



THE 2014 FARM BILL ONE YEAR ON...

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COMBEST ENDOWED CHAIR IN AGRICULTURAL COMPETITIVENESS**

2015 Plains Cotton Ginners Meeting, Lubbock, TX

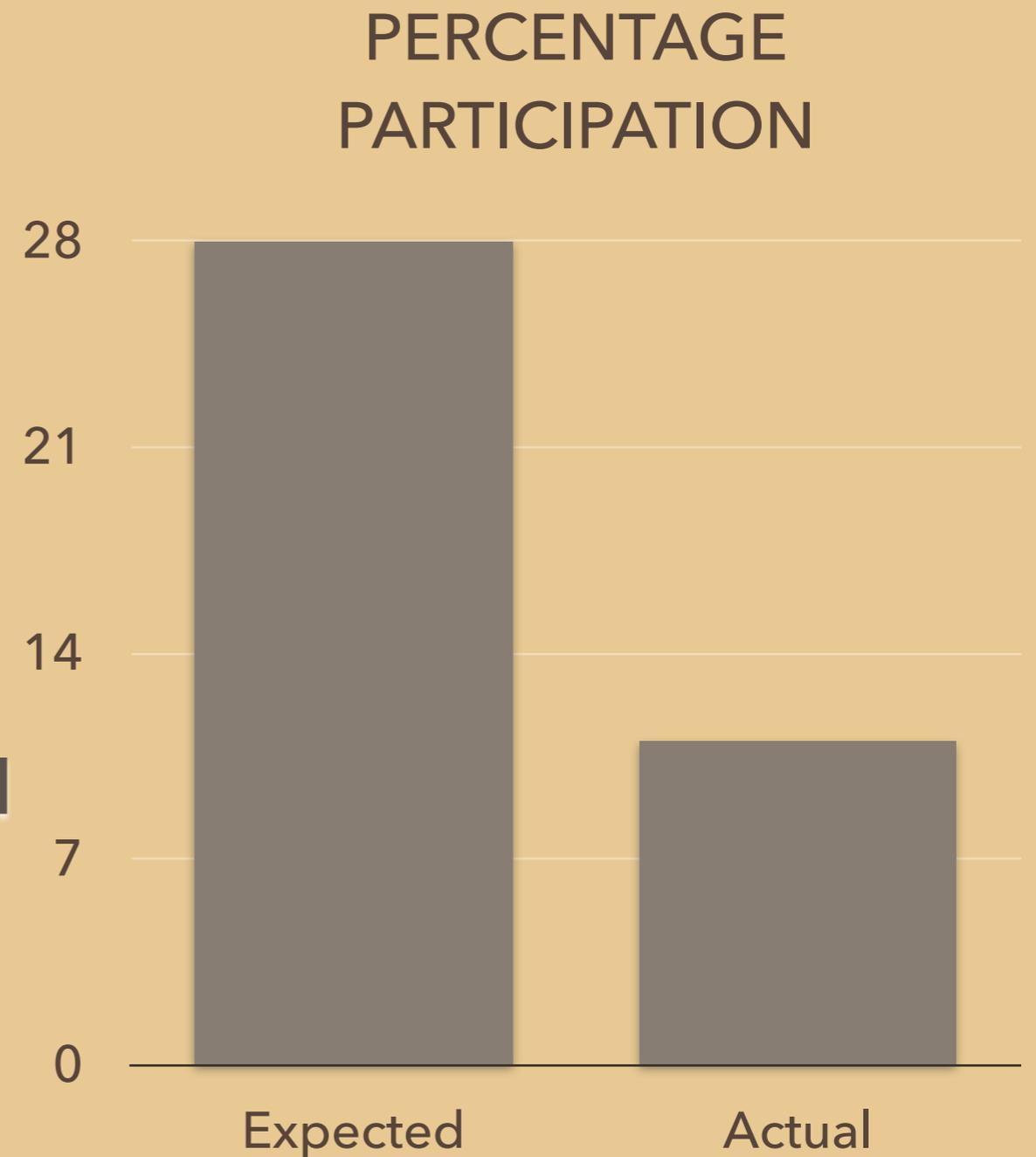
MAJOR FARM BILL CHANGES– RISK AND INSURANCE

- “Shallow loss” provisions
–STAX and SCO
- Yield exclusion
- Insurance by practice



SHALLOW LOSS-EXPECTATIONS VERSUS REALITY

- Survey of Texas cotton producers in Feb 2015
 - 28% of respondents expected to purchase shallow loss coverage
- RMA data shows that around 11% of Texas producers actually purchased shallow loss products.



WHY THE APPARENT CHANGE OF PLANS?



- **Complication**
 - A large number of moving parts to understand
 - shallow loss
 - yield exclusion
 - irrigated/dryland
 - overall farm bill choices
- Weather/anticipated probability of payoff
- "Locking in a loss."
 - Lack of a reference price harms the efficacy when prices are low
- Poorly prepared crop insurance agents

WHAT DOES THE ANALYSIS SAY?

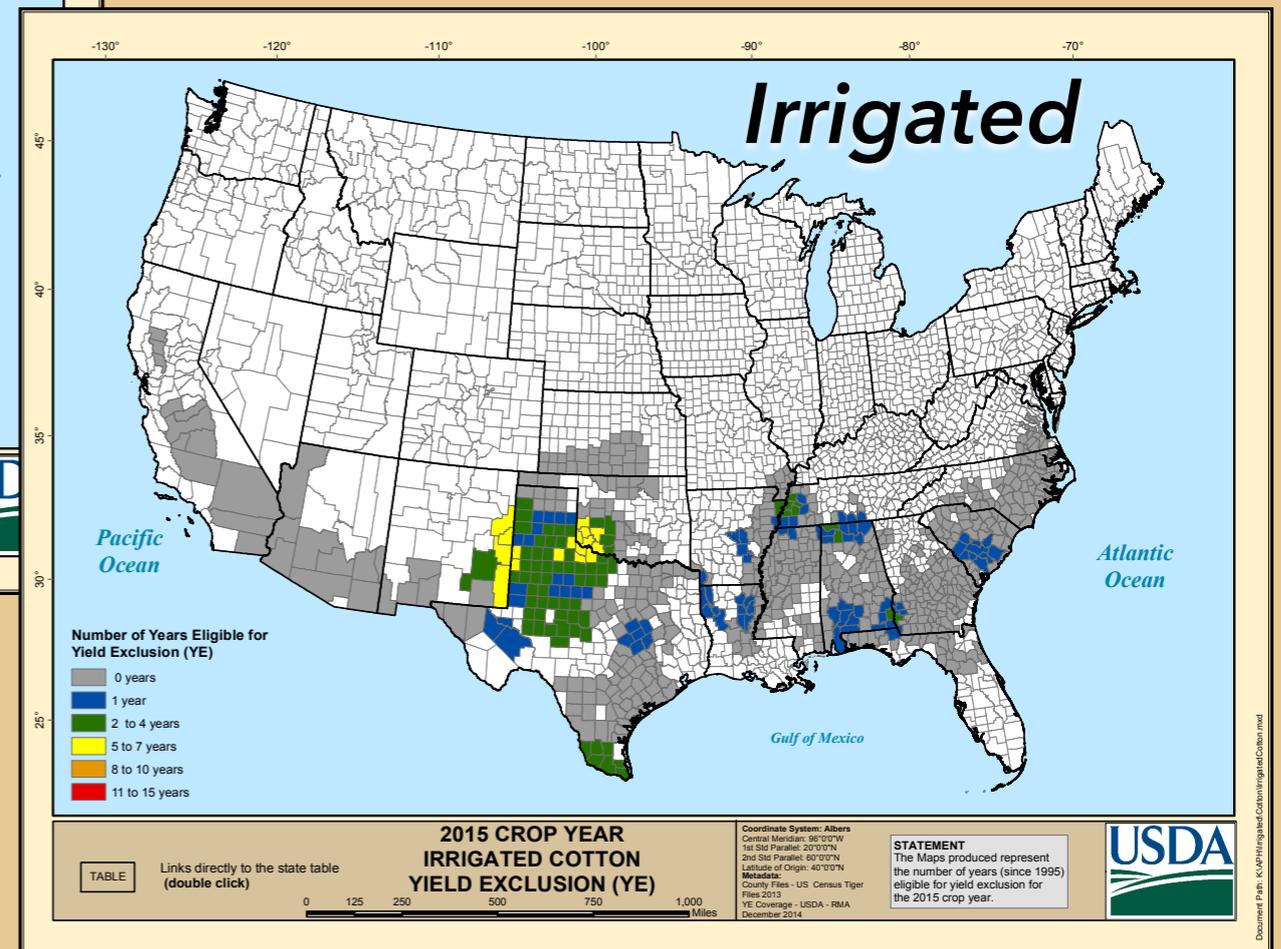
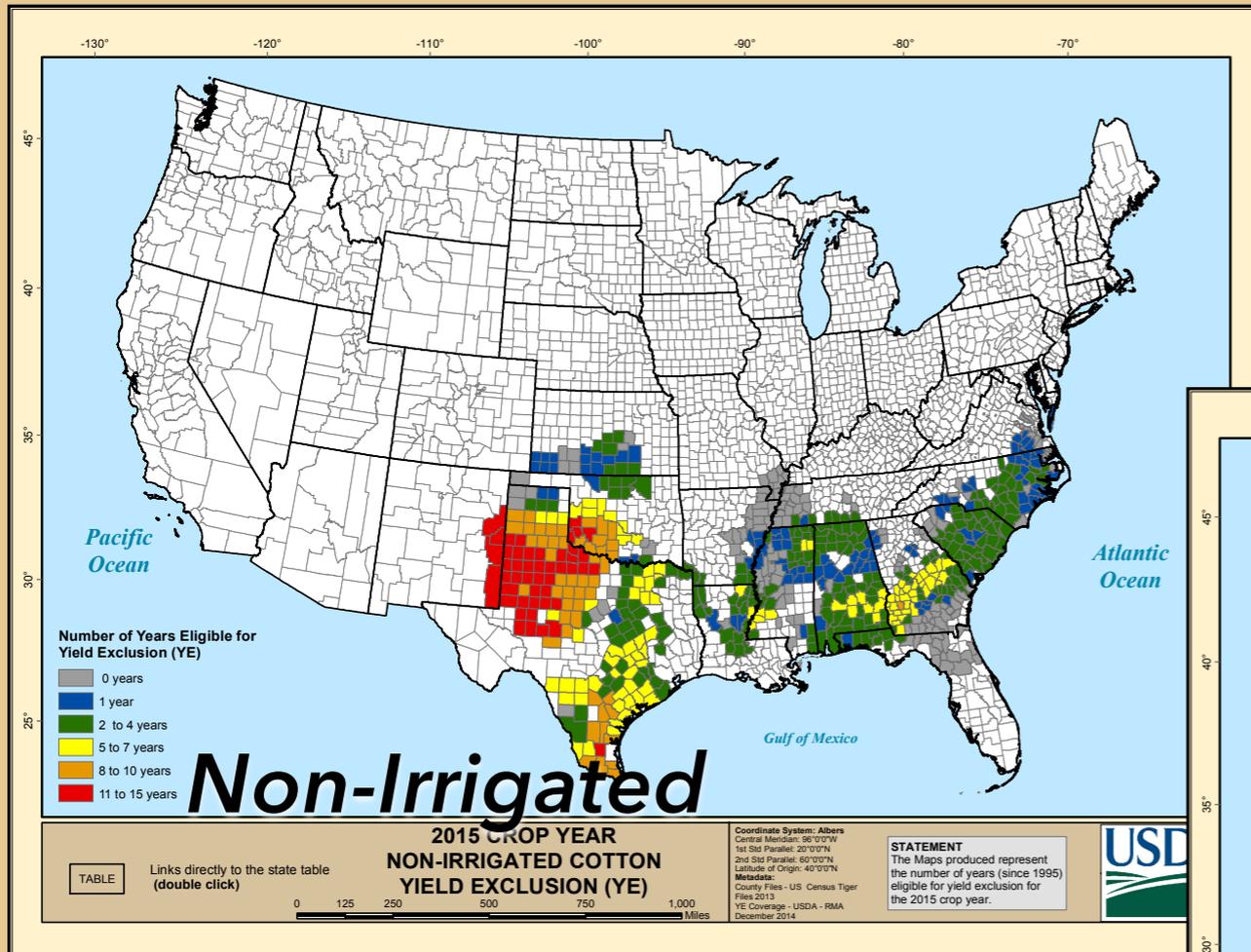
- Simulation of optimal product choice without yield exclusion shows:
 - 70% coverage level generally best
 - STAX is a good purchase, especially for producers with below county average yield
 - SCO becomes more attractive the higher the farm yield



WHAT IS THE IMPACT OF YIELD EXCLUSION?

- Yield exclusion allows producers to potentially increase their APH average yield, thereby increasing the potential yield guarantee. Two choices:
 - Keep the same coverage level—premiums rise substantially but payouts rise proportionally
 - Lower coverage level to decrease the premium and maintain same (or similar) yield/revenue protection levels
- Because SCO is based on farm yield, YE should make SCO more attractive relative to STAX when compared with no YE on the same farm

YIELD EXCLUSION ELIGIBILITY



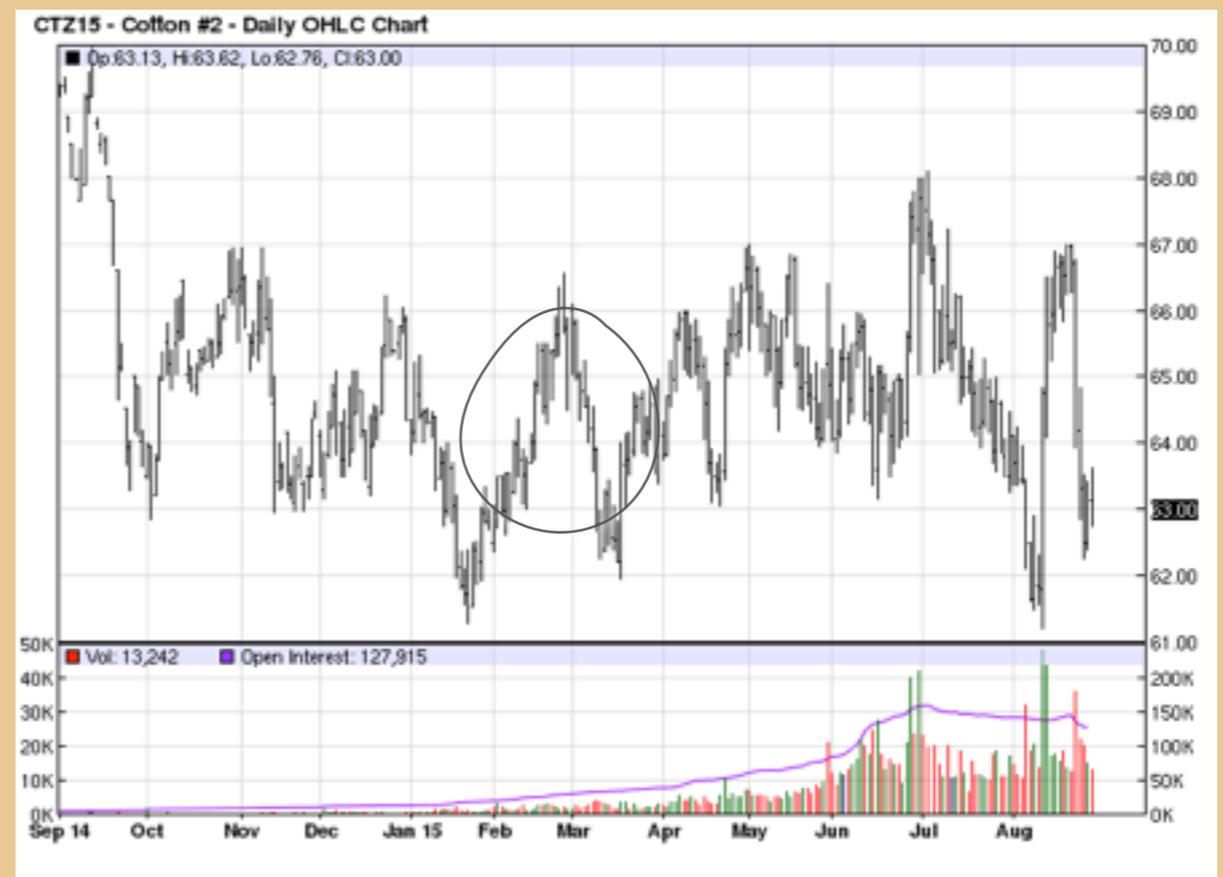
COVERAGE LEVELS



- Average coverage level across all policies in 2014 was 67%
- Average anticipated coverage level in 2015 for irrigated was 66%
- Average anticipated coverage level in 2015 for drylands was 67%

WEAKNESS OF INSURANCE-ONLY APPROACH

- No other price safety net for cotton
- Cotton price set during Jan/Feb time frame (depending on location)
- No downside price protection other than loan price or insurance price, whichever is higher (and price only relevant to insurance when RP is used)



ELEPHANT IN THE ROOM...DID COTTON GET LEFT OUT IN THE COLD?

- Yes and No.
 - Yes
 - Cotton did not get to participate in ARC/PLC programs; other crops have a "reference price" but cotton does not (PLC, not insurance)
 - Marketing loan gains were rolled into payment limits—puts cotton, who uses the marketing loan program, at a payment limit disadvantage compared to other commodities in some years
 - No
 - Generic base acres allows producers flexibility to plant other crops and participate in the commodity programs on an annual, not five year, basis
 - Received a higher subsidy on shallow loss STAX plus the flexibility to use SCO if desired

THE PATH FORWARD



- Improve our (producers and insurance agents) understanding of STAX and SCO costs and benefits
- Explore new sources of revenue from the bill (oilseeds is an example)
- Focus on producing quality cotton, controlling costs, and focus attention on marketing plans...