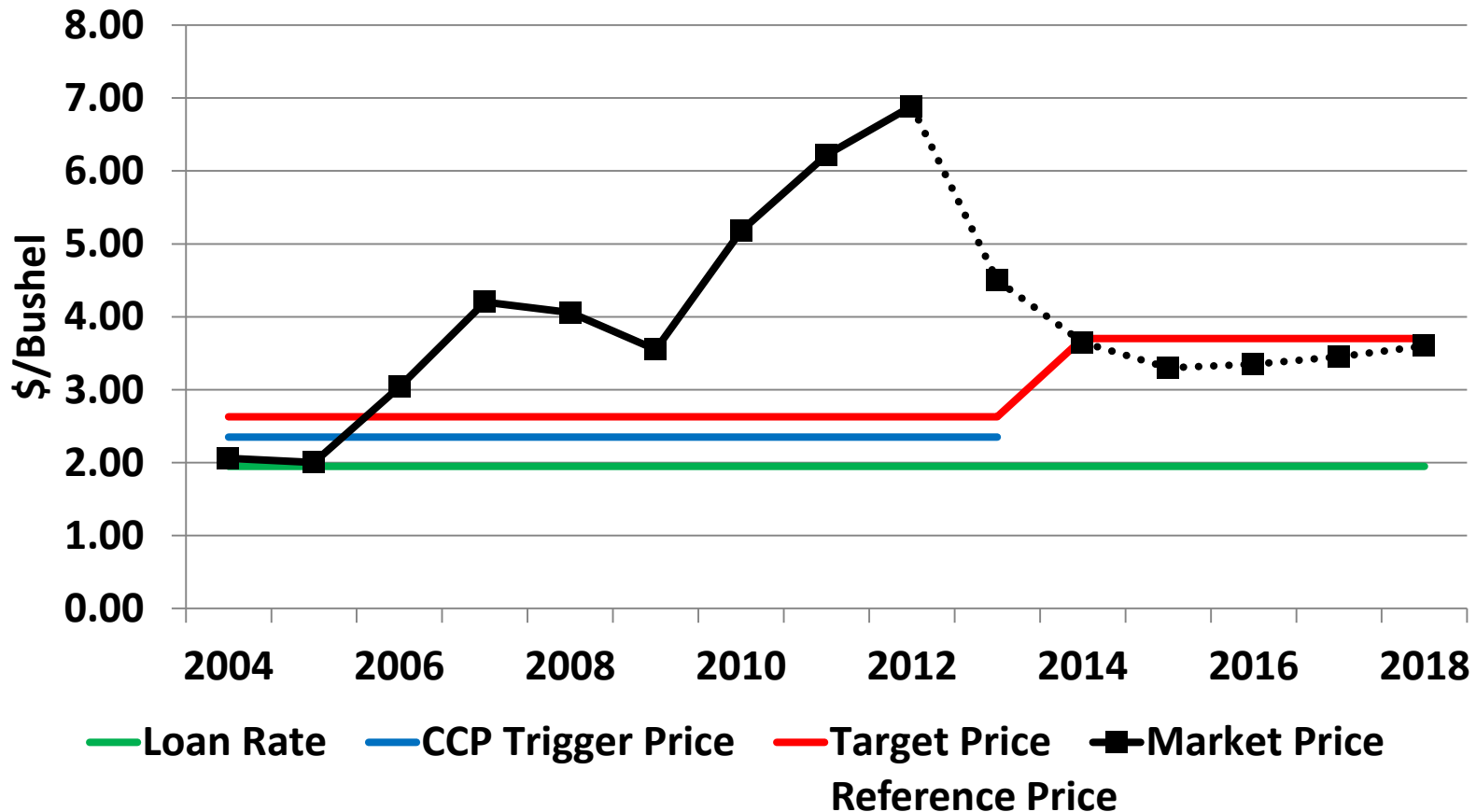
ARC Issues

- In calculating the Benchmark Revenue, if the market year average price is less than the Reference Price, the Reference Price will be used.
- If the county yield per planted acre is less than 70% of the T-yield, 70% of the T-yield will be used.
- As with PLC Payment Yield, farm yield for ARC Individual must be documented/proven.
- As with PLC Payment, ARC Payment will be received not before Oct 1 after the marketing year.



Farm Income Safety Net

Corn Prices and PLC/CCP/ML*



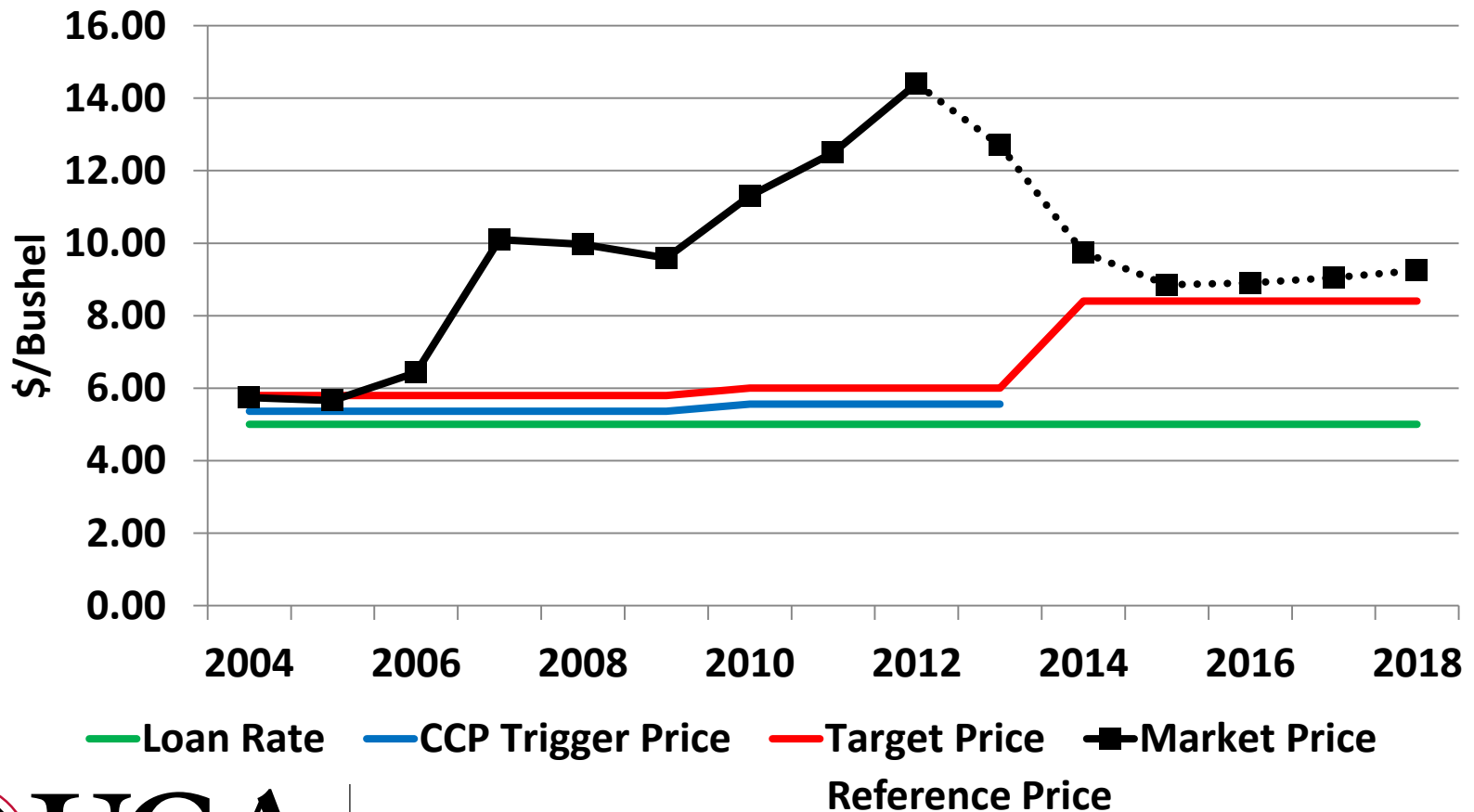
* Estimated national marketing year average price for 2013 projected from USDA-WAOB as of February 10, 2013. Projected prices for 2014-2018 from USDA-OCE baseline estimates as of February 11, 2014.

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Source: USDA-FSA, USDA-NASS, USDA-WAOB, and USDA-OCE, Brad Lubben, University of Nebraska

Farm Income Safety Net

Soybean Prices and PLC/CCP/ML*



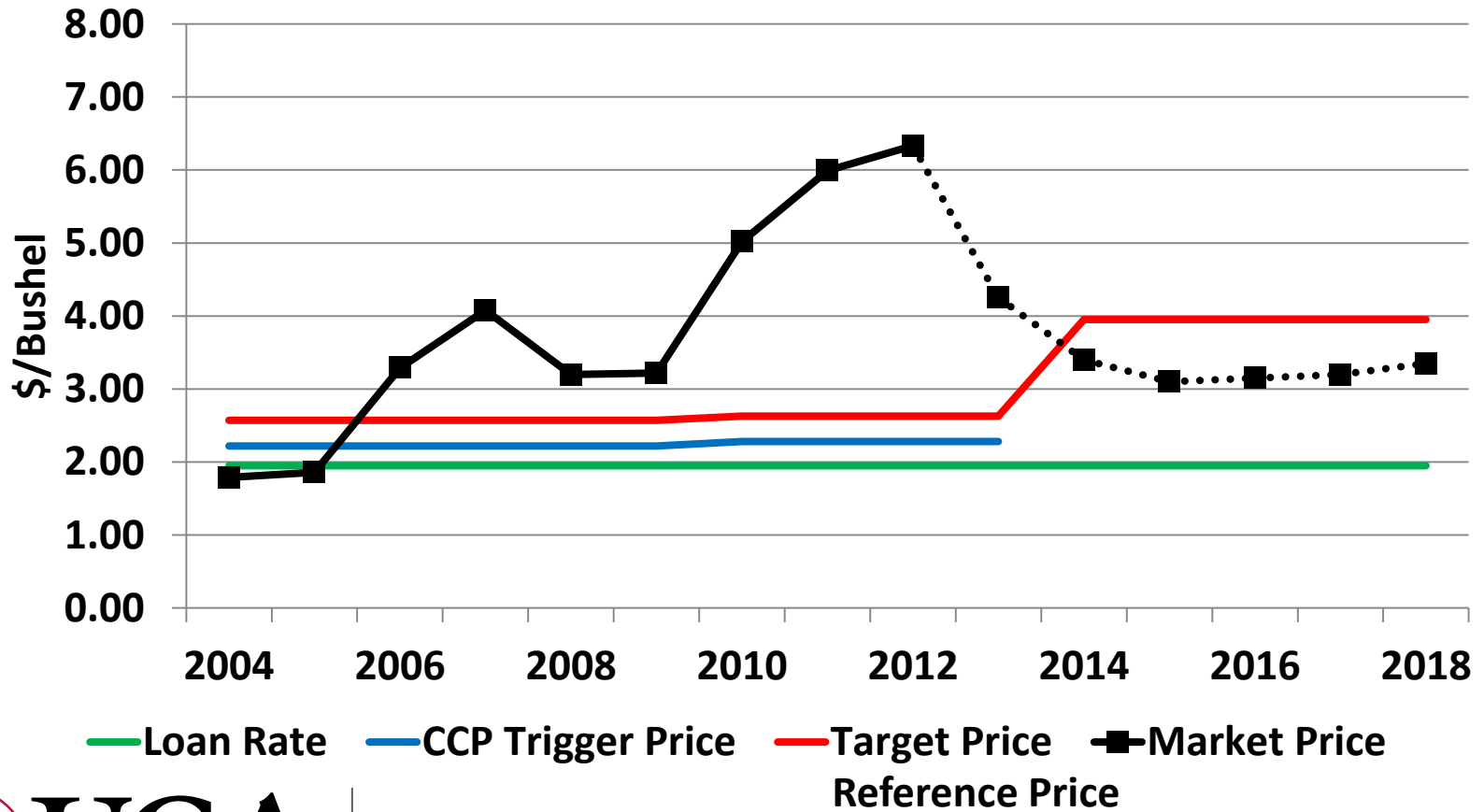
* Estimated national marketing year average price for 2013 projected from USDA-WAOB as of February 10, 2013. Projected prices for 2014-2018 from USDA-OCE baseline estimates as of February 11, 2014.

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Source: USDA-FSA, USDA-NASS, USDA-WAOB, and USDA-OCE, Brad Lubben, University of Nebraska

Farm Income Safety Net

Sorghum Prices and PLC/CCP/ML*



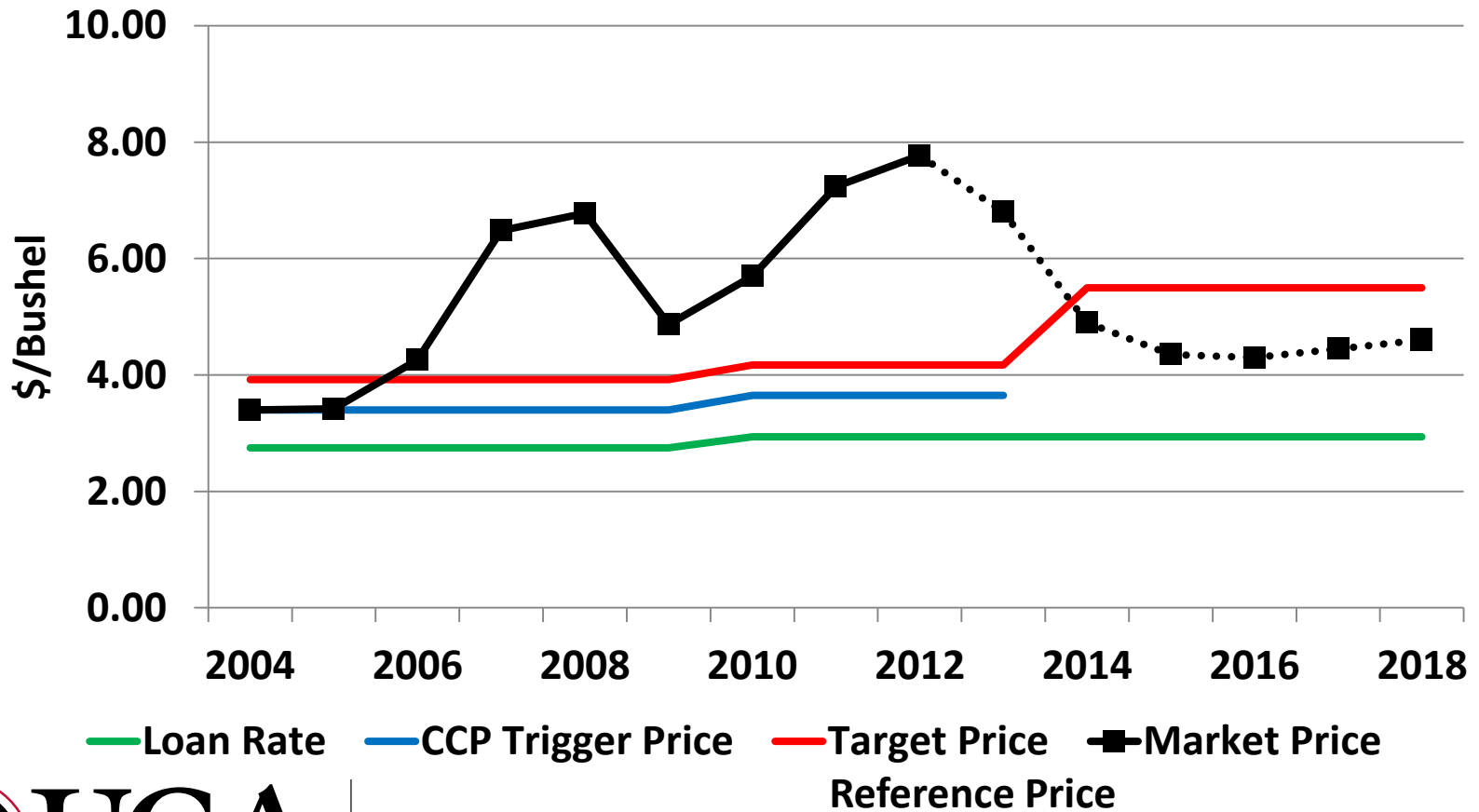
* Estimated national marketing year average price for 2013 projected from USDA-WAOB as of February 10, 2013. Projected prices for 2014-2018 from USDA-OCE baseline estimates as of February 11, 2014.

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Source: USDA-FSA, USDA-NASS, USDA-WAOB, and USDA-OCE, Brad Lubben, University of Nebraska

Farm Income Safety Net

Wheat Prices and PLC/CCP/ML*



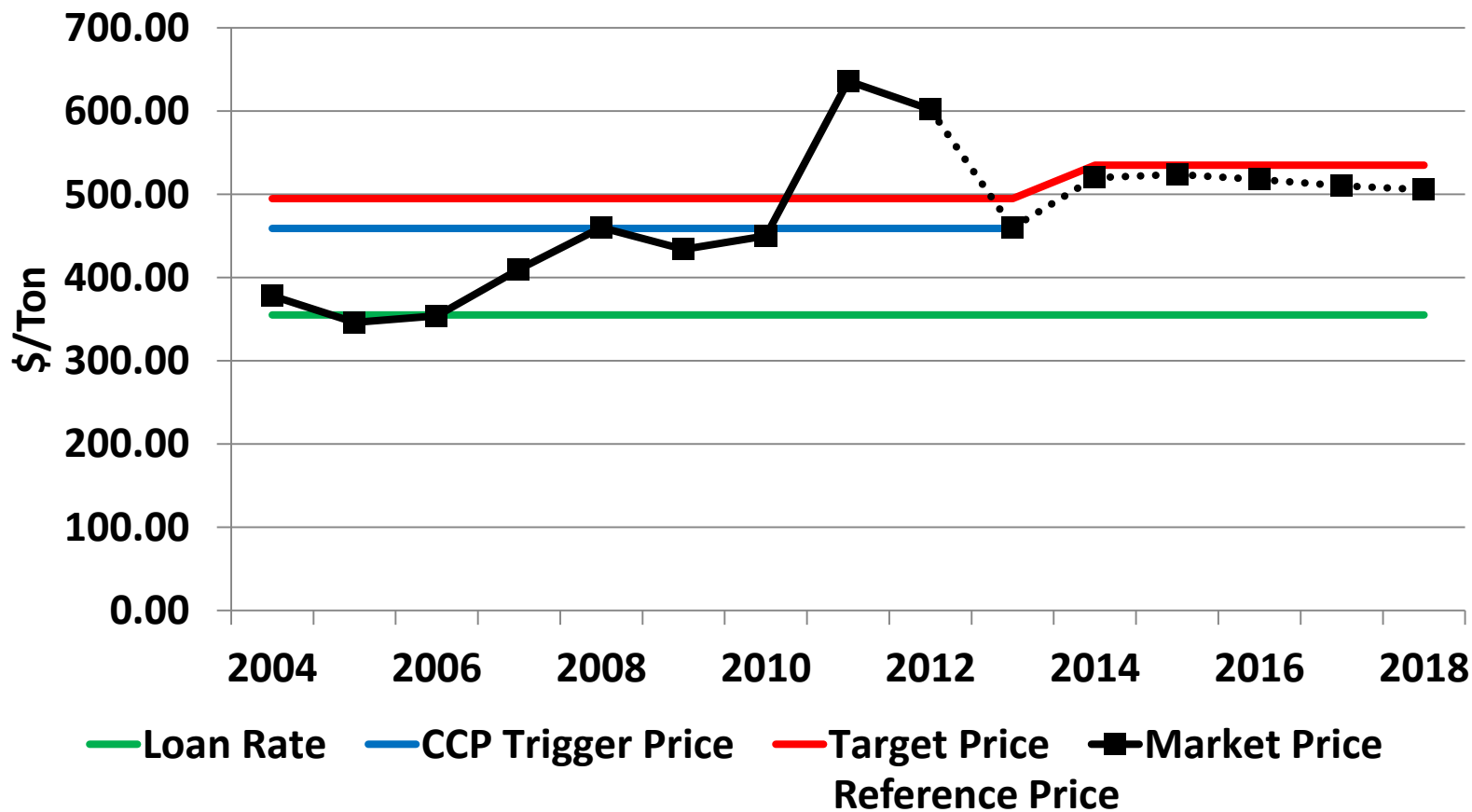
* Estimated national marketing year average price for 2013 projected from USDA-WAOB as of February 10, 2013. Projected prices for 2014-2018 from USDA-OCE baseline estimates as of February 11, 2014.

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Source: USDA-FSA, USDA-NASS, USDA-WAOB, and USDA-OCE, Brad Lubben, University of Nebraska

Farm Income Safety Net

Peanut Prices and PLC/CCP/ML*



* Estimated national marketing year average price for 2013 projected from USDA as of February, 2013. Projected prices for 2014-2018 from FAPRI baseline estimates as of March, 2014.

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Source: USDA-FSA, USDA-NASS, USDA-WAOB, and USDA-OCE, Brad Lubben, University of Nebraska

Farm Income Safety Net Comparison

Expected Average ARC and PLC/SCO/STAX Payments
for 2014-2018 Crop Marketing Years, FAPRI*

Commodity	ARC	PLC	SCO/STAX**	PLC+SCO/STAX***
	\$/participating acre			
Corn	\$20.91	\$22.24	\$8.94	\$29.39
Soybeans	16.21	12.58	5.09	16.65
Grain Sorghum	8.16	19.62	3.14	22.13
Wheat	9.84	16.27	3.84	19.34
Barley	10.76	30.54	4.10	33.82
Rice	8.44	53.54	12.90	63.86
Peanuts	19.76	60.63	****	****
Cotton*****	-	-	22.60	18.08

* Estimated ARC, PLC, and SCO payments based on FAPRI projections as of March 2014.

** SCO and STAX net indemnity average for 2015-2018

*** PLC+SCO/STAX payment average for 2014-2018.

**** Peanut net indemnities for SCO not explicitly represented in FAPRI model.

***** Upland cotton is expected to receive a transition payment of \$32.14/base acre in 2014 and will be eligible to receive a transition payment until STAX is available.

Agricultural Act of 2014

- **Loan Program w/ LDP and MLG remains essentially the same; Loan Rate on cotton changed.**
 - LDP/MLG available if **Loan Repayment Rate < Loan Rate**



2014 Loan Rates

Compared to 2008 Farm Bill Rates for 2012

Crop	2012	2014
Corn	1.95	1.95
Cotton	0.52	Min 45 / Max 52*
Grain Sorghum	1.95	1.95
Peanuts	355	355
Oats	1.33	1.39
Soybeans	5.00	5.00
Wheat	2.94	2.94

For Cotton

The Loan Rate for upland cotton will be the average AWP for the 2 most recently completed preceding crop years ending prior to planting for the next crop year and must be announced by October 1 prior to planting.

2013 crop marketing year = August 1, 2013 to July 31, 2014

2012 crop = August 1, 2012 – July 31, 2013

2011 crop = August 1, 2011 – July 31, 2012

So, the 2014 Loan Rate will be the average AWP for the 2012 and 2011 crop years.

The average AWP for the 2011 and 2012 crops was above 52 cents. So the base loan rate for 2014 will be 52 cents.



Agricultural Act of 2014

- Establishes a new safety net for cotton (STAX)
- Establishes a new “shallow loss” insurance policy (SCO)
- STAX and SCO not effective until 2015 crop year
- Cotton will receive “transition assistance” for 2014 crops and perhaps for 2015 in some cases

2014 Transition Assistance For Cotton

$$\text{Transition Rate} \\ \text{9 cents per lb} \quad \times \quad \text{DP Yield} \quad \times \quad \text{Base Acres x 60\%}$$

- Determined for cotton base as of September 30, 2013.
- Not impacted by base update/reallocation or use of generic base.
- Separate \$40,000 per person or legal entity
- Payment to be received not before Oct 1 of the crop year.

2015 payment, if applicable, on 36 ½ % of Base.



Stacked Income Protection Plan (STAX)

- The “safety net” program for cotton only. Will begin with the 2015 crop.
- Is a county/area-based revenue product, not individual farm. Indemnity (payment) is triggered if county revenue falls below 90% of expected county revenue.
- Indemnity cannot exceed 20% of expected county revenue; i.e. coverage is provided for losses down to 30% of expected county income (70% coverage)

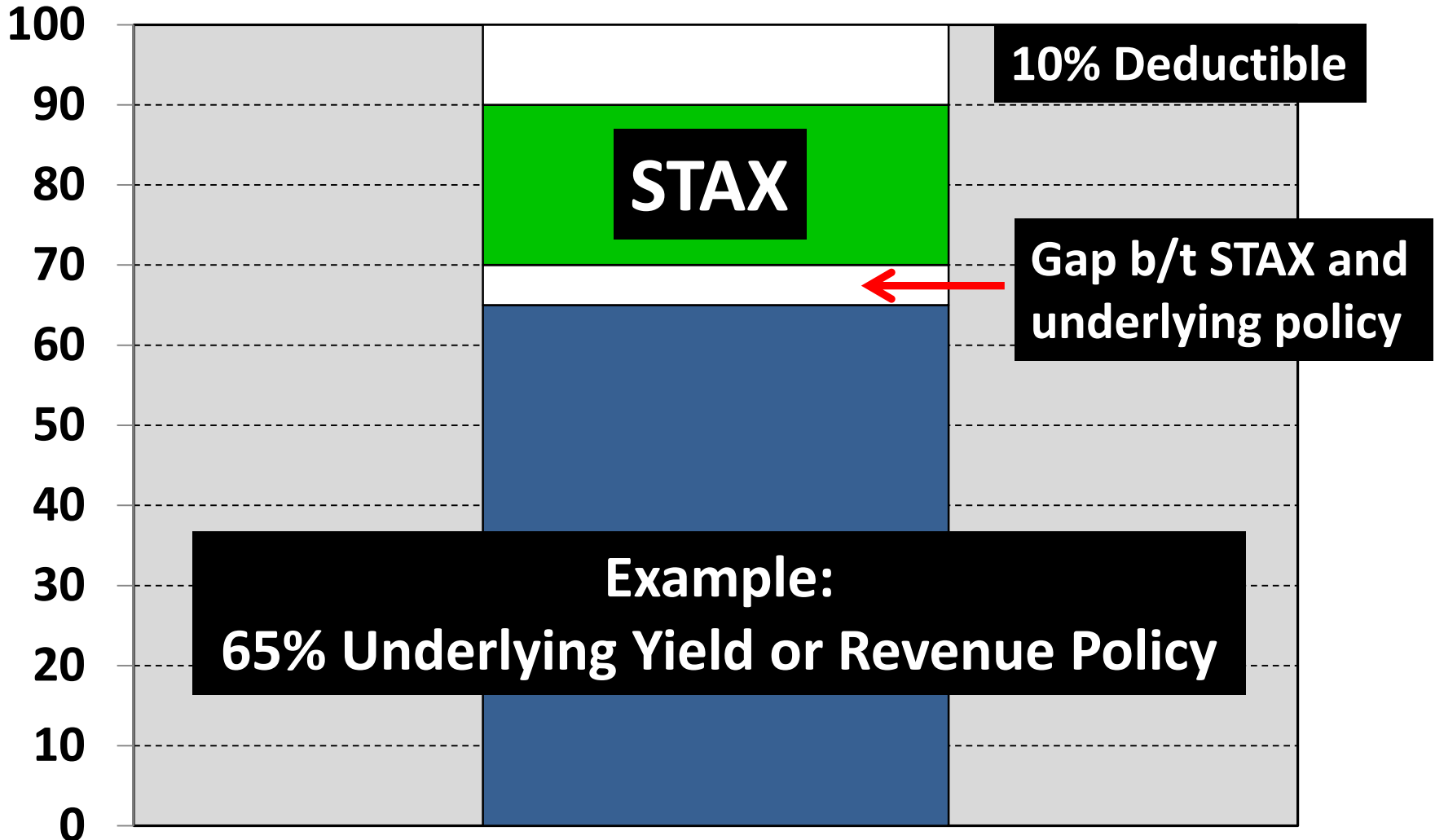


Stacked Income Protection Plan (STAX)

- Expected county revenue is expected county yield x projected price.
- Actual county revenue is actual county yield x harvest price.
- STAX cannot overlap the coverage of another policy;
Example: If another policy is at less than 70% coverage, STAX can still be purchased to cover losses with 70-90% only
- STAX can be purchased alone, without another policy
- If using STAX, SCO not available on the same acres.



Illustration of STAX Example



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STAX Example

Expected County Yield 860
 Projected Price 0.79
Expected County Income \$679

Trend Yield or 5-yr OA NASS or RMA yield

GRIP or Revenue Policy Price

90% of Expected Income \$611
 20% of Expected Income \$136

STAX Guarantee (Trigger)

Maximum Indemnity

Actual County Yield 790
 Harvest Price 0.75
Actual County Income \$593

NASS or RMA or other yield as TBD

GRIP or Revenue Policy Price

Trigger - Actual Income \$19

Indemnity	100% PF	\$19
	80% PF	\$15
	120% PF	\$23

May select a factor of 80% to 120%

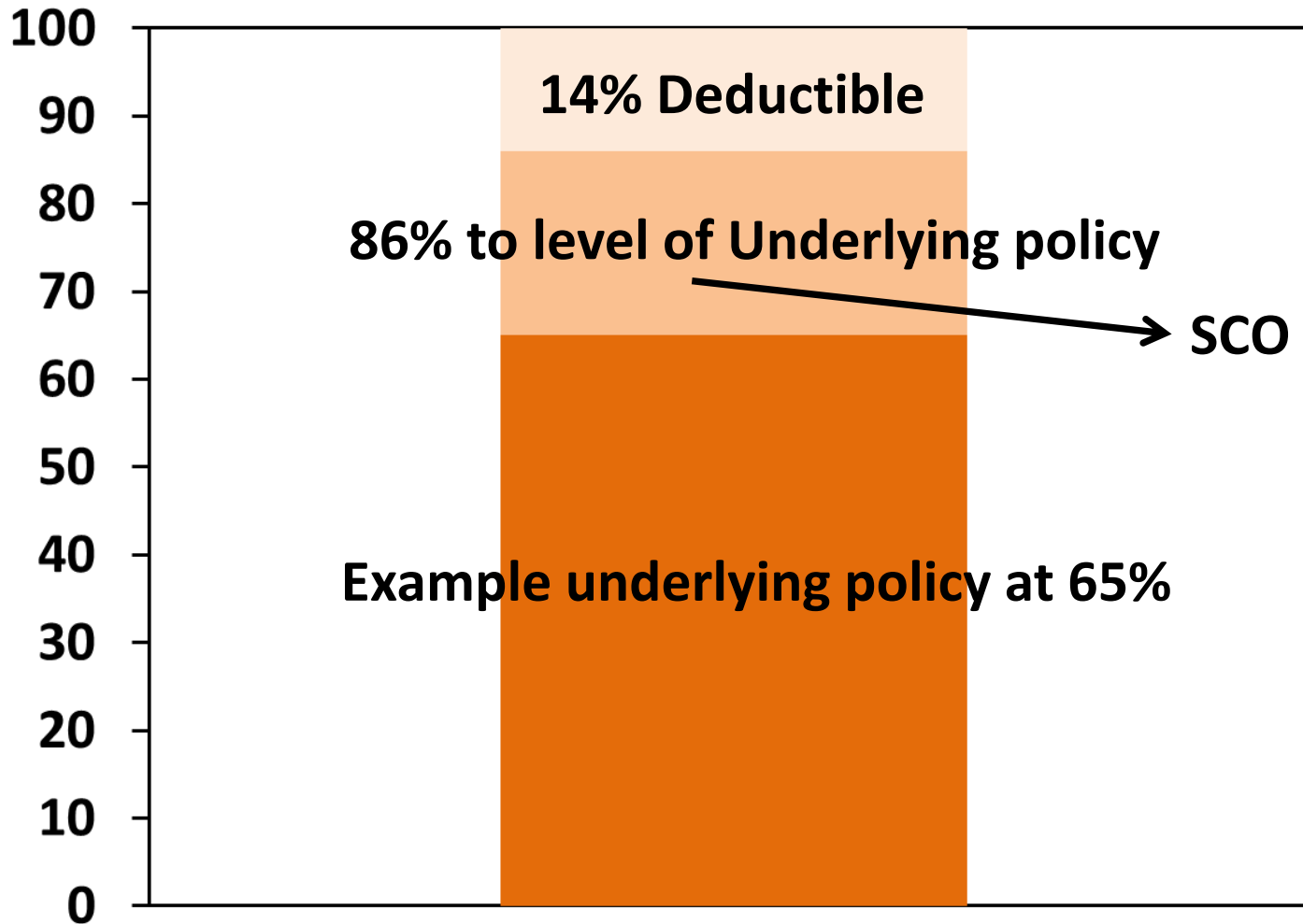


Supplemental Coverage Option (SCO)

- Available for covered commodities and cotton beginning in 2015.
- Ineligible if the same crop on a farm is enrolled in ACR or STAX.
- Producer must have underlying policy; “buy-up” coverage (> CAT)
- Provides coverage based on county yield or revenue depending on the underlying policy type.
- Indemnity is triggered if county yield or revenue falls below 86% of expected county yield or revenue
- Will cover county losses in excess of 14% down to the level of the underlying yield or revenue policy.



Example of SCO



Comparison of STAX and SCO

STAX	SCO
Based on county revenue	Based on county yield or revenue; same as underlying policy
No underlying policy required	Underlying policy required
20% coverage from 90% to 70% max	Coverage from 86% down to underlying policy
May elect payment above actual loss	N/A
80% premium subsidy	65% premium subsidy

Eligibility and Limits

- AGI of person or legal entity, less than or equal to 3-year average of \$900,000
- “Actively engaged” = USDA will define “significant contribution of active personal management. Family members not subject to new definition. Sec. of Ag Vilsack commented that it likely will be 2016 before new definition is completed.

Eligibility and Limits

- Payment limit per person or legal entity \$125,000 for PLC, ARC, and MLG/LDP
- Loan forfeitures do not apply to MLG
- Spousal rule applies doubling to \$250,000
- Equal and separate limit for peanuts



Thank You

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