Seed Cotton Generic Base Decisions and Policy Update
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Market Facilitation Program

Last week, USDA announced the payment rates that will be provided to producers of commodities negatively impacted by the ongoing trade/tariff situation. Here's what you need to know.

- The *initial* rate for cotton is 6 cents/lb. What does that mean?
- This means you will *first* receive 6 cents/lb on ½ of your 2018 production. What does that mean?
- It means a *first* payment will not be applied for and later received until the crop is harvested and ginned.
- There will then be a *second* payment. What does that mean?
- The 6 cents is the "initial rate". A second payment (on the other ½ of your production) will be made based on a "second rate" which could be different than the initial rate.
- It is expected that this second rate could be announced as early as December.
- It is not yet completely clear how this would be done but here's an example of what we think.

Let's suppose your total production is 500,000 lbs (approx. 1,000 bales).

500,000 x 1/2 x .06 = $15,000 initial payment

For the second payment, if the "second rate" stays at 6 cents, then your second payment is another $15,000.

But, if the "second rate" is different than the "initial rate", let's assume 5 cents, then

500,000 x 1/2 x .05 = $12,500 second payment

Total received = $27,500

- Payment limit $125,000 per person/legal entity for cotton, corn, wheat, soybeans, gr sorghum combined.
- The intent is to get the funds out as soon as practical—but since payments are on actual production and then gin results also, this will take time. I am told that maybe a method will be used to allow an estimated payment to be made on the basis of seedcotton module weights.

Farm Bill Status

The Senate passed its version of the farm bill on June 28. After earlier failing to also pass the bill in June, the House passed its version of the 2018 farm bill on July 19. House and Senate Conference Committees have been formed and the 2 bills must now go to Conference to resolve the differences (see below). Discussions among committee leadership and individual members have been taking place behind the scenes for weeks. The first public full committee meeting was held on Wednesday (Sept 5th) this week. Once the Conference Committee comes up with their joint bill, this Conference Bill must then go back to both House and Senate for vote and approval. The goal is still to have a new farm bill by the end of this year.

Title I Changes and the Differences from the 2014 Bill

Title I is the "commodities" part of the farm bill that includes provisions on payments and subsidies. The ARC/PLC program will be continued but tweaked a bit. The new seed cotton program will be continued. As always, most of the proposed changes and debate center on payments limits and payment eligibility.

- As in 2014, producers will have opportunity to choose ARC or PLC for the new farm bill. As in 2014, the House bill provides for a 1-time opportunity between PLC and ARC-County for 2019-2023. ARC-Individual is eliminated. The Senate bill keeps ARC Individual and provides a second election between PLC and ARC-County for 2021-2023.

- Both House and Senate bills propose changes/revisions in how ARC-County yields are used for calculating revenue, revenue guarantee, and actual revenue—especially in the Senate bill.

- The House bill provides for a "Reference Price escalator". The PLC reference price would be allowed to increase if the legislated reference price is less than 85% of the 5-year Olympic average of MYA prices – but not to exceed 115% of the legislated price. The Senate bill leaves references prices as they are under the current farm bill.

- For PLC Payment Yield, the Senate would retain yield as under the current bill. The House would provide an opportunity to update if the county experienced at least 20 consecutive weeks of D4 drought during 2008-2012.

- The cotton marketing loan will continue to vary between 52 and 45 cents based on the average AWP for the most recent 2 marketing years. The House bill limits any decline from the previous year to just 2%. The Senate bill keeps the loan rate formula as is. In both bills, marketing loan LDP provisions remain as is.

- Several proposed changes in payment eligibility and limits. The House bill keeps the AGI test at $900,000 and expands it to apply to each individual in an entity. The Senate bill would lower the AGI to $700,000.

- In the House bill, the payment limit would continue to be $125,000 per person but not per entity. The limit would apply to ARC/PLC only. No limit on the marketing loan. Peanuts would continue to have a separate $125,000 limit but this would also be for ARC/PLC only. The Senate bill contains no proposed changes to payment limits.

<u>Seed Cotton Program</u>
The new seed cotton program begins with this year's crop. Both House and Senate bills continue the program in the next farm bill for 2019-2023. Producers and landowners have until Dec 7 to complete everything—make generic base conversion decision, choose ARC or PLC, update PLC payment yield, and enroll in the program for 2018. Some county offices have given much earlier deadlines. Follow instructions given by your FSA office.

Generic Base on a farm must be converted to seed cotton base or bases of seed cotton plus other covered commodities based on the farms 2009-2012 planting history. The landowner must choose between the higher of options 1-A and 1-B or option 2. The bottom line is this—option 1 (A or B) will give the farm seed cotton base only. Option 2 will give the farm seed cotton base plus other bases depending on planting history. So, the choice partly (mostly?) depends on which provides the better income safety net and payments. This will vary from farm to farm because planting history is different.

Your Generic Base Conversion Options

The <u>higher</u> of 1-A or 1-B
1-A Seed cotton base equal to 80% of the farms generic base.
1-B Seed cotton base equals the average cotton acres planted 2009-2012, but not to exceed the amount of generic base.
Any generic base remaining and not converted by options 1-A and 1-B will become "unassigned base" and not eligible for ARC/PLC.

<u>Or</u>, option 2
2 Generic base converted to seed cotton base plus base of other covered commodities based on the proportion of acres planted to each for 2009-2012. There would be no unassigned base.

All other current bases on the farm <u>are not</u> impacted. If 1-A or 1-B is chosen, generic base is converted to seed cotton base and possibly some unassigned base. All other bases remain as is. If option 2 is chosen, you could possibly gain additional base of other covered commodities; current base of those commodities is not effected.

In the new farm bill,
- The PLC Reference Price would remain at 36.7 cents/lb in both House and Senate bills. Uncertain if the price escalator applies to seed cotton; I would assume it would.
- I also assume, but not sure, that producers will be allowed to again choose between ARC and PLC for seed cotton in the next farm bill (2019-2023).
- The House bill provides that all base acres on a farm, not just cotton base, would be converted to unassigned base if no covered commodity has been planted 2009-2017. This provision is not in the Senate version. The future of any unassigned base is still unknown.