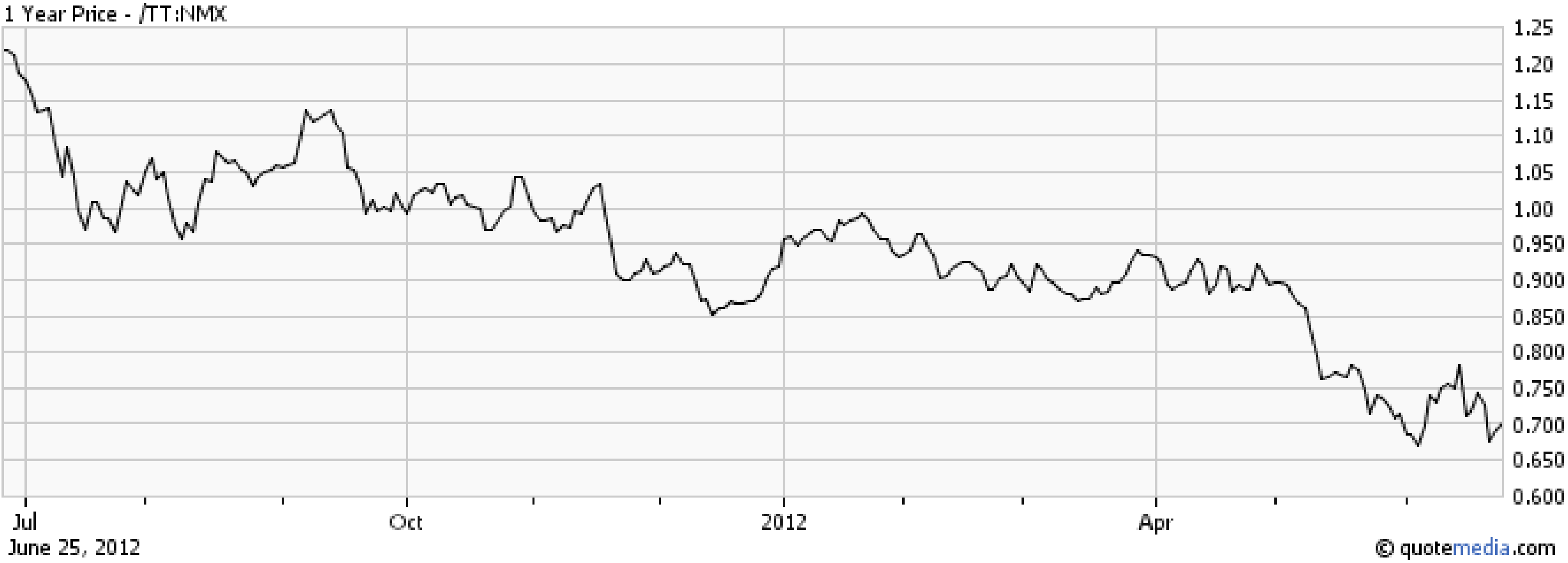
The (So far non-existent) Farm Bill and Texas Cotton

Darren Hudson
Director, Cotton Economics Research Institute
Combest Chair of Ag Competitiveness

Understanding Where We Are

- Very tight federal government budget; calls for dramatic reductions in federal spending
  - Substantial increases in food stamp spending in recent past, only modest proposals for cuts in food stamp spending
- Drastic change in the delivery of farm programs proposed
  - Insurance-based programs with subsidies delivered through premium subsidies, not direct or counter-cyclical payments
- NCC proposed early on a plan called STAX (Stacked Income Protection program)

A Changing Environment



What happens when prices decline?? 1996 Farm Bill all over again?

A Changing Environment

- Declining Price
  - Will insurance-based programs sufficiently protect against rapid price declines
- Election year
  - Partisan politics creating an unusually divisive farm bill process
- Regional differences
  - Substantial regional bickering threatening the viability of a compromise

+ Shallow Loss Programs

Provisions	Senate Agriculture Risk Coverage (ARC) Provisions	House Revenue Loss Coverage (RLC) Provisions
Revenue guarantee	Starts at 89% of previous 5-year moving Olympic average revenue for the crop	Starts at 85% of previous 5-year moving Olympic average revenue for the crop
County Level or Individual Level Coverage	One time irrevocable producer selection of either county level or individual level	One time irrevocable producer selection of county-level RLC over PLC
Payment acres	65% of planted acres not to exceed the average total acres planted or prevented from being planted to covered commodities and upland cotton on the farm for the 2009 – 2012 crop years if individual level coverage is selected or 80% for county level coverage	85% of planted acres and 30% of prevented planted acres not to exceed base acres on the farm (upland cotton base acres are included in total farm base acres) (payment factor of 85% is applied to planted acres before checking whole farm base cap)
Payment band or range	10% (89% to 79%)	10% (85% to 75%)
Actual revenue	Calculated using the average price during the first 5 months of the marketing year and actual yields	Calculated using the average price during the first 5 months of the marketing year and actual yields
Mandatory or Optional	Producer has the option to opt out of ARC and select SCO with a wider coverage level	Producer has the option to select RLC or price loss coverage (PLC) with SCO
Transitional Yields Used to Replace Low Yields in Calculating Revenue Guarantee	Can replace low yields with 60% of transitional yields in 2012 or prior years and 70% in 2013 or any subsequent years	Can replace any low yield in revenue calculations with 70% of the transitional yield

Shallow Loss--Continued

Provisions	Senate Agriculture Risk Coverage (ARC) Provisions	House Revenue Loss Coverage (RLC) Provisions
Reference Prices Used to Replace Low Prices in Calculating Revenue Guarantee	Only applicable for rice and peanuts Long Grain Rice – $13.00/cwt Medium Grain Rice – $13.00/cwt Peanuts – $530/ton	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/cwt 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
Payment Limit	$50,000, peanuts with a separate limit	$125,000, peanuts with a separate limit
AGI Limitation	$750,000	$950,000

Price Loss Coverage--House

Provisions	House Price Loss Coverage (PLC) Program
Payment Acres	85% of planted acres and 30% of prevented planted acres not to exceed base acres on the farm (upland cotton base acres are included in total farm base acres) (payment factor of 85% is applied to planted acres before checking whole farm base cap)
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
Price Trigger	If the average price during the first 5 months of the marketing year falls below the reference price for the commodity
Payment Yields	CCP yields from the 2008 Farm Bill. Producer option to update payment yields to 90% of the average yield per planted acre for the crop from 2008 to 2012, excluding any crop year in which the acreage planted was zero. May substitute a plug of 75% of the county average yield.
Payment Limit	$125,000, peanuts with a separate limit
AGI Limitation	$950,000

+

House and Senate—SCO and STAX

Provisions	Senate SCO and STAX	House SCO and STAX
SCO Coverage	Producer has the option of purchasing an area-wide policy to cover a portion of the individual crop insurance deductible.	Producer has the option of purchasing an area-wide policy to cover a portion of the individual crop insurance deductible.
SCO Coverage Band	If an ARC participant, coverage from individual producer insurance coverage level up to 79%. If producer opts out of ARC, then from individual producer insurance coverage level to 90%.	If in PLC, from individual producer insurance coverage level up to 90%. Not available if in RLC.
SCO Premium Subsidy	70%	70%
STAX Coverage Band	20%of expected county revenue subject to a 10% deductible.	20% of expected county revenue subject to a 10% deductible.
STAX Reference Price	None	$0.6861/lb
STAX Premium Subsidy	80%	80%

Preferences for ARC or more SCO—Senate Bill

	Senate ARC	"Opt Out" of ARC for More SCO Coverage
Total by Preference[1]	16	46
Feedgrain/Oilseed	3	20
Wheat	2	9
Cotton	6	8
Rice	5	9

[1] Two farms, the small Texas southern plains cotton farm TXSP2500 and the Arkansas cotton farm ARNC5000 are 100% cotton and would only be enrolled in STAX. Therefore, there would be no difference between the alternatives.

Source: AFPC, Texas A&M Representative Farm Analysis

Where are we?

- Without the "reference price," SCO and STAX are almost identical, depending on yield/price scenarios
- Clearly, more SCO is preferred financially by representative farms

Table 11. Average Difference in Net Cash Farm Income for Representative Farms that Would Prefer the ARC Plan or Opting Out of ARC for More SCO Coverage in the Senate Farm Bill Package Assuming Baseline Prices ($1000s).

	Senate ARC	"Opt Out" of ARC for More SCO Coverage
Total by Preference	6.4	21.6
Feedgrain/Oilseed	3.0	32.3
Wheat	2.8	7.0
Cotton	12.4	13.1
Rice	2.5	19.7

Source: AFPC, Texas A&M Representative Farm Analysis

Conclusions on Senate Bill

- County coverage in ARC is preferred to individual
  - Although, the financial differences between the two options are small
- Most farmers would likely "opt out" of ARC in favor of more SCO coverage

Choices in House Bill

Table 12. Number of Representative Farms That Would Prefer the Revenue Loss Coverage (RLC) versus Price Loss Coverage (PLC) Programs Based on Net Cash Farm Income in the House Farm Bill Package Assuming Baseline Prices.

	RLC	PLC
Total by Preference[1]	0	62
Feedgrain/Oilseed	0	23
Wheat	0	11
Cotton	0	14
Rice	0	14

[1] Two farms, the small Texas southern plains cotton farm TXSP2500 and the Arkansas cotton farm ARNC5000 are 100% cotton and would only be enrolled in STAX. Therefore, there would be no difference between the alternatives.

Source: AFPC, Texas A&M Representative Farm Analysis

Why PLC?

	Average NCFI for PLC Minus NCFI for RLC $1,000
Total by Preference	81.4
Feedgrain/Oilseed	75.5
Wheat	64.5
Cotton	73.3
Rice	112.6

Source: AFPC, Texas A&M Representative Farm Analysis

+ OK…So Senate or House?

Table 14. The Number of Representative Farms That Would Choose the Best Option in the Senate Farm Bill Package or the Best Option from the House Farm Bill Package Based on Net Cash Farm Income Assuming Baseline Prices.

	Best Senate Option	Best House Option
All 64 Farms	0	64
Feedgrain/Oilseed	0	23
Wheat	0	11
Cotton	0	16
Rice	0	14

Source: AFPC, Texas A&M Representative Farm Analysis

Some Observations

- SCO is preferred to ARC, but SCO is still vulnerable in times of declining prices because of its reliance on current futures prices at planting time
- STAX without a reference price is also vulnerable to declining prices
  - Will a STAX reference price trigger another Brazil WTO challenge?
- The lack of direct payments makes forecasting revenue a bit more difficult. Will that increase the difficulty of securing lending?

Conclusions

- Brazil continues to be a limiting factor in farm policy for cotton.
- House bill appears more workable and provides more downside price protection for all crops; Senate version, while attempting to address cotton, ultimately treats it differently enough as to result in less overall protection
- The Farm Bill does achieve significant budget savings…if all other programs made the strides in this direction in proportion to ag, there would be meaningful budget reduction