DIVISION OF AGRICULTURE
RESEARCH & EXTENSION
University of Arkansas System

COMMODITY PROGRAM OPTIONS IN THE 2014 FARM BILL

Eric J. Wailes, Eddie C. Chavez, Kenton Bradley Watkins, and Robert Coats
Department of Agricultural Economics & Agribusiness
University of Arkansas Division of Agriculture
February 26th, 2014

The 2014 Farm Bill, otherwise known as the Agricultural Act of 2014 was passed by House of Representatives with a vote of 251-166 on January 28th 2014 and passed by the Senate on February 4th 2014, and signed by the President into law on February 7th. The bill includes 12 titles. Title I - Commodities includes the price and revenue support programs: Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC). These programs replace the Direct Payment, Counter-Cyclical Payment (CCP) and Average Crop Revenue Election (ACRE) programs of the 2008 Farm Bill.

However, consistent with the provisions of the Food, Conservation and Energy Act of 2008, the three replaced programs shall continue to apply through the 2013 crop year with respect to all covered commodities on a farm, *except* cotton. For the 2014 through 2018 crop years, all of the producers on a farm shall make a **one-time, irrevocable election** to obtain either: (1) PLC on a covered commodity-by-covered-commodity basis; or (2) ARC.

Farm owners will be given a one-time election of (1) retaining base acres, including any generic base acres; or (2) reallocation of base acres, other than generic base acres, for covered commodities as in effect on September 30, 2013 among those covered commodities planted on the farm at any time during the 2009-2012 crop years.

Payment limit is *$125,000* and adjusted gross income (AGI) limit is *$900,000* per person or legal entity. No payment will be given if sum of base acres on the farm is less than 10 acres, except for socially-disadvantaged and limited resource farmers.

Agricultural Risk Coverage (ARC)

The producers on a farm that elect ARC shall unanimously select whether to receive ARC payments based on: (1) **county coverage** applicable on a covered commodity-by-covered-commodity basis; or (2) **individual coverage** applicable to all of the covered commodities on the farm. If all the producers on a farm fail to make a unanimous election for the 2014 crop year: (1) the farm will not receive any payments for the 2014 crop year; and (2) the producers on the farm shall be deemed to have elected PLC for all covered commodities on the farm for the 2015 through 2018 crop years.

If all the producers on a farm select county coverage under ARC for a covered commodity, no PLC payments will be made to the producers on the farm with respect to that covered commodity. If all the producers on a farm select individual coverage under ARC, in addition to the selection and election applying to each producer on the farm, for purposes of making the calculations, the producer's share of all farms in the same State will be considered: (1) in which the producer has an interest; and (2) for which individual coverage has been selected. The producers are not allowed to reconstitute the farm to void or change an election or selection.

PRICE LOSS COVERAGE (PLC) PAYMENTS

- Price loss coverage payment is received if the **effective price** for the covered commodity for the crop year *is less than* the **reference price** for the covered commodity for the crop year.
- The **effective price** for a covered commodity for a crop year shall be *the higher of*:
  (1) the *national average market price* received by producers during the 12-month marketing year for the covered commodity, or
  (2) the *national average loan rate* for a marketing assistance loan for the covered commodity in effect for such crop year (*$6.50/cwt for rice*).

- The **payment rate** shall be equal to the *difference* between:

  (1) The **reference price** for the covered commodity, as follows:

Long grain rice, cwt:	$14.00
Medium grain rice, cwt:	$14.00 (+ 15% for japonicas)
Wheat, bu:	$5.50
Corn, bu:	$3.70
Grain sorghum, bu:	$3.95
Barley, bu:	$4.95
Oats, bu:	$2.40
Soybeans, bu:	$8.40
Other oilseeds, cwt:	$20.15
Dry peas, cwt:	$11.00
Lentils, cwt:	$19.97
Small chickpeas, cwt:	$19.04
Large chickpeas, cwt:	$21.54
Peanuts, ton:	$535.00

  AND (2) The **effective price** for the covered commodity.

- The **payment yield** is established under the Food, Conservation and Energy Act of 2008. A farmer can do *one-time* update the payment yield for a crop to 90% of the five year (2008-2012) planted acres average excluding years in which the planted acreage was zero. For any of the five years 2008-2012, a plug of 75% of the average county yield can replace the yield on the farm if it is lower than this value.

- The **payment acres** are equal to *85% of the base acres* for the covered commodity (*cannot exceed* total farm base acres).

- The **PLC payment amount** for the crop year shall be equal to the *product* of:
  (1) The payment rate; (2) The payment yield; and (3) The payment acres, for the covered commodity.

<u>**AGRICULTURE RISK COVERAGE (ARC) PAYMENTS**</u>

- Agricultural risk coverage payment is received if the **actual crop revenue** for the crop year *is less than* the **agriculture risk coverage guarantee** determined for the crop year. Separate calculations are made for irrigated and non-irrigated commodities.
- Under the *county coverage*, the **actual crop revenue** for a crop year shall be equal to the *product* of:
  (1) the actual average county yield per planted acre for the covered commodity; and

  (2) *the higher of*: (i) the *national average market price* received by producers during the 12-month marketing year for the covered commodity, or (ii) the *national average loan rate* for the covered commodity.

- Under the *individual coverage***,** the **actual crop revenue** for a crop year shall be based on the producer's share of all covered commodities planted on all farms for which individual coverage has been selected; and in which the producer has an interest to be determined as follows:
  (a) For each covered commodity, the *product* obtained by multiplying the total production and *the higher of*: (i) the *national average market price* received by producers during the 12-month marketing year, or (ii) the *national average loan rate*;
  (b) The *sum of the amounts* determined under (a) above for all covered commodities on such farms;
  (c) The *quotient* obtained by dividing the *amount* determined under (b) above by the *total planted acres* of all covered commodities on such farms.

- The **agricultural risk coverage guarantee** for a crop year for a covered commodity shall equal *86 percent of the benchmark revenue.*

- Under the *county coverage*, the **benchmark revenue** shall be the *product* of:
  (1) the *Olympic average county yield* for the most recent 5 crop years (*cannot be lower than* 70% of *transitional yield* for any year); and
  (2), the *Olympic national average market price* received by producers during the 12-month marketing year for the most recent 5 crop years (*cannot be lower than* the *reference price* for any year).

- Under the *individual coverage*, the **benchmark revenue** shall be based on the producer's share of all covered commodities planted on all farms for which individual coverage has been selected and in which the producer has an interest, to be determined as follows:
  (a) For each covered commodity for each of the most recent 5 crop years, the *product* obtained by multiplying:
- (i) the *yield per planted acre* for the covered commodity on such farms (*cannot be lower than* 70% of *transitional yield* for any year) by
- (ii) the *national average market price* received by producers during the 12-month marketing year for the most recent 5 crop years (*cannot be lower than* the *reference price* for any year);

(b) For each covered commodity, the *Olympic average of the revenues* determined under (a) above for the most recent 5 crop years;

(c) For each of the 2014 through 2018 crop years, *the sum of the amounts* determined under (b) above for all covered commodities on such farms, but *adjusted* to reflect the *ratio* between the total number of acres planted on such farms to *a covered commodity* and the total acres of *all covered commodities* planted on such farms.

- The **payment rate** for a covered commodity, in the case of **county coverage**, or a **farm**, in the case of **individual coverage**, shall be equal to *the lesser of* (1) the amount that: (i) the *agriculture risk coverage guarantee* for the crop year applicable *exceeds* (ii) the *actual crop revenue* for the crop year applicable); or (2) *10 percent of the benchmark revenue* for the crop year applicable
.
- The **ARC payment amount** for the crop year shall be *product* of:
  (1) The payment rate; and
  (2) The payment acres:
  (i) In the case of *individual coverage*, the sum of: *65 percent of the base acres* of all covered commodities; or
  (ii) In the case of *county coverage*: *85 percent of the base acres* of the covered commodity.

<u>Appendix:</u>

Transition Assistance for Cotton

Transition assistance will be provided upland cotton producers on a farm for which cotton base acres were in existence for the 2013 crop year and that is located in a county in which the Stacked Income Protection Plan required by the Federal Crop Insurance Act (7 U.S.C. 1508b) is not available for the 2015 crop year.

The *transition assistance rate shall be equal to the product* of:
(1) The June 12, 2013, midpoint estimate for the marketing year average price of upland cotton received by producers for the marketing year beginning August 1, 2013, minus the December 10, 2013 midpoint estimate for the marketing year average price of upland cotton received by producers for the marketing year beginning August 1, 2013, as contained in the applicable WASDE report published by USDA; and
(2) The national program yield for upland cotton of 597 pounds per acre.

Calculation of Amount Transition Assistance
The amount of transition assistance shall be equal to the *product* of:
(1) For the 2014 crop year, 60 percent, and for the 2015 crop year, 36.5 percent, of the cotton base acres for the farm, subject to adjustment or reduction for conservation measures;
(2) The transition assistance rate in effect for the crop year; and
(3) The payment yield for upland cotton for the farm under the Food, Conservation, and Energy Act of 2008, divided by the national program yield for upland cotton of 597 pounds per acre.