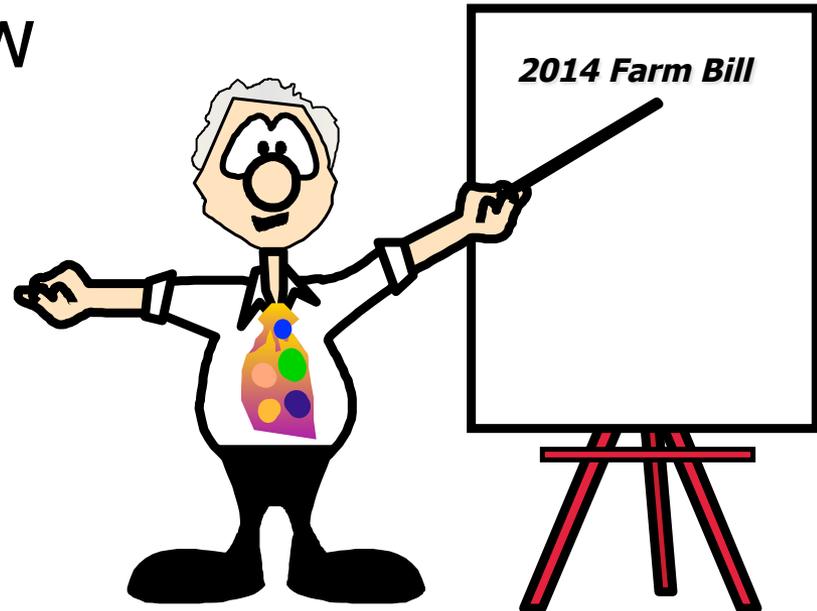


General Overview of the Agricultural Act of 2014

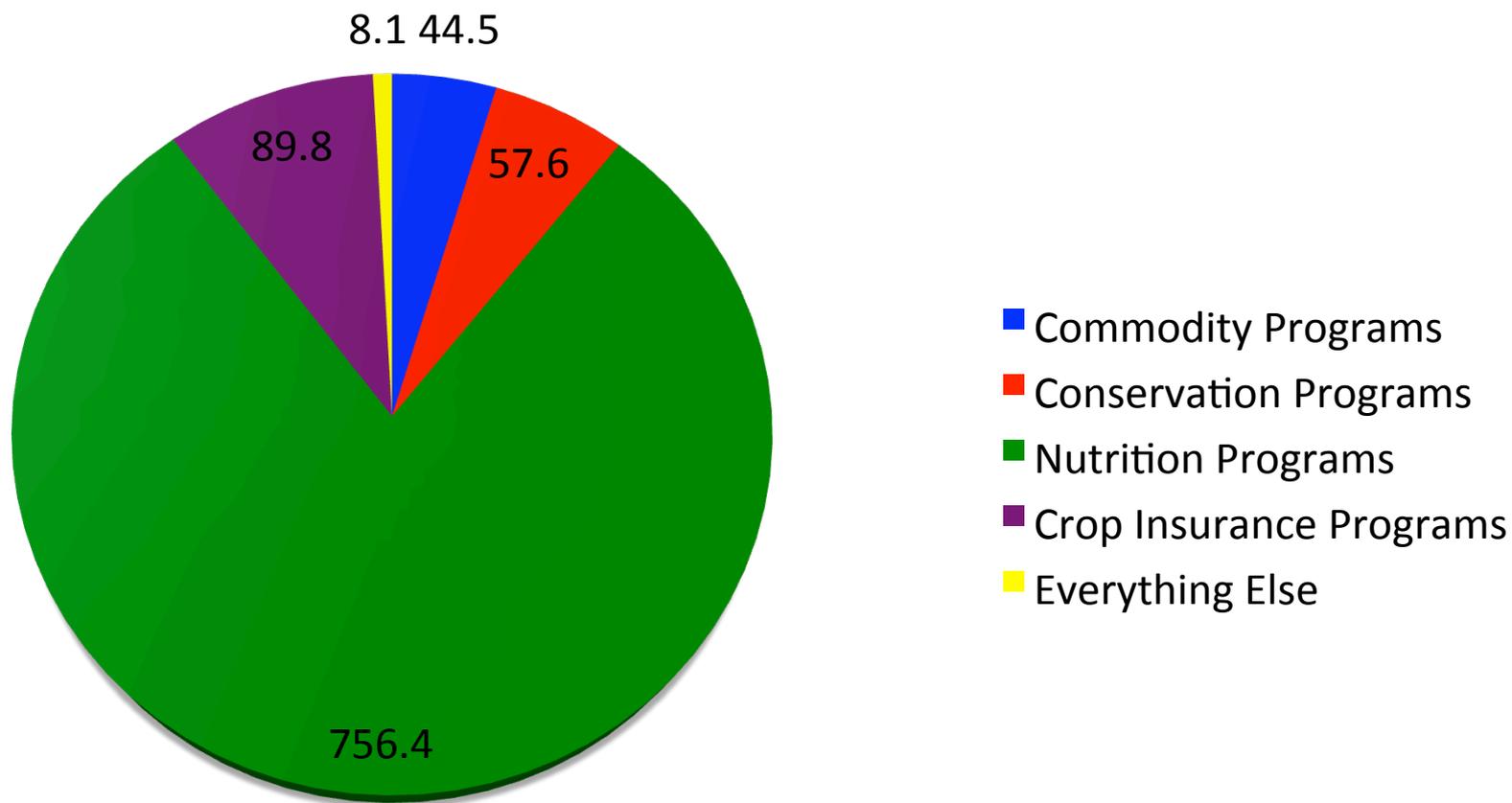
Joe Outlaw
Professor & Extension Economist
Co-Director, AFPC

Presentation Disclaimer

- This Information is Based on Our Reading of the Bill and Discussions with Ag Committee Staff
- As in the Past, We Know There Will Likely Be Differences in Our Interpretation and the Final Regulations



Estimated Outlays for 2014 Farm Bill (Billion \$), 2014 to 2023.



Commodity Programs

- Repeals direct payments, counter-cyclical payments, and ACRE
 - CCP and ACRE programs extend through 2013 crop year
- For the 2014 crop, producers must choose between the Agriculture Risk Coverage (ARC) program and Price Loss Coverage (PLC)
 - During the farm bill debate, ARC was often referred to as a shallow loss program and PLC a deep loss program
 - Regardless of which program is chosen the first payment (if any is due) will not be made until after September 30th 2015 for the 2014 crop
- Producers will also have the opportunity to reallocate their base acres to crops planted on the farm at any time during the 2009 to 2012 crop years
- Cotton base acres are now generic base acres
- If producers choose the PLC option they have the opportunity to update their payment yields to 90% of the 2008-2012 crop year averages (USDA may let everyone update regardless of choice)

Covered Commodities

- Wheat, Oats, Barley, Corn, Grain Sorghum, Long Grain Rice, Medium Grain Rice, Pulse Crops, Soybeans, Other Oilseeds and Peanuts
 - Other Oilseeds
 - Sunflower seed, Rapeseed, Canola, Safflower, Flaxseed, Mustard Seed, Crambe, Sesame Seed, or any oilseed designated by the Secretary
 - Pulse Crops
 - Dry peas, Lentils, Small Chickpeas and Large Chickpeas

Base Reallocation

- One time base reallocation
 - Two choices
 - Reallocate (cannot add base acres to a farm)
 - Retain existing base acres
 - Reallocates bases other than cotton that were on the farm as of September 30, 2013
 - Reallocation is in proportion to the ratio of:
 - The 4 year average of planted acres to each crop from 2009 to 2012 plus prevented planting/the 4 year average of all covered commodities planted plus prevent planting
 - Under planting does not affect the amount of base. The planted acres of covered commodities only affects the proportion of base acres that you will reallocate among commodities

Base Reallocation Example

	Corn	Sorghum	Soybeans	Wheat	Total
Base	0	0	0	1,000	1,000
Plantings					
2009	500	250	250	0	1,000
2010	500	250	250	0	1,000
2011	500	250	250	0	1,000
2012	500	250	250	0	1,000
Average	500	250	250	0	1,000
Share	50%	25%	25%	0%	
Reallocated Base	500	250	250	0	1,000

Source: House Agriculture Committee Staff

Base Reallocation Example

With a Non-program Crop

	Corn	Sorghum	Soybeans	Wheat	Alfalfa	Total
Base	0	0	0	1,000	n/a	1,000
Plantings						
2009	600	100	100	0	200	1,000
2010	600	100	100	0	200	1,000
2011	600	100	100	0	200	1,000
2012	600	100	100	0	200	1,000
Average	600	100	100	0	200	1,000
Share	75%	12.5%	12.5%	0%	n/a	
Reallocated Base	750	125	125	0		1,000

Source: House Agriculture Committee Staff

Base Reallocation Example

With Cotton

	Cotton	Corn	Sorghum	Soybeans	Wheat	Total
Base ^{a/}	500	0	0	0	500	1,000
Plantings						
2009	200	600	100	100	0	1,000
2010	200	600	100	100	0	1,000
2011	200	600	100	100	0	1,000
2012	200	600	100	100	0	1,000
Average	200	600	100	100	0	1,000
Generic Base	500					500
Share		75%	12.5%	12.5%	0%	
Reallocated Base		375	62.5	62.5	0	500

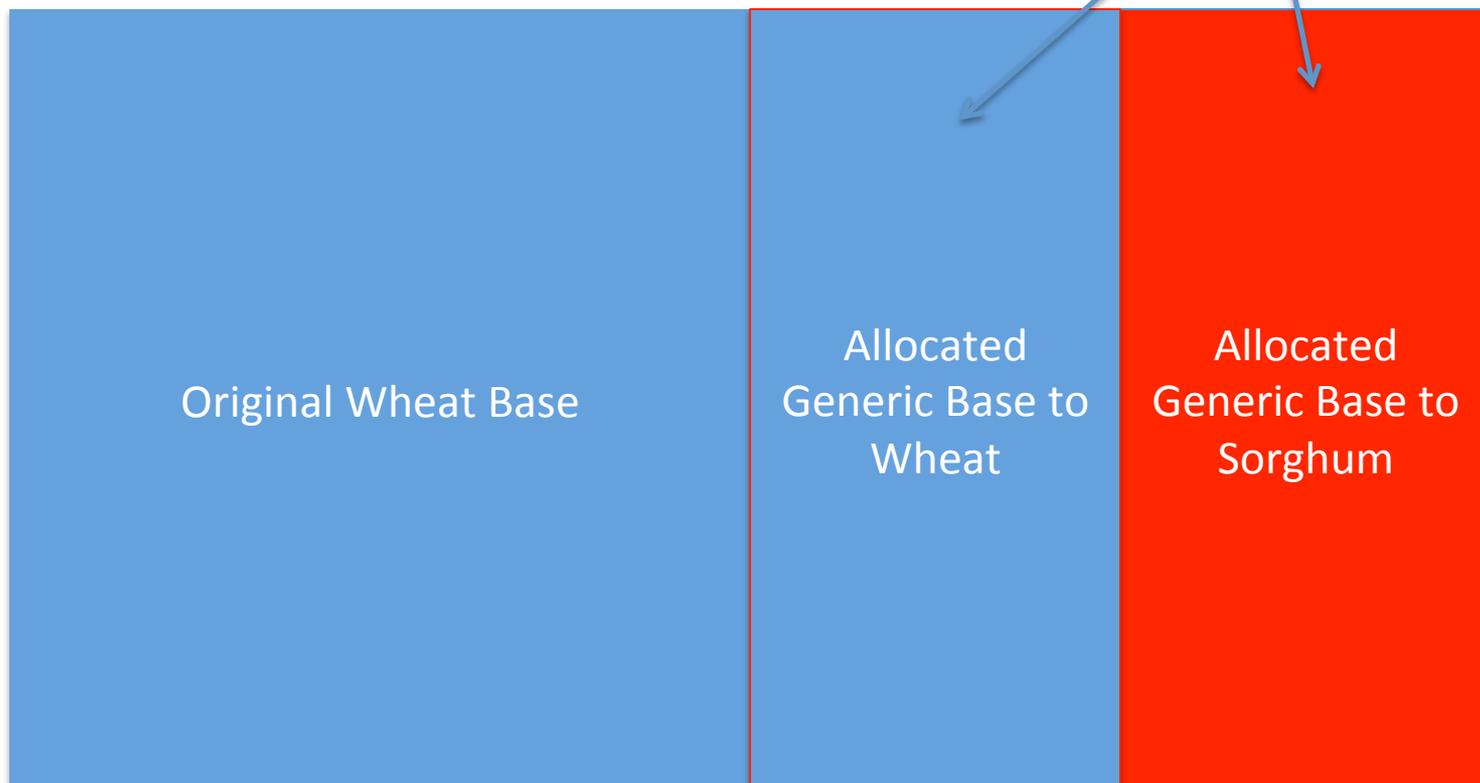
Cotton Base Becomes Generic Base

- All Cotton base on the farm as of September 30, 2013 is renamed Generic Base
 - Upland cotton no longer receives traditional commodity program payments (other than loan protection against very low prices)
 - In an attempt to resolve longstanding WTO dispute with Brazil, the only income support upland cotton will receive is through purchased insurance
 - On an annual basis, generic base acres can be assigned to other covered commodities based on the number of acres planted of the other covered commodities
 - Example: 100 total acres on farm 50 acres of wheat base and 50 acres generic. If farmer plants 50 acres of wheat and 50 acres of sorghum they would have 75 acres of base for wheat and 25 acres of base for sorghum crops for that year. If planted all wheat then would have 100 acres of wheat base for that year. If planted all cotton then in Washington terms the generic base is idle for that year. (see following examples)

Generic Base

100 Acre Farm – Base Acres: 50 Wheat and 50 Generic

If farmer plants 50 acres of wheat and 50 acres of sorghum



Farmer has protection on 75 acres of wheat and 25 acres of GS

Generic Base

100 Acre Farm – Base Acres: 50 Wheat and 50 Generic

If farmer plants 100 acres of wheat

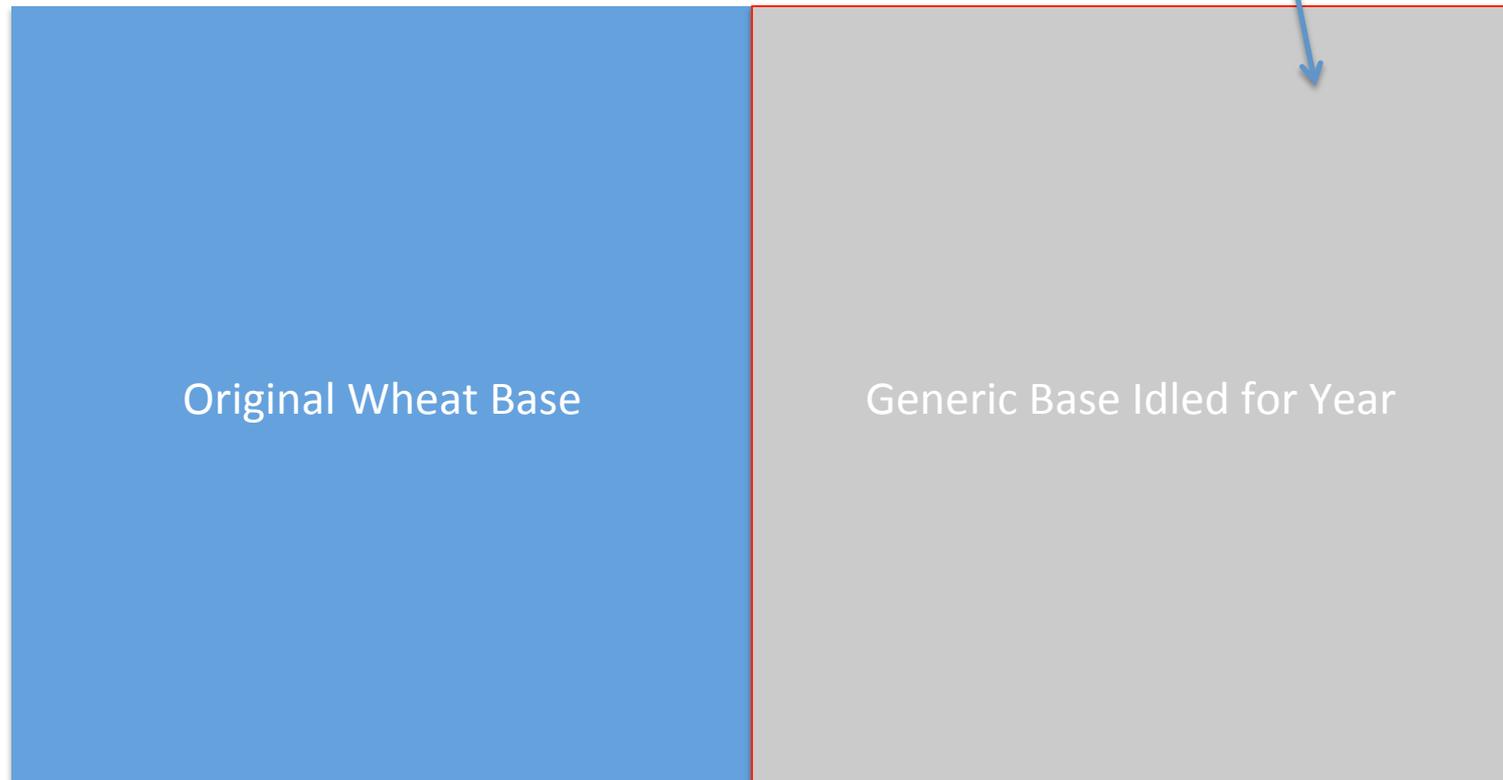


Farmer has protection on 100 acres of wheat

Generic Base

100 Acre Farm – Base Acres: 50 Wheat and 50 Generic

If farmer plants 100 acres of cotton



Farmer has protection on 50 acres of wheat

Reference Prices

- Wheat - \$5.50/bu
- Corn - \$3.70/bu
- Grain Sorghum - \$3.95/bu
- Barley - \$4.95/bu
- Oats - \$2.40/bu
- Long Grain Rice - \$14.00/cwt
- Medium Grain Rice - \$14.00/cwt
- Soybeans - \$8.40/bu
- Other Oilseeds - \$20.15/cwt
- Peanuts - \$535/ton
- Dry Peas - \$11.00/cwt
- Lentils - \$19.97/cwt
- Small Chickpeas - \$19.04/cwt
- Large Chickpeas - \$21.54/cwt

Marketing Loan Rates

Wheat - \$2.94/bu

Corn - \$1.95/bu

Grain Sorghum - \$1.95/bu

Barley - \$1.95/bu

Oats - \$1.39/bu

Long Grain Rice - \$6.50/cwt

Medium Grain Rice - \$6.50/cwt

Soybeans - \$5.00/bu

Other Oilseeds - \$10.09/cwt

Peanuts - \$355/ton

Dry Peas - \$5.40/cwt

Lentils - \$11.28/cwt

Small Chickpeas - \$7.43/cwt

Large Chickpeas - \$11.28/cwt

Honey - \$0.69/lb

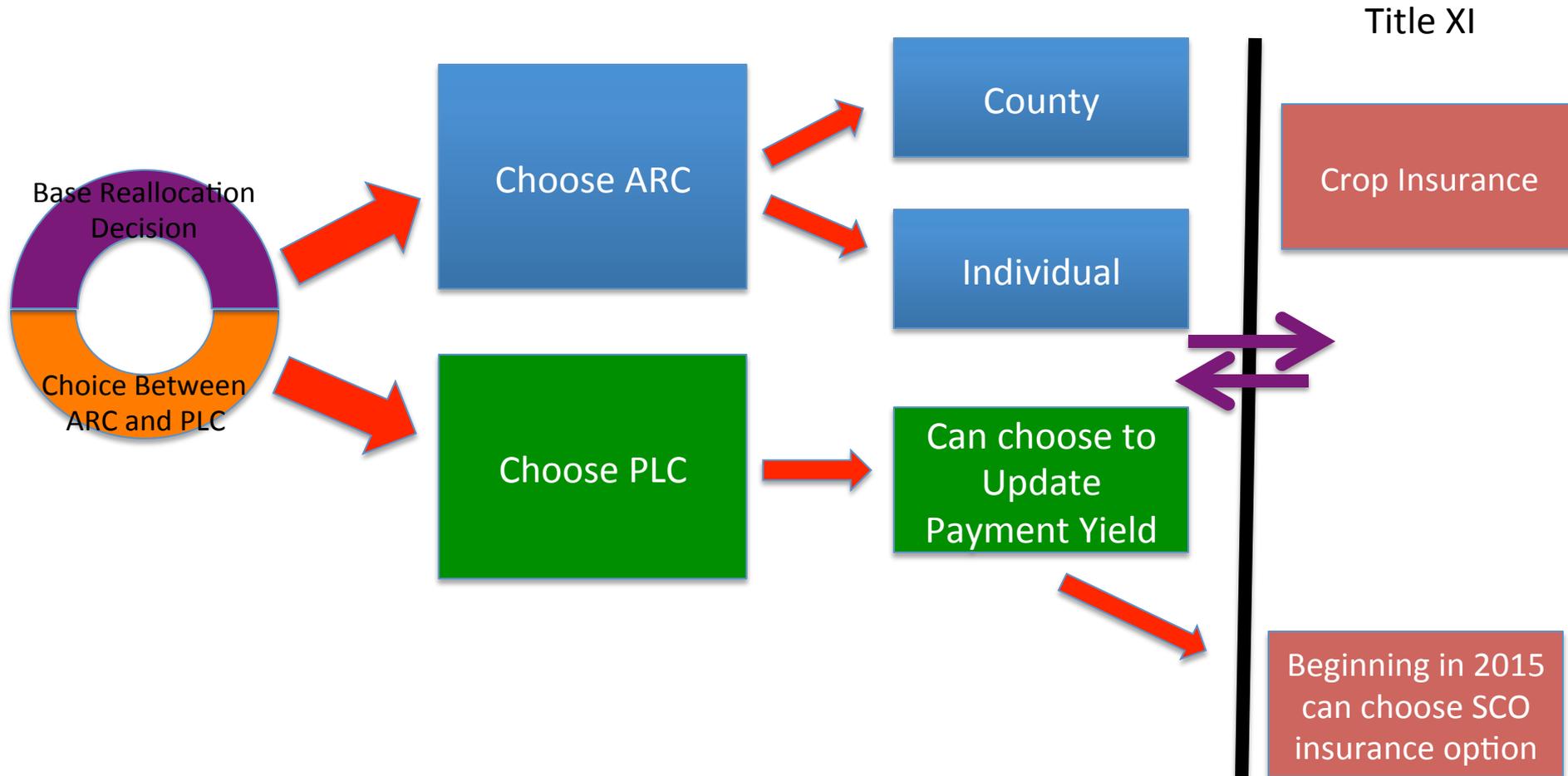
Graded Wool - \$1.15/lb

Nongraded Wool - \$0.69/lb

Mohair - \$4.20/lb

Upland Cotton - \$0.45 to
\$0.52/lb

Flow Chart of Title I Producer Choices for Covered Commodities Other than Upland Cotton



This decision is on a crop by crop basis for each farm unless the producer chooses individual ARC then it is for all the crops on that farm. If all parties cannot agree on a choice then the farm would not be enrolled in ARC or PLC for the 2014 crop and the farm would automatically be enrolled in PLC for the 2015 crop and beyond.

Who Makes The Decisions?

- Base reallocation

- *As soon as practicable after the date of enactment of this Act, the Secretary shall provide notice to the owners of a farm regarding their opportunity to make an election*

- Yield Update

- *At the sole discretion of the owner of a farm, the owner of a farm shall have a 1-time opportunity to update, on a covered commodity-by-covered-commodity basis, the payment yield that would otherwise be used in calculating any price loss coverage payment for each covered commodity on the farm for which the election is made.*

Who Makes The Decisions? (Cont)

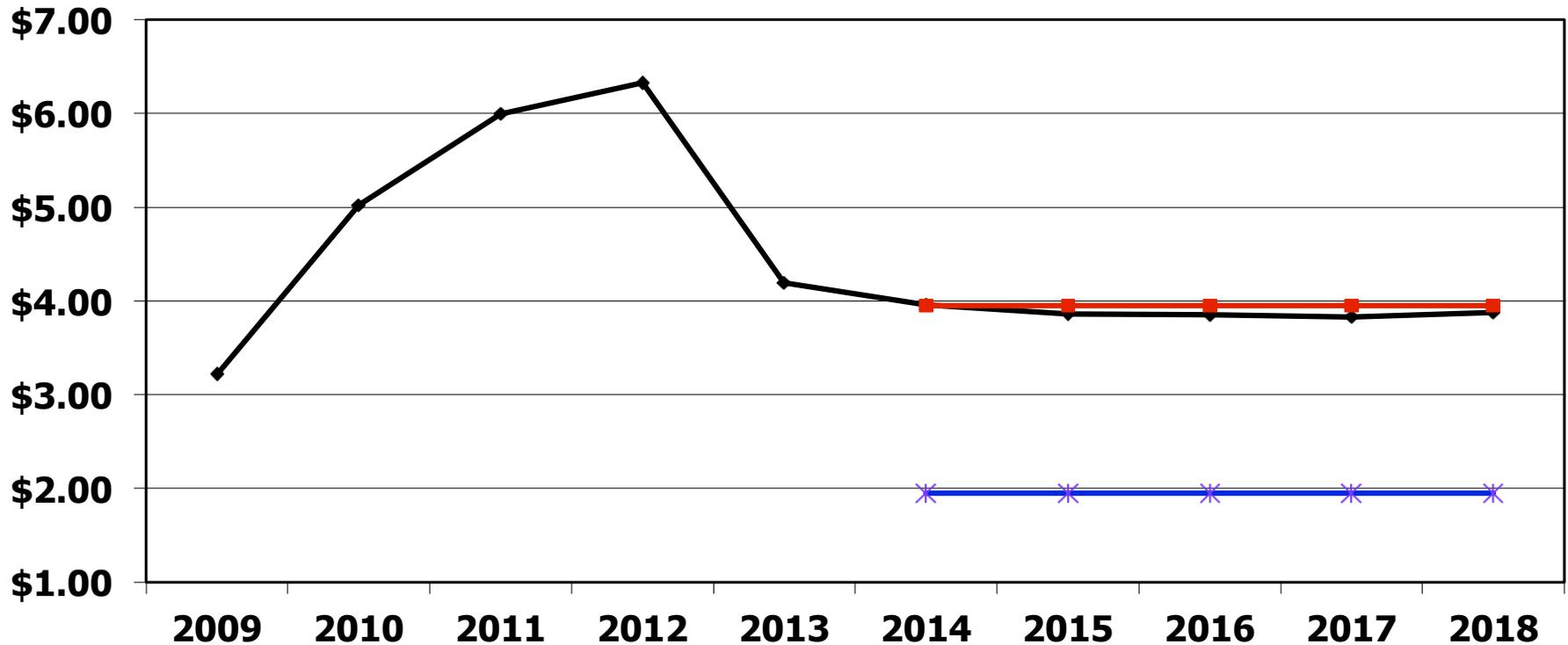
- ARC or PLC
 - For the 2014 through 2018 crop years, **all of the producers on a farm** shall make a 1-time, irrevocable election to obtain—
 - (1) price loss coverage under section 1116 on a covered commodity-by-covered-commodity basis; or
 - (2) agriculture risk coverage under section 1117.

IN GENERAL.—The term “producer” means an owner, operator, landlord, tenant, or sharecropper that shares in the risk of producing a crop and is entitled to share in the crop available for marketing from the farm, or would have shared had the crop been produced.

Key results

Marketing year	2008/09-2012/13	2013/14	2014/15	2015/16-2023/24
	average			average
Crop prices				
Corn farm price, dollars per bushel	5.18	4.42	4.17	4.00
Soybean farm price, dollars per bushel	11.55	12.57	9.84	9.82
Wheat farm price, dollars per bushel	6.47	6.82	5.55	5.27
Upland cotton farm price, cents per pound	70.6	74.2	67.3	66.2
Crop area planted, million acres				
Corn	89.9	95.4	91.3	90.7
Soybeans	76.6	76.5	78.7	76.6
Wheat	57.2	56.2	57.0	56.4
Upland cotton	11.1	10.2	10.5	10.5
12 major crops*	256.0	260.1	259.0	256.2

FAPRI March 2014 Baseline Market Price, Loan Rate, and Reference Price for Grain Sorghum



—◆— Market Price

—*— Loan Rate

—■— Reference Price

Illustration of Government Support for Grain Sorghum Under 2008 Farm Bill

Reflects payments not on full production
(payment acres = .85 x base acres)

Revenue per bu

Target Price – \$2.63

CCP

Direct payment – \$0.35

Loan Rate – \$1.95

MLG/LDP

Market Price

Market Receipts

Decoupled (did not have to produce to receive payment)

Coupled (did have to produce to receive benefits from marketing loans gains or LDPs)

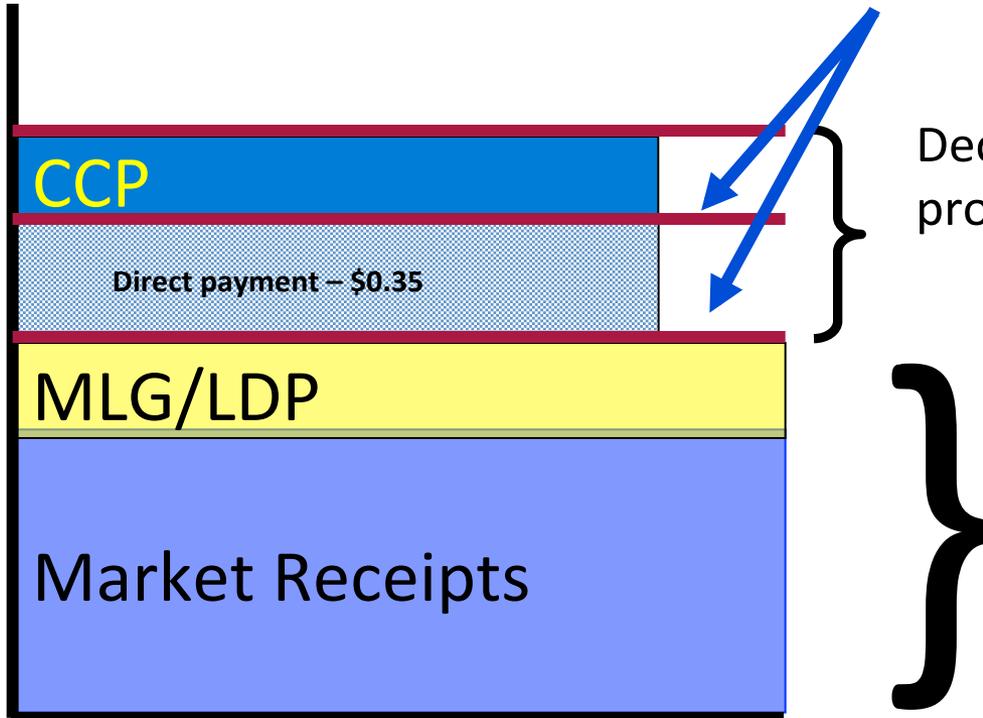


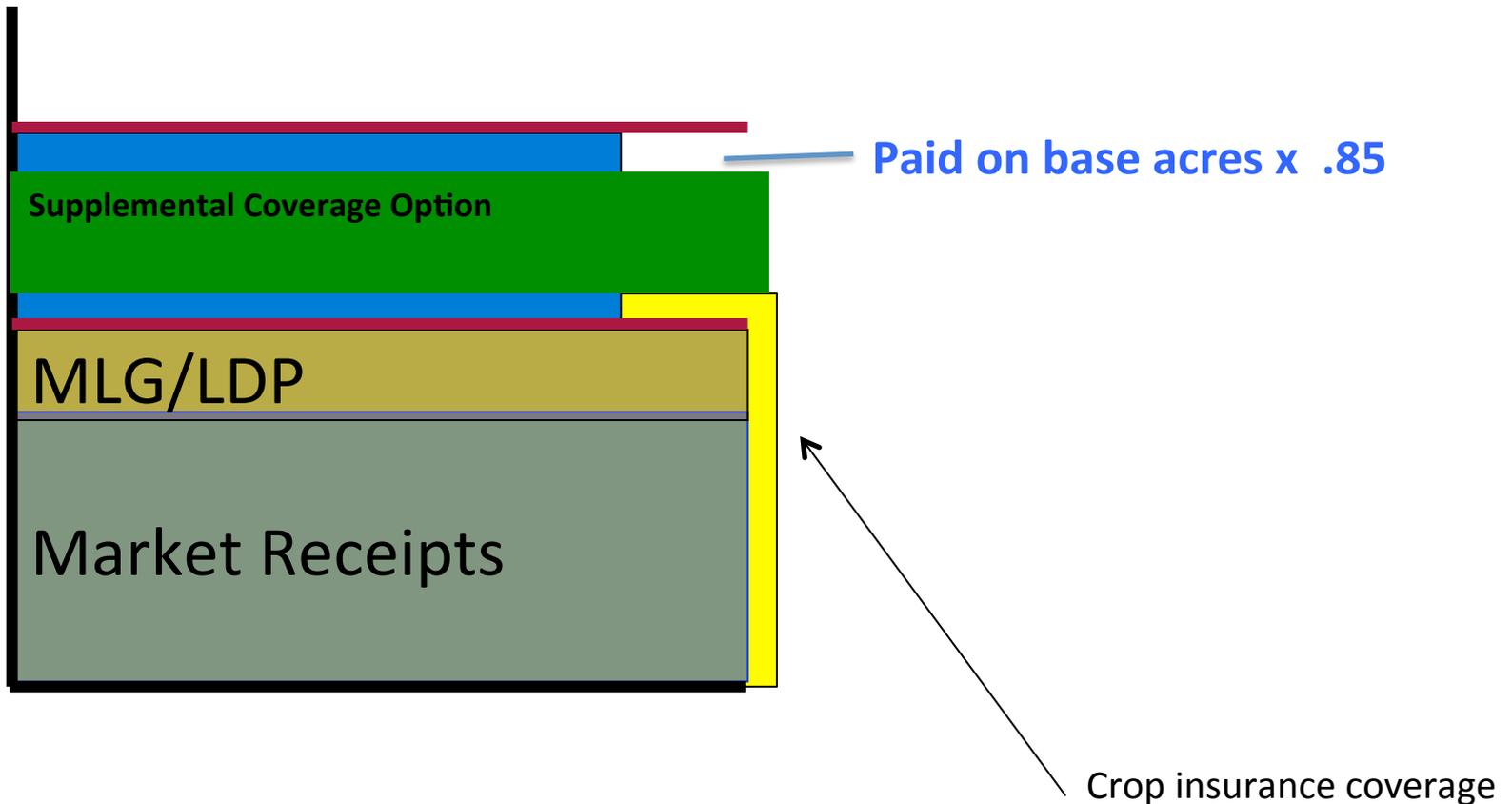
Illustration of Government Support for Grain Sorghum Under PLC

Revenue per bu

Reference
Price – \$3.95

Loan
Rate – \$1.95

Market Price

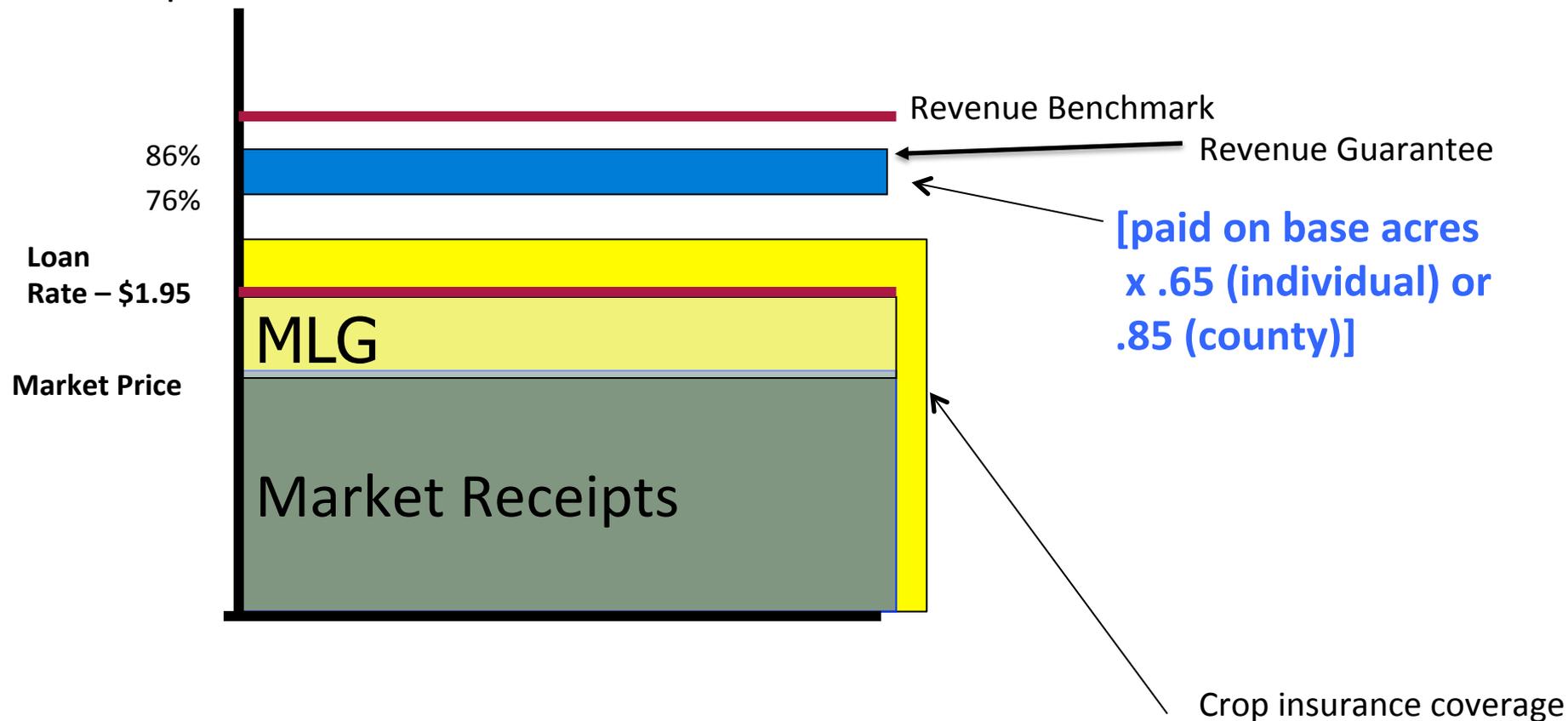


Price Loss Coverage (PLC) Program

- Covers Losses in Income Due to Covered Commodity Price Declines Below Established Reference Prices
- PLC Payment Rate = Reference Price – Higher of {National Average Marketing Year Price or Marketing Loan Rate}
- PLC Payment = PLC Payment Rate * Payment Yield * Base Acres X .85

Illustration of Government Support for Grain Sorghum Under ARC-County

Revenue per bu



Agriculture Risk Coverage (ARC)

- Covers Losses in Income for a Covered Commodity Relative to a Revenue Guarantee
- ARC can be Selected at the County or Individual Level
- ARC County
 - Payments are made when actual revenue for the covered commodity < ARC revenue guarantee, where:
 - Actual county revenue = actual county yield per planted acre * the higher of {National Marketing Year Price or Marketing Loan Rate}.
 - ARC revenue benchmark is equal to the U.S. Olympic average marketing year price for the most recent 5 years * the Olympic average county yield for the most recent 5 years. If any of the 5 years of prices are lower than Reference Price then replace with the Reference Price. If the actual county yield is < 70% of T-yield replace with the T-yield
 - ARC revenue guarantee = .86 * ARC revenue benchmark
 - Payment = Minimum of (ARC Revenue Guarantee – Actual Revenue) **OR** 10% of the benchmark * Base Acres * .85
 - ARC county will allow irrigated and non-irrigated to be calculated separately

Agriculture Risk Coverage (ARC) (Cont.)

- ARC Individual

- Based on producers share of all covered commodities planted on all farms for which ARC has been selected
- ARC guarantee is 86% of benchmark revenue
- Benchmark revenue is average historical revenue for the most recent 5 years excluding the high and low weighted by current plantings
- Coverage is based on producer's share of all covered commodities planted on all farms which individual coverage was selected
- Payment = Minimum of (ARC Revenue Guarantee – Actual Revenue) **OR** 10% of the benchmark * Base Acres * .65
- If they select ARC individual coverage on any crop on the farm then the entire farm is in ARC individual coverage

Payment Limitations

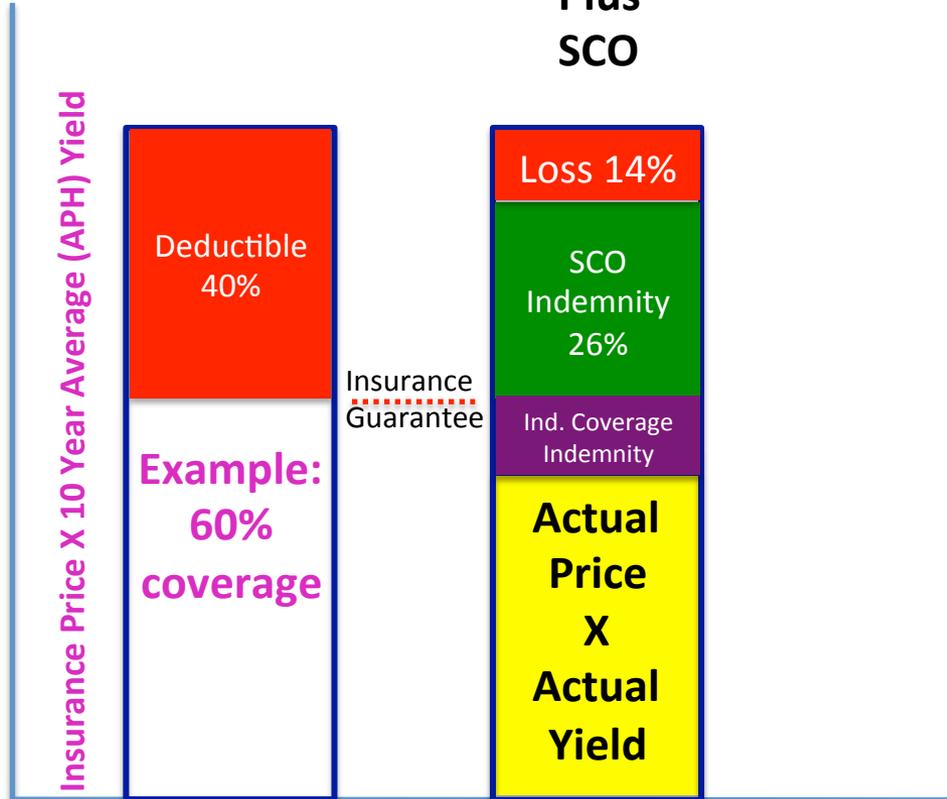
- \$125,000 per person payment limits for (ARC, PLC, LDPs and marketing loan gains) combined
- Peanuts maintain a separate limit
- No limit on marketing loan forfeitures
- \$900,000 3 year average adjusted gross income (AGI) on commodity and conservation programs
- Actively Engaged Provisions
 - Directs the USDA Secretary to conduct a rulemaking to define the term “significant contribution of active personal management” and determine if a limit on the number of individuals in an entity qualifying using “management” is necessary.
 - Potential changes will not apply to individuals or to entities that are made up solely of family members.

Major Insurance Provisions

- A new area-wide insurance program (SCO) will be available to all producers to purchase beginning in 2015 that is designed to protect them against losses that would normally fall within their insurance deductible range. Must have individual policy.
 - Up to 86% revenue guarantee. 65% premium subsidy
- Makes enterprise unit discount permanent. Allows enterprise units to be split out for irrigated and non-irrigated crops.
- Adjustment in actual production history to determine insurable yields.
 - A producer may choose to exclude any year from their APH if their yield in that year is less than 50% of the ten year county average. This also applies to contiguous counties and allows for the separation of irrigated and non-irrigated acres.
- Must create a revenue policy for peanuts in time for the 2015 crop
- Requires conservation compliance to receive premium subsidy

**Crop
Insurance
Expected
Revenue**

**Example of
Price Loss
Coverage
(PLC)
Plus
SCO**



Insurance
Guarantee

+
**Any PLC
Benefits**

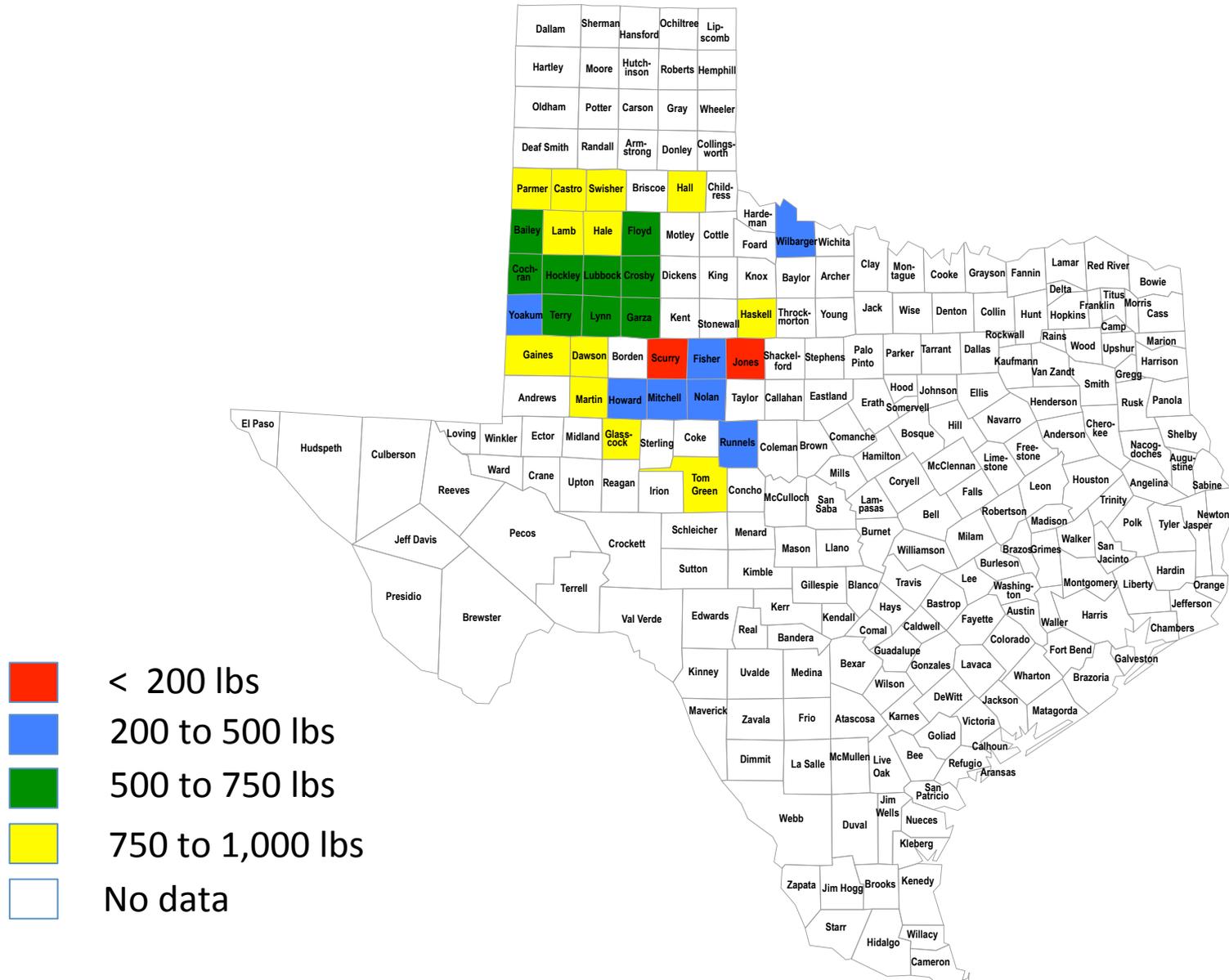
Upland Cotton

- Upland cotton producers will no longer participate in commodity programs other than the marketing loan program. The primary government safety net for cotton producers will be a new cotton only insurance program referred to as stacked income protection plan (STAX). STAX will not be available until the 2015 crop year at the earliest so the bill provides cotton producers a transition payment for up to 2 years if needed that is similar to the direct payment in previous farm bills.
- Upland cotton marketing loan rate is the simple average of the adjusted prevailing world price for the 2 immediately preceding marketing years, as determined by the Secretary and announced October 1 preceding the next domestic plantings, but in no case less than \$0.45 per pound or more than \$0.52 per pound.

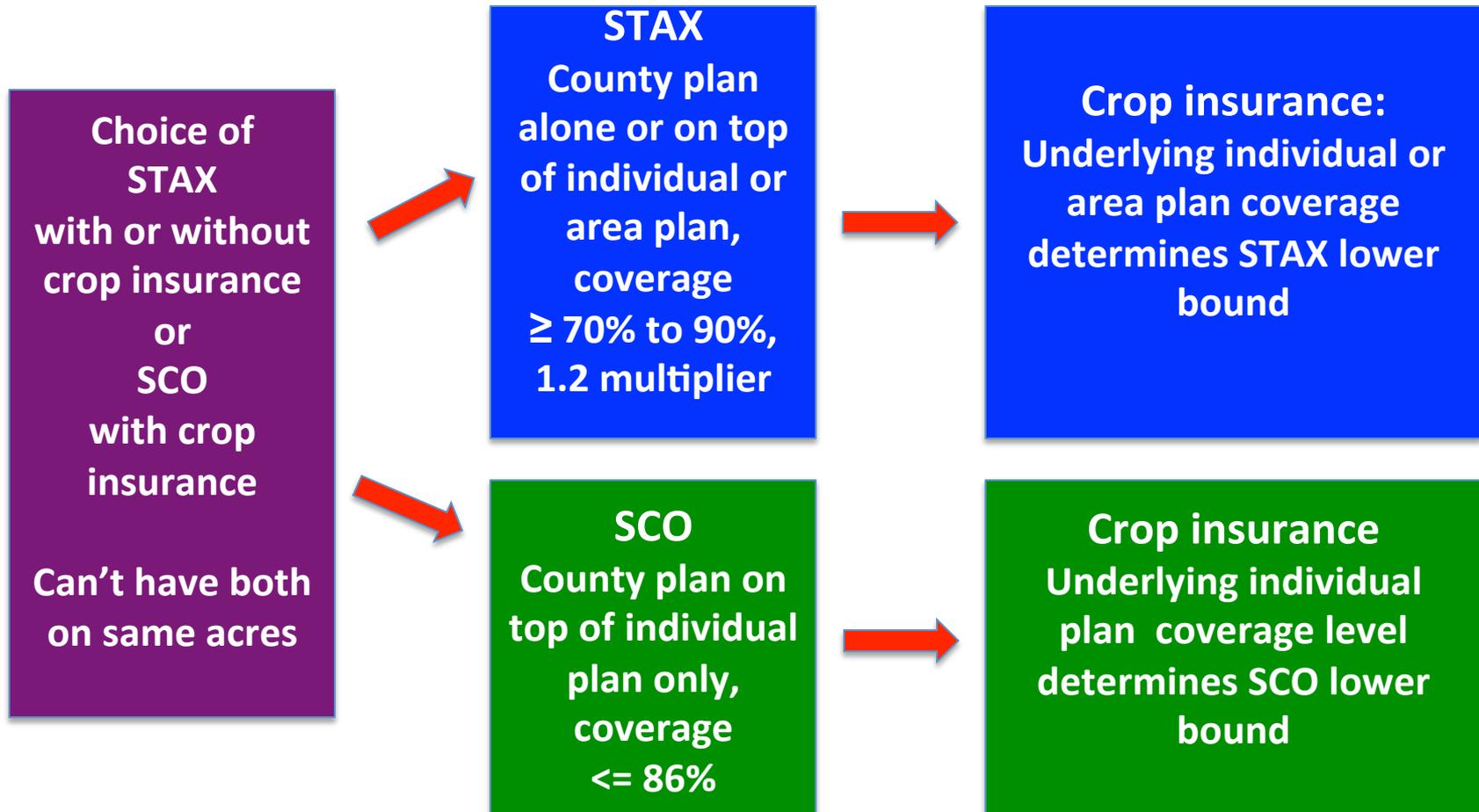
Stacked Income Protection Plan (STAX)

- Expected to be available beginning 2015 crop year
- An area-wide insurance program only available to upland cotton producers to purchase beginning in 2015 (similar to GRIP plan)
- Covers from 90% of revenue guarantee down to 70% or insurance coverage level (whichever is higher) in 5% increments. 80% premium subsidy and includes protection factor up to 120%
- Revenue guarantee established based off of expected insurance price * an expected county yield (max of expected county yield for area plans or most recent 5 year Olympic average yield from RMA or NASS)
- Can be in addition to individual buy-up coverage or used as a stand alone policy
- Differentiates between irrigated and non-irrigated
- Will need to make Commodity Program Choices on Generic Base

2012 RMA GRP Yields for Irrigated Cotton



Flow Chart of Title XI Decisions for Upland Cotton



Decisions...Decisions

- We are working on educational materials and tools to assist producers with these decisions
 - ✧ Crops and Dairy so far
 - ✧ Crops
 - Decision whether to reallocate base acres
 - Choice between ARC (county or individual) and PLC
 - Decision to update payment yields for PLC
 - STAX or SCO for upland cotton
 - Insurance Coverage Decisions
 - ✓ Enterprise or Individual Unit
 - ✓ Insurance Type (YP, RP, - HPE)
 - ✓ Coverage Level
 - ✓ Trend Adjusted Yields or not
 - ✓ Decision to take SCO with PLC

Supplemental Agricultural Disaster Assistance Programs

- Livestock defined as cattle (including dairy), bison, poultry, sheep, swine, horses and other livestock as determined by the Secretary
- Livestock Indemnity Payments
 - FY 2012 and each succeeding year
 - For livestock death in excess of normal mortality due to attacks by animals reintroduced into the wild by the Federal government, adverse weather (hurricanes, floods, blizzards, disease, wildfires, extreme heat, and extreme cold
 - Payment rates – 75% of the market value of applicable livestock
- Livestock Forage Disaster Program
 - FY 2012 and each succeeding year
 - An eligible livestock producer may receive assistance under this subsection only for grazing losses for covered livestock that occur on land that:
 - Is native or improved pastureland with permanent vegetative cover or is planted to a crop specifically for the purpose of providing grazing for covered livestock
 - Provisions included to extend benefits to 5 months

Selected Conservation Provisions

Conservation Reserve Program (CRP)

- Conservation Reserve Program Cap Reduced from a Current Maximum of 32 to 24 million acres by 2018

	2014	2015	2016	2017	2018
	Million Acres				
CRP Cap by Year	27.7	26	25	24	24

Conservation Stewardship Program (CSP)

- Annual enrollment cap of 10,000,000 acres at a national average payment rate of \$18 per acre for FY 2014 through FY 2022.

Environmental Quality Incentives Program (EQIP)

- Merges Wildlife Incentive Program (WHIP) with EQIP
 - Eligible lands include:
 - Upland wildlife habitat
 - Wetland wildlife habitat
 - Habitat for threatened or endangered species
 - Fish habitat
 - Habitat on pivot corners and irregular areas of a field
 - And as determined by the Secretary
- 60 Percent of Funding for Livestock Producers
- At Least 5 Percent of Funds Targeted at Wildlife Benefitting Practices

	2014	2015	2016	2017	2018
	Billion Dollars of Mandatory Funding				
Environmental Quality Incentives Program (EQIP)	1.35	1.60	1.65	1.65	1.75

Thanks!!!

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