

Department of Agricultural and Resource Economics

THE AGRICULTURAL ACT OF 2014 UPDATE FOR TENNESSEE

February 2014

Jason E. Fewell, Assistant Professor

S. Aaron Smith, Assistant Professor

President Obama signed the Agricultural Act of 2014 on Feb. 7, 2014, after two years of discussions in Congress. The act, more commonly referred to as the farm bill, broadly sets agricultural policy until 2018. The act authorizes nearly \$1 trillion of spending over 10 years, but it is supposed to save \$23 billion over that period. In addition, the bill reforms food stamp programs, repeals or consolidates almost 100 U.S. Department of Agriculture programs, and reduces regulatory impediments to job development in rural areas.

This brief sheet will cover highlights of the bill pertinent to Tennessee agriculture. Approximately 75 percent of the bill is related to nutrition programs, 15 percent relates to commodity programs, and the remaining 10 percent is divided among conservation programs, research, and other risk management programs for specialty crops.

Commodity Program Crops

Of primary interest to crop farmers are changes in Title I, or commodity programs. Some of these changes are:

- Direct payments, the Average Crop Revenue Election (ACRE) Program, and counter-cyclical payments are repealed.
- Farmers will have two primary options from which to choose for the safety net: Price Loss Coverage (PLC) and Average Risk Coverage (ARC). **The decision farmers make in 2014 will determine which program they are in for the next five crop years**, until 2018. If farmers do not choose a program, they will be enrolled in PLC for the next five years.
- Farmers will retain their base acres for commodity crops except cotton acres, which will not be enrolled in any safety net program initially. Producers will have the opportunity to reallocate crop bases on a farm. Cotton base is retained, but all other crop bases may be updated based on the four-year average (2009-2012) of acres planted. Cotton will receive transitional assistance payments for 2014 (see below for details).
- The Marketing Loan Program, including Loan Deficiency Payments (LDP) and Marketing Loan Gains (MLG), continues to operate as it has under the 2008 farm bill. New loan rates are wheat - \$2.94/bu, corn - \$1.95/bu, cotton — will be the average Adjusted World Price (AWP) for the previous two crop years but no more than \$0.52 per lb and no less than \$0.45 per lb, soybeans - \$5/bu.

- PLC is a “target price” type program. Under this program, farmers receive payments on 85 percent of their base acres if prices fall below reference prices established by the USDA. The payment will be based on their program yields, which should be updated at the time of program election. Farmers can choose to participate on a covered commodity by covered commodity basis.
 - Reference prices
 - Wheat: \$5.50/bu
 - Corn: \$3.70/bu
 - Grain sorghum: \$3.95/bu
 - Soybeans: \$8.40/bu
 - For example, if a farmer has 100 acres of corn with a program yield of 150 bushels/acre and the cash price for corn is \$3.60/bu, then a farmer will receive a total payment of \$1,275 (150 bu * \$0.10/bu * 85 acres), or \$12.75/acre.
- ARC is a revenue-based program. Farmers choose whether to enroll in a county-based or individual program. If they choose individual ARC, they must enroll all covered commodities in ARC, but if they choose the county-based program, they can enroll some commodities in the PLC program and some in ARC.
 - County ARC will pay when a farmer’s revenue is between 76 percent and 86 percent of a five-year rolling Olympic average (average excluding the high and low years). It pays on 85 percent of base acres.
 - Individual ARC will pay when a farmer’s revenue is between 76 percent and 86 percent of a five-year rolling Olympic average. It pays on 65 percent of base acres.
- Expectations for future crop prices will be an important consideration when choosing whether to enroll in PLC or ARC. If prices are expected to stay above PLC reference prices, ARC may be the better choice. However, if prices are expected to be below PLC reference prices, PLC is the better choice. Farmers may enroll in PLC and county ARC for different crops. This may be a sound risk management strategy depending on an individual’s situation.
- Beginning in 2015, the cotton safety net program will be called STAX (Stacked Income Protection Plan). For 2014, cotton will be in a transition phase where farmers will receive a payment on 60 percent of their base acres.
- Sign-up dates are unknown at this time, but could be in the summer. FSA and other regulatory agencies must write implementation rules before farmers can sign up for the programs.
- Payment limits are \$125,000 per year for individuals and \$250,000 per year for couples.

Crop Insurance

- Crop insurance is effectively unchanged from previous years.
- Conservation compliance is required to receive cost share for crop insurance.
- Producers who enroll in the PLC program are eligible to purchase a Supplemental Coverage Option (SCO) with a 65 percent cost share on the premium.
 - The SCO will cover losses greater than 14 percent of normal levels. It will cover losses between 86 percent and coverage level of individual insurance.
 - Farmers can choose between a county or individual yield and loss when determining indemnities.

- Beginning in 2015, producers who raise crops on both dryland and irrigated land can insure the crops at different coverage levels.
- Beginning farmers and ranchers shall receive premium assistance 10 percentage points greater than would otherwise be available.

Dairy

- The Dairy Product Price Support, Milk Income Loss Contract (MILC), Dairy Export Incentive Programs, and Federal Milk Marketing Order Review Commission will all be repealed.
- The actual dairy production margin is established as the difference between the all milk price and average feed cost as established by USDA. It is calculated for a consecutive two-month period.
 - The all milk price is the average price received by dairy operations for all milk sold to plants and dealers in the U.S.
 - The average feed cost is the average cost of feed used to produce one hundredweight of milk. It is calculated as the sum of:
 - 1.0728 * monthly corn price in bushels received by farmers in the U.S.
 - 0.00735 * monthly soybean meal price per ton in Central Illinois.
 - 0.0137 * monthly alfalfa price per ton received by farmers in the U.S.
- A new Margin Protection Program will be established on or before Sept. 1, 2014, and is intended to cover shortfalls in income when actual dairy production margins are less than threshold levels set by USDA. The MILC program payments will be available until the Milk Protection Program is running.
- To receive margin protection payments, dairy operations shall annually elect a coverage level threshold between \$4 and \$8 in \$0.50 increments and a percentage of coverage from 25 percent and 90 percent in 5 percent increments of production history.
- Dairy producers will pay premiums to participate in the Margin Protection Program based on the following schedule:

Marketing 4 million or fewer pounds per year		Marketing over 4 million pounds per year	
Coverage Level	Premium per cwt.	Coverage Level	Premium per cwt.
\$4.00	None	\$4.00	None
\$4.50	\$0.010	\$4.50	\$0.020
\$5.00	\$0.025	\$5.00	\$0.040
\$5.50	\$0.040	\$5.50	\$0.100
\$6.00	\$0.055	\$6.00	\$0.155
\$6.50	\$0.090	\$6.50	\$0.290
\$7.00	\$0.217	\$7.00	\$0.830
\$7.50	\$0.300	\$7.50	\$1.060
\$8.00	\$0.475	\$8.00	\$1.360

Livestock

- The bill establishes a permanent Livestock Indemnity Program (LIP) for livestock producers who suffer livestock losses in excess of normal mortality due to attacks by federally reintroduced predatory animals or adverse weather.
 - Payments are paid at a rate of 75 percent of the market value of the livestock on the day before the livestock's death.
 - Payments are excluded for grazing losses on CRP land used for haying or grazing. If a drought occurs, the payment rate is for a single month equal to 60 percent of the lesser of the monthly feed cost for covered livestock or the monthly feed cost calculated as the normal carrying capacity of eligible grazing land.
- The bill establishes a Livestock Forage Disaster Program that makes payments due to losses from drought or fire.
 - Payments are made for grazing losses on native or improved pastureland with vegetative cover or on land planted to some crop for the purpose of grazing. Land cannot be enrolled in a CRP contract.
 - If a drought occurs, the payment rate is for a single month equal to 60 percent of the lesser of the monthly feed cost for covered livestock or the monthly feed cost calculated as the normal carrying capacity of eligible grazing land.
 - If a livestock producer disposes of livestock due to drought conditions in either one or two of the production years preceding the current production year, they are eligible to receive 80 percent of the payment they would otherwise receive due to drought losses.

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