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PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Agriculture Act of 2014: Commodities Title

The Agriculture Act of 2014 (2014 Farm Bill) is divided into 12 titles covering commodities, conservation, trade, nutrition, credit, rural development, research, forestry, energy, horticulture, crop insurance, and miscellaneous. In this column, we take a look at some of the elements of Title I – Commodities.

Beginning with the 1996 Farm Bill, crop farmers have been provided with—in one form or other—direct payments based on historical yields and acreage. The total amount of the Direct Payments has been in the vicinity of $5 billion a year (for background on these payments see http://agpolicy.org/weekcol/703.html).

These payments were decoupled from production and paid whether prices were high or low. The rationale was that decoupled payments would not distort production decisions and would be more in line with the rules of the World Trade Organization. In the early years, when prices were low, they provided farmers with some additional operating capital, though prices were below the cost of production.

With the growth of the corn-for-ethanol industry providing a source of expanding demand for corn, prices more than tripled. With prices well above any measure of the cost of production and farmers making record profits, the $5 billion in direct payments became a public embarrassment and politically unsustainable. The first portion of the 2014 Farm bill repeals direct payments effective with the 2014 crop year, but allows the continuation of the payments for the 2013 crop year.

For upland cotton, the bill provides transition payments to producers of upland cotton in light of the repeal of direct payments, the ineligibility of cotton producers for PLC or ARC, and the delayed implementation of STAX (a program designed for cotton). The transition payments will be made with respect to the 2014 crop year to upland cotton producers with cotton base in the 2013 crop year, and with respect to the 2015 crop year to upland cotton producers with base in the 2013 crop year and who are located in counties where STAX is not available for that crop year.

With the potential for commodity prices to fall well below the highs of recent years, the 2014 Farm Bill requires farmers to make an irrevocable choice between two programs for counter-cyclical price protection: Agricultural Risk Coverage (ARC), and Price Loss Coverage (PLC). The choice is in effect for the 2014 through 2018 crop years. If a farmer makes no choice, the farmer is automatically enrolled in PLC. The election can be made crop by crop, except when a farmer chooses individual ARC coverage over county ARC coverage. In that case all covered crops are enrolled in ARC.

"If all producers on a farm make an election to receive ARC, then ARC payments are required to be made to producers on the farm when the Secretary [of Agriculture] determines that, for any of the 2014 through 2018 crop years, actual crop revenue is less than the ARC guarantee for a crop year" (Agricultural Act of 2014 Managers' Statements - http://tinyurl.com/nw9qqae).

The "ARC guarantee for a covered commodity in a crop year is 86 percent of the benchmark revenue, which for county coverage is the product obtained by multiplying the average historical yield for the most recent 5 crop years, excluding the high and the low [the Olympic average], by the [Olympic average of the] national average market price received by producers during the 12-month marketing year for the most recent 5 crop years."

Payments for a crop for which ARC was chosen are paid on 85 percent of the farm's base acres plus any former cotton base acres planted to the crop. These payments are capped at 10 percent of the benchmark revenue.

If the producers on a farm elect to receive ARC payments based on their individual farm revenue rather than county revenue, two things happen. Unlike those who choose the county revenue ARC, they cannot participate in the PLC for any crop. And, the payments are paid on 65 percent of the base acres plus former cotton base acres planted to a covered crop. This has the effect of reducing the number of farms in the top half of a county's revenue earnings per acre that would choose to participate in the individual ARC.

The PLC program operates much like the previous counter-cyclical-payment program with a fixed reference price—known as the target price in the 2008 Farm Bill—for each covered crop. When the season average price for any covered crop falls below the reference price (see last week's column for the numbers), farmers are paid the difference between that crop's reference price and national season average price times the farm's payment yield times 85 percent of the base acres for the covered crop and former cotton base acres planted to the covered crop. The farm's payment yields can be updated to 90 percent of their average 2008-2012 yields.

While "all producers on the farm have a one-time opportunity to elect either PLC or ARC for each crop on the farm on a commodity-by-commodity basis, with the exception that if a producer elects individual-level ARC, the producer must elect individual level ARC for all crops on the farm, they must annually sign-up to participate in the program that was elected."

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As the Conference Committee Managers write, "[the] FSA [Farm Service Administration] has always had an annual signup into available programs, which is simply a decision to participate in a given year. Absent an annual signup, producers may well fail to notify FSA of ownership changes, complete AGI certifications, and other information required to be provided by the producer to FSA. The signup period is the one time each year where producers are certain to complete all of the necessary records and forms."

For covered commodities, crop farmers can still participate in the nonrecourse marketing assistance loan program. Should prices fall that far, the loan deficiency payment remains in effect for the period of the 2014 Farm Bill.

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