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The 2014 Agricultural Act's Impact on Farmers: *Decisions, Decisions, Decisions*

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Introduction

The 2014 Agricultural Act, commonly known as the 2014 Farm Bill, was signed into law on February 7, 2014. It represents a significant shift in U.S. agricultural policy for several reasons. Direct payments are now a thing of the past. Upland cotton is no longer a supported commodity under Title I of the Act due to a settlement of a trade dispute with Brazil. Emphasis has shifted from direct support programs to providing a safety net for almost all agricultural producers. This issue of the NC State Economist provides a summary of the significant program changes resulting from the 2014 Farm Bill that will take effect beginning with the 2015 crop year.

The 2014 Farm Bill will require growers to make several decisions, decisions that will have significant effects on the size and variability of profits. The first of these will be whether or not to re-allocate their base acres. Upland cotton will no longer have base acres, so all growers with cotton base will want to re-allocate their base. Cotton base will now be "generic base" that can be re-allocated to any crops with existing base on the farm. All growers with base acres will be allowed to re-allocate their base to match the crops they grew during 2009-2012. Growers should contact the Farm Service Agency office they work with to get the

proper forms and more detailed directions on the base re-allocation provision. In addition to decisions over base acreage, growers must make a number of other decisions due to changes in various Farm Bill programs. These are outlined in the sections below.

Commodity Program Changes

Under the new 2014 Farm Bill, farm support for traditional program crops has been restructured by eliminating the direct and counter-cyclical payment (CCP) programs and the Average Crop Revenue Election (ACRE) program. These programs are being replaced by two new support programs: Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC). These new support programs are available for most commodity crops, except for cotton. For cotton, a new protection plan called the Stacked Income Protection Plan – STAX – has been established due to the US trade dispute with Brazil, and will be offered through the Risk Management Agency (RMA).

The PLC program is a price-based assistance program. Payments are made when the effective price of a covered commodity is less than a specific reference price established in the statute for that commodity. The "effective" price of the commodity is the national average

market price during the 12-month marketing year, as determined by USDA at the end of this period. The PLC payment is equal to 85 percent of the base acres of the covered commodity times the difference between the reference price and the effective price times the program payment yield for the covered commodity.

The ARC program is a revenue-based assistance program. Producers can choose between County ARC coverage and Individual ARC coverage. County ARC payments occur when actual county revenue is in between 76% and 86% of county ARC benchmark revenue. County ARC benchmark revenue is based on an Olympic average—the average after removing high and low values—of county yields and U.S. crop year average prices for the 5 preceding crop years. Similarly, Individual ARC benchmark revenue (for each crop) is calculated by multiplying the 5-year Olympic average of individual crop yields with the 5-year Olympic average of the commodity's U.S. season average prices. The Olympic average method of calculating average yields or prices is designed to make payments less variable over time by removing the influence of years with unusually high or low yields or prices, thus aiding growers' ability to plan effectively.

County ARC payments are based on 85% of the covered commodity's base acres. If a grower's average yield for one or more crops tends to be consistently below, and closely follows, the historical pattern of the county average yield, then the county ARC might be a good option. But the decision to participate in the county ARC program must be made for each individual covered crop on the farm.

On the other hand, Individual ARC payments occur when actual individual crop revenues, summed across all covered commodities on the farm, are between 76% and 86% of individual ARC benchmark revenues, which are also summed across those covered commodities on the farm. For Individual ARC, payment is

based on 65% of the base acres for all the covered commodities on the farm.

Beginning with the 2015 crop year, all of the producers on a farm must make a one-time, irrevocable election among PLC, County ARC and Individual ARC. The PLC election can be made on a covered-commodity-by-covered-commodity basis. Individual ARC applies to all covered commodities on the farm, however, and a farm cannot elect PLC for some commodities and Individual ARC for others. If County ARC is elected for a covered commodity, then the commodity is ineligible to receive PLC payments. The commodity is also ineligible for the Supplement Coverage Option (SCO) created in the crop insurance title of the bill (see below). If Individual ARC is selected, it applies to all covered commodities and they would all be ineligible for PLC and SCO. One way to compare these programs for an individual farm would be to calculate the payments from each program based upon the last five years' yields and market prices to see which program would have paid the most. Of course, the past does not always predict the future, so comparison of the programs using other yield and price scenarios may be helpful.

The 2014 Farm Bill also retroactively re-authorizes four of the five disaster programs first established in the 2008 Farm Bill, and makes them permanent. These include the Livestock Forage Program (LFP), the Livestock Indemnity Program (LIP), the Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP) and the Tree Assistance Program (TAP). The Supplemental Revenue Assistance (SURE) program was not reauthorized.

Dairy Policy Changes

Significant changes were made to dairy policy in the 2014 Farm Bill. The Dairy Product Price Support and Milk Income Loss Contract (MILC) programs have been replaced with a new Dairy Production Margin Protection Program

(DPMPP). DPMPP makes payments to participating dairy producers when the national margin – the average farm price of milk minus an average feed cost ration – falls below a producer-selected margin ranging from \$4.00 per hundredweight (cwt.) to \$8.00/cwt. No premium is charged for the minimum \$4.00/cwt. margin protection; however, premiums are charged for coverage at higher margins. The premium schedule is different (i.e., smaller) for operations that produce 4 million or fewer pounds, relative to operations that produce greater than 4 million pounds. Participation in this program depends on individual producers' expectations about milk prices and feed costs (i.e., whether they expect that these prices will generate a margin below the coverage margins offered by the program).

Conservation Program Changes

Many conservation programs have been repealed or consolidated under the 2014 Farm Bill. Programs repealed include the Wetlands Reserve, Grassland Reserve, Comprehensive Conservation Enhancement, Emergency Forest-ry Conservation Reserve, Farmland Protection, Farm Viability, Agricultural Water Enhancement, Wildlife Habitat Incentive, Cooperative Conservation Partnership Initiative, and the Environmental Easement Program. Many of these programs will now be consolidated into the Agricultural Conservation Program, Conservation Reserve Program (CRP), Environmental Quality Incentive Program and the Regional Conservation Partnership Program. The maximum acreage allowed in the CRP has been lowered from 32 million to 27.5 million acres.

To be eligible for the federally funded portion of crop insurance premiums, all producers must comply with the swampbuster and sodbuster requirements. Producers of covered commodities have been subject to this requirement all along to participate in the commodity programs. If subject to conservation compliance for the first time, producers are given 5 crop years to develop and comply with an approved conservation plan.

Crop Insurance Program Changes

Two new insurance products have been created under the crop insurance title of the 2014 Farm Bill: the Stacked Income Protection Plan (STAX) for cotton and the Supplement Coverage Option (SCO) for other crops. These products will become available in 2015. Both are “area-based” plans that will be triggered based on county revenues (or yields), and both are considered “shallow loss” programs. Shallow loss programs pay part of the deductible that would be in place for the standard crop insurance program. STAX indemnifies losses in county revenue of greater than 10% of the county revenue guarantee but not more than the deductible level of the individual policy purchased by the producer (or not more than 30% if STAX is used as a stand-alone policy). Similarly, SCO indemnifies losses in county revenue of greater than 14% of the county revenue (or yield) guarantee but not more than the deductible level of the underlying individual insurance policy that is required for this product. The premium subsidy paid by the government for STAX is set at 80%, while for SCO it is at 65%.

Conclusion

As is clear from the preceding discussion, there are many new programs and program changes in the 2014 Agricultural Act, and a lot more “alphabet soup.” The Farm Service Agency is charged with writing the rules and regulations for all the new provisions and implementing them. This Herculean task is not expected to be completed until late summer or early fall of 2014. Until we know what those rules and regulations are, it is difficult to determine the likely effects of the various program changes on different types of farmers. Likewise, until we know the details, growers will not be able to make informed choices about the various products that have been described in this article. Therefore, we must all take a “wait and see” attitude until we know more.