

Ag Policy Update within the **Bipartisan Budget Act of 2018**

February 2018

Adam N.
Rabinowitz

W. Don
Shurley

Amanda R.
Smith

Yangxuan
Liu



Agricultural & Applied Economics

Disclaimer

The information presented is what we have gleaned and interpreted from the text of the *Bipartisan Budget Act of 2018*. The final rules and regulations still need to be written.

Changes to Cotton Policy



Seed cotton is now a covered commodity

- Title I of the 2014 farm bill
- Eligible for PLC and ARC payments
- Unginned upland cotton (lint & seed)



Generic Base will no longer exist beginning in the 2018 crop year

REALLOCATION OF GENERIC BASE

Reallocation of Generic Base

Cotton Base
was converted
to Generic
Base in 2014
Farm Bill

Reallocation
of Generic
Base must be
completed
within 90 days

The Bipartisan
Budget Act of
2018 passed
on Feb 9,
2018

May ? 2018
last day to
convert
Generic Base

Two options to convert Generic Base on a farm

Reallocation of Generic Base



If a farm has generic base, but no covered commodity or cotton has been planted for 2009 – 2016, the generic base would be converted to “***Unassigned Base***”

- **Unassigned Base** will be ineligible for ARC/PLC for the remainder of the 2014 farm bill

Option 1 - Reallocate Generic Base

Convert to Seed Cotton Base equal to the higher of

- 80% of the Generic Base
- or
- The average cotton acres planted during 2009 – 2012 (not to exceed total generic base acres)

Any remaining Generic Base acres would become **Unassigned Base** and **ineligible** for ARC/PLC

Option 2 - Reallocate Generic Base

Convert proportionately to Seed Cotton Base and Bases of other covered commodities according to 2009-2012 planting history

- 100% of the Generic Base would be reallocated and none would be designated as Unassigned Base

If you choose to do nothing, Option 1 will be assumed

Let's try to understand the Options

Start with the 2009 – 2012 crop history that was used in 2014 to retain or reallocate the bases of covered commodities:

Farm Number (FSN)	1759				
Covered Commodities Planted	Acres Planted and Considered Planted (P&CP)				
	2009	2010	2011	2012	Average
Corn	40.0	0.0	50.0	0.0	22.5
Peanuts	0.0	100.0	0.0	90.0	47.5
Soybeans	0.0	0.0	40.0	0.0	10.0
Wheat	0.0	0.0	40.0	0.0	10.0

At the same time, the farm had 120 acres of Cotton Base which became 120 acres of Generic Base

Collect cotton history of planted acres

Including cotton, let's suppose the acreage history now looks like this:

Farm Number (FSN)	1759				
Covered Commodities Planted	Acres Planted and Considered Planted (P&CP)				
	2009	2010	2011	2012	Average
Corn	40.0	0.0	50.0	0.0	22.5
Peanuts	0.0	100.0	0.0	90.0	47.5
Soybeans	0.0	0.0	40.0	0.0	10.0
Wheat	0.0	0.0	40.0	0.0	10.0
Cotton	150.0	90.0	100.0	100.0	110.0
Total	190.0	190.0	230.0	190.0	200.0

Option 1



Seed Cotton Base equal to the higher of

- 80% of the Generic Base
- or
- The average cotton acres planted during 2009 – 2012 (not to exceed total generic base acres)

Option 1

Seed Cotton Base equal to the higher of

80% of Generic Base
(120 acres)
= 96 Seed Cotton Base

Average Cotton Acres
Planted 2009-2012
= **110 Seed Cotton Base**



110 Seed Cotton Base with 10 acres Unassigned Base

If the average planted acres of upland cotton during 2009-2012 was **equal to or greater than generic base acres** then **all Generic Base would be Seed Cotton Base.**

Option 1 – Outcome, Total Base for Farm Serial Number 1759

Farm Number (FSN)	1759
Covered Commodities	Bases
Corn	22.5
Peanuts	47.5
Soybeans	10.0
Wheat	10.0
Seed Cotton	110.0
Total Base on the Farm	200.0

10 Acres of Unassigned Base

Option 2



Convert **proportionately** to Seed Cotton Base and Bases of other covered commodities according to 2009-2012 planting history

Option 2

The allocation of 120 acres of Generic Base will be:

Farm Number (FSN)	1759
Generic Base Acres	120.0

Option 2

Covered Commodities Planted	2009-12 Avg P&CP	Percent of Total	GB Allocation
Corn	22.5	11.25	13.5
Peanuts	47.5	23.75	28.5
Soybeans	10.0	5.00	6.0
Wheat	10.0	5.00	6.0
Seed Cotton	110.0	55.00	66.0
Total	200.0	100.00	120.0

Option 2 – Outcome, Total Base for Farm Serial Number 1759

Farm Number (FSN)	1759
Covered Commodities	Bases
Corn	36
Peanuts	76
Soybeans	16
Wheat	16
Seed Cotton	66
Total Base on the Farm	210

Option 1 and Option 2 Summary

Covered Commodities	Option 1 Bases	Option 2 Bases
Corn	22.5	36
Peanuts	47.5	76
Soybeans	10	16
Wheat	10	16
Seed Cotton	110	66
Total Bases	200	210
Unassigned Base	10	0

**AGRICULTURE RISK COVERAGE (ARC)
OR
PRICE LOSS COVERAGE (PLC)**

Election to Participate in PLC/ARC

You have a one-time opportunity to elect your participation PLC or ARC

- Must be unanimous by all producers and landowners on the farm
- If this is not done, PLC will be the elected program

Enrollment in ARC or PLC by 2014 Farm Bill Base Acres for the Covered Commodities in GA

	2014 Farm Bill Base Acres	Enrolled in ARC ²		Enrolled in PLC	
		Acres	Percent of Base	Acres	Percent of Base
Barley	4,493	3,631	80.8	862	19.2
Canola	1,831	994	54.3	837	45.7
Corn	416,621	358,690	86.1	57,931	13.9
Grain Sorghum	50,175	37,974	75.7	12,201	24.3
Oats	44,284	38,724	87.4	5,560	12.6
Peanuts	753,328	478	< 0.1	752,849	99.9
Soybeans	139,185	121,637	87.4	17,548	12.6
Sunflowers	2,462	1,804	73.3	658	26.7
Wheat	382,111	283,887	74.3	98,224	25.7

1/ Source: USDA-FSA, http://www.fsa.usda.gov/programs-and-services/arcplc_program/index, "Yield Updating", ARC/PLC Election Data, Table 3.

2/ Total of both ARC-County and ARC-Individual; ARC-Individual equals only 92.5 acres of grain sorghum base, 1.3 acres of oat base, and 296 acres of wheat base.

AGRICULTURAL RISK COVERAGE (ARC)

Agriculture Risk Coverage – ARC-Co

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

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

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

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

*Or 10% of Benchmark Revenue, whichever is less

PRICE LOSS COVERAGE (PLC)

Seed Cotton PLC Payments

PLC Payment Rate = Reference Price - Higher of MYA Price
or Loan Rate

Total Seed Cotton PLC Payment
= PLC Payment Rate Per Pound of Seed Cotton
× Seed Cotton Payment Yield
× 85% of Total Seed Cotton Base Acres

Seed Cotton Payment Yield



For farms with Generic Base and cotton countercyclical payment yields established under the 2008 farm bill



Seed Cotton payment yield will be 2.4 times countercyclical payment yield



Landowners have a one time opportunity to update payment yield

- To 90% of the average upland cotton yields for 2008 – 2012

Seed Cotton Reference Price

PLC
Reference
Price

\$0.367/lb, which means payment will be made if seed cotton weighted market year average (MYA) price < \$0.367/lb.

MYA Loan
Rate

\$0.25/lb, which means if the MYA is less than 25 cents, 25 cents is used.

This effectively caps the PLC payment rate at 11.7 cents.

Seed Cotton MYA Price

Seed cotton MYA Price

*= proportion of cotton lint × cotton lint MYA price
+ proportion of cotton seed × cotton seed MYA price*

- Seed Cotton MYA Price
 - Impacted by both the U.S. MYA **prices** for cotton lint and seed
 - Impacted by both the U.S. **production** of cotton lint and seed

Seed Cotton MYA Price 2008 – 2017

Calculation of Seedcotton (SC) Weighted Average Market Year Average Price What It Would Have Been for 2008-2017										
Crop	Upland Cotton			All Cottonseed				Total Lbs ⁴	SC Price ⁵	
	Price ¹	Bales ²	Lbs ³	Price ¹	Tons ²	Lbs ³				
2008	47.8	12.395	5,950	223	11.15	4.300	8,601	14,550	26.136	
2009	62.9	11.783	5,656	158	7.90	4.149	8,298	13,953	30.194	
2010	81.5	17.578	8,437	161	8.05	6.096	12,192	20,630	38.091	
2011	88.3	14.722	7,067	260	13.00	5.370	10,740	17,807	42.883	
2012	72.5	16.534	7,936	252	12.60	5.666	11,332	19,268	37.272	
2013	77.9	12.275	5,892	246	12.30	4.203	8,406	14,298	39.333	
2014	61.3	15.753	7,561	194	9.70	5.125	10,250	17,811	31.606	
2015	61.2	12.455	5,978	227	11.35	4.043	8,086	14,064	32.540	
2016	68.0	16.601	7,968	195	9.75	5.369	10,738	18,706	34.563	
2017	70.0	20.570	9,874	140	7.00	6.725	13,450	23,324	33.670	

SOURCES: USDA-NASS *Crop Production* and *Agricultural Prices* and USDA *World Agricultural Supply and Demand Estimates*.

1/ Upland cotton marketing year average (MYA), cents per lb; cottonseed is MYA dollars per ton and cents per lb. 2017 are estimates.

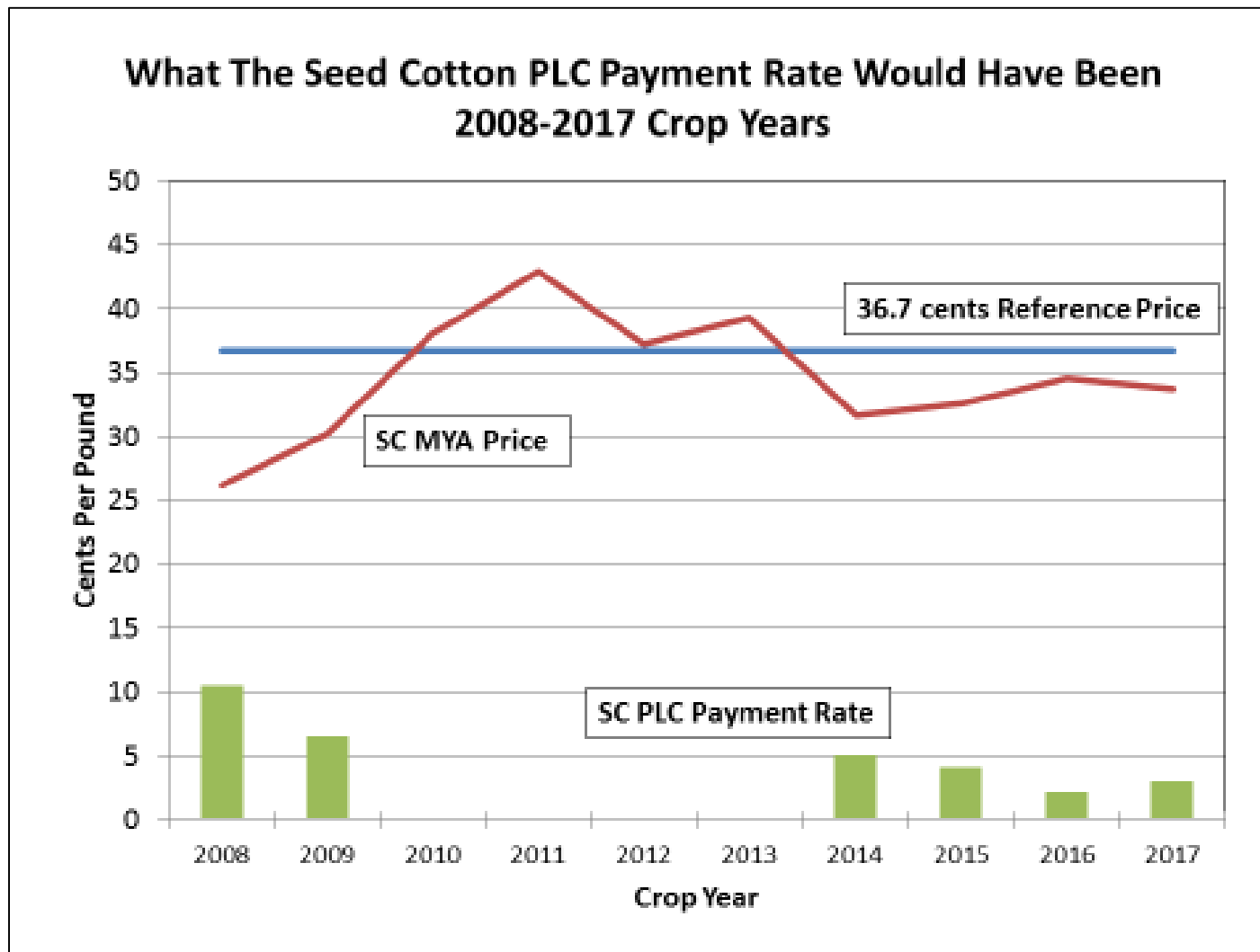
2/ Cotton is upland cotton, million 480-lb bales; cottonseed is million tons. 2017 is projected.

3/ Million lbs

4/ Million lbs, cotton plus cottonseed

5/ Seed cotton weighted MYA price; $(\text{cotton lbs}/\text{total lbs}) \times \text{cotton price} + (\text{cotton seed lbs}/\text{total lbs}) \times \text{cottonseed price}$

6 Out of the 10 years



PLC Payment Rate Per Pound of Seed Cotton* (Cents Per Lb.)

Cotton Lint Price (Cents/lb.)	Cotton Seed Price (\$/Ton)			
	180	190	200	210
70	1.52**	1.28	1.04	0.79
71	1.16	0.92	0.67	0.43
72	0.8	0.56	0.31	0.07
73	0.44	0.2	0	0
74	0.08	0	0	0
75	0	0	0	0

*Adapted from last table in *MYA Prices and Calculating Payments with the Seed Cotton PLC*.

**Payment is received on 85% of base acres and already been factored into the payments table. The proportion for Cotton Seed is assumed at 42% of total U.S. cotton seed and lint production.

Payment Limits

- The *Bipartisan Budget Act of 2018* does not mention changes to payment limits.
- Payment Limits in the 2014 Farm Bill:
 - Payments for all “covered commodities” under Title I for any crop year are limited to \$125,000
 - Seed cotton is now a “Covered Commodity”
 - There is a separate payment limit of \$125,000 for peanuts

Implications for STAX



Beginning with the 2019 crop year, those who participate in PLC/ARC will be ineligible for STAX.

Thank You



Partial support provided by growers for
economics education and research

<http://agecon.uga.edu/extension/>



Agricultural & Applied Economics