A Summary of Changes to Seed Cotton and the Dairy Margin Protection Program as a Result of the Bipartisan Budget Act of 2018

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Overview

On February 9, 2018, President Donald Trump signed the Bipartisan Budget Act of 2018. The act included modifications to the Margin Protection Program (MPP) for dairy producers and added seed cotton as a newly covered commodity, both eligible for Agriculture Risk Coverage (ARC) or Price Loss Coverage (PLC) payments. The following is a summary of the proposed changes to MPP and the addition of seed cotton as a covered commodity.

Note: USDA-FSA, at this time, has not provided implementation rules, so producers and landowners are cautioned to reserve final decisions until clarification is provided.

Margin Protection Program (MPP) — Dairy

The Margin Protection Program (MPP) for dairy producers was established under the Agricultural Act of 2014 to reduce market risk for dairy producers. Through the program, dairy producers can protect an estimated margin defined by the difference between the all milk price and average feed costs. The Bipartisan Budget Act of 2018 implements the following changes to MPP for dairy producers.

Agricultural Act of 2014 (original legislation)	Bipartisan Budget Act of 2018 (amendments to legislation)
	2018 annual enrollment reopened. Allows for new enrollments or changes to coverage level.
Producers receive payments when the estimated margin is below the selected coverage level for a "**consecutive two-month period**."	Producers receive payments when the estimated margin is below the selected coverage level for a **one-month period**, resulting in 12 individual monthly periods. Annual production history equally divided across 12 months.
The **administrative fee** for a participating dairy operation set at $100.	**A limited resource, beginning, veteran or socially disadvantaged farmer, as defined by the Secretary, shall be exempt from the administrative fee.**
Tier I: Premium per hundredweight for first **4 million** pounds of production.	Tier I: Premium per hundredweight for first **5 million** pounds of production.

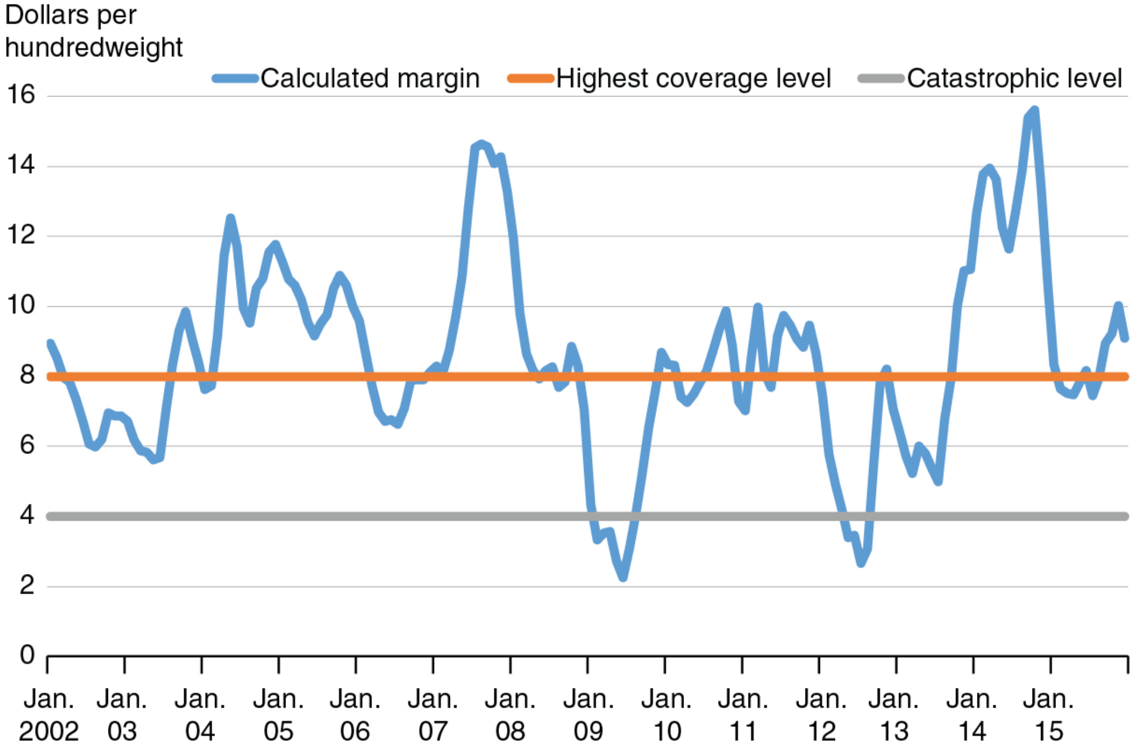
Producer premium, first **4 million** pounds

Coverage Level	Premium per CWT
$4.00	None
$4.50	**$0.010**
$5.00	**$0.025**
$5.50	**$0.040**
$6.00	**$0.055**
$6.50	**$0.090**
$7.00	**$0.217**
$7.50	**$0.300**
$8.00	**$0.475**

Producer premium, first **5 million** pounds

Coverage Level	Premium per CWT
$4.00	None
$4.50	**None**
$5.00	**None**
$5.50	**$0.009**
$6.00	**$0.016**
$6.50	**$0.040**
$7.00	**$0.063**
$7.50	**$0.087**
$8.00	**$0.142**

Since 2002, the margin as calculated for the MPP-Dairy Program has dropped below $8 multiple times but below $4 only during 2009 and 2012



Source: USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service and from USDA, Agricultural Marketing Service.

Figure 1. Calculated Margins and Coverage Levels for the MPP Dairy Program. ***Note:*** *The catastrophic coverage level increases from $4.00 to $5.00 under the Bipartisan Budget Act of 2018.*

Implications of MPP Changes for Tennessee Dairy Producers

The changes to MPP may or may not change the decision-making process for dairy producers in Tennessee. Producers who have been participating in MPP at the $4.00 coverage level should, at a minimum, change to the $5.00 coverage level, given there is no premium difference between the two coverage levels. All but one coverage-level premium have been reduced at least 70 percent from the original program. However, the $6.50 coverage-level premium was only reduced 56 percent. The reduction in premiums makes MPP more lucrative in that it sets a higher minimum margin. However, the failure of MPP payments to be triggered is a concern. In four years (2014-2017), there have been 24 periods in which the margin has been calculated. The $8.00 coverage level has been triggered in five periods, the $7.50 level in two periods, and the $6.00 and $7.00 levels in one period. The suggested change to calculate the margin each month would have resulted in a few more payments over the first four years of the program; however, the increased return to the dairy producer would have been small.

Treatment of Seed Cotton

The Bipartisan Budget Act of 2018 makes seed cotton eligible for Title I commodity program payments. Details are:

- Effective for the 2018 crop year, seed cotton is a covered commodity eligible for ARC or PLC payments.
- Seed cotton refers to unginned upland cotton that includes both lint and cottonseed.
- The PLC reference price for seed cotton is set at $0.367 per pound.
- Payment yield for seed cotton for a farm is 2.4 times the countercyclical payment yield (2013 countercyclical payments [CCP] yield) established by the 2008 Farm Bill. However, at the discretion of the farm owner, payment yields have a one-time opportunity to be updated using 90 percent of the average farm yield per planted acre from 2008-2012, excluding years when no acres were planted.

- Example, if a farm's 2008 CCP yield was 750 lbs/acre,
  - Then the new payment yield would be the greater of:
    - 750 lbs/acre x 2.4 = 1,800 lbs/acre; or
    - 90 percent of the average yield for a farm from 2008-2012 (i.e., 90% x [(909+843+845+796+946)/5] = 781 lbs/acre x 2.4 = 1,874 lbs/acre.

- Within 90 days of enactment, farm owners will allocate all generic base acres.
- If upland cotton or a covered commodity was not planted or prevented from being planted on generic base at any time during the 2009-2016 crop years, then generic base will be attributed to unassigned crop base and receive no payments from ARC or PLC.
- If upland cotton or a covered commodity was planted to generic base acres, then the landowner has the choice to allocate generic base acres using one of two options:

Option #1: Seed cotton base will be equal to the ***greater*** of:

a. 80 percent of generic base acres on a farm (residual generic base acres will be allocated to unassigned crop base and receive no payments);

b. The average number of seed cotton acres planted or prevented from being planted during 2009-2012, not to exceed total generic base acres on the farm. (Residual generic base acres will be allocated to unassigned crop base and receive no payments.);

or,

Option #2: Base acres for covered commodities (including seed cotton) will be attributed using the ratio of the four-year average (2009-2012) planted and prevented planted acres on generic base acres.

Table 1. Example Farm: Planted Acres = 120; Generic Base Acres = 100

	Planted and Prevented Planted Acres						
Commodity	2009	2010	2011	2012	4-Yr AVG	New Base	Base
Corn	0	60	0	0	15	12.5	Corn
Soybean	120	0	120	0	60	50	Soybean
Cotton	0	60	0	120	45	37.5	Seed Cotton
Total	120	120	120	120	120	100	Total

- If the owner of the farm does not choose to allocate generic base acres, the generic base acres will be allocated using Option #1.
- For base acres allocated to seed cotton, producers will make a onetime election for seed cotton base for PLC or ARC. If all producers on the farm fail to make a unanimous election, seed cotton acres will be defaulted to PLC.
- Effective price for the marketing year = upland cotton lint market year average (MYA) price ($/lb) x [U.S. production (lbs) + cottonseed MYA price ($/lb) x U.S. cottonseed production (lbs)] / [U.S. upland cotton lint production + U.S. cottonseed production (lbs)].
  - The prices are reported by USDA-NASS as the U.S. marketing year average cotton lint and U.S. marketing year average cottonseed prices.
  - The pounds of production used to develop the weights are reported by USDA-NASS as the number of U.S. upland cotton lint produced in pounds and U.S. cottonseed production in pounds.
- Seed cotton loan rate is equal to $0.25/lb. This provides a payment cap of $0.117/lb ($0.367-$0.25).
- Effective for the 2019 crop year, a farm is not eligible for Stacked Income Protection (STAX) plan in a crop year for which the crop is enrolled in ARC or PLC. STAX and PLC or ARC are available for the 2018 crop year only.

Implications of Seed Cotton Addition to Commodity Programs for Tennessee Producers

Overall, making seed cotton eligible for ARC and PLC payments provides cotton producers with an additional tool to help manage risk.

Payment yield updates should be evaluated by all landowners, as in many circumstances the greater payment yield will be the 2008-2012 average yield per planted acre and not the old CCP yield. The landowner can choose the greater of the two yields, so don't let the opportunity go unevaluated.

Producers will need to fully evaluate the generic base acre decision. Given the limited number of acres planted to cotton in Tennessee from 2009 to 2012 (300,000 to 495,000) compared to generic base acres (766,836; Figure 2), allocation of generic base could dramatically influence future payments. The generic base update is not voluntary (you cannot keep your existing generic base). You must allocate base using one of the two options above.

The onetime ARC or PLC election will likely be for 2018 only. The current Farm Bill expires after the 2018 crop. The next Farm Bill will likely allow producers to re-elect ARC or PLC for each covered commodity.

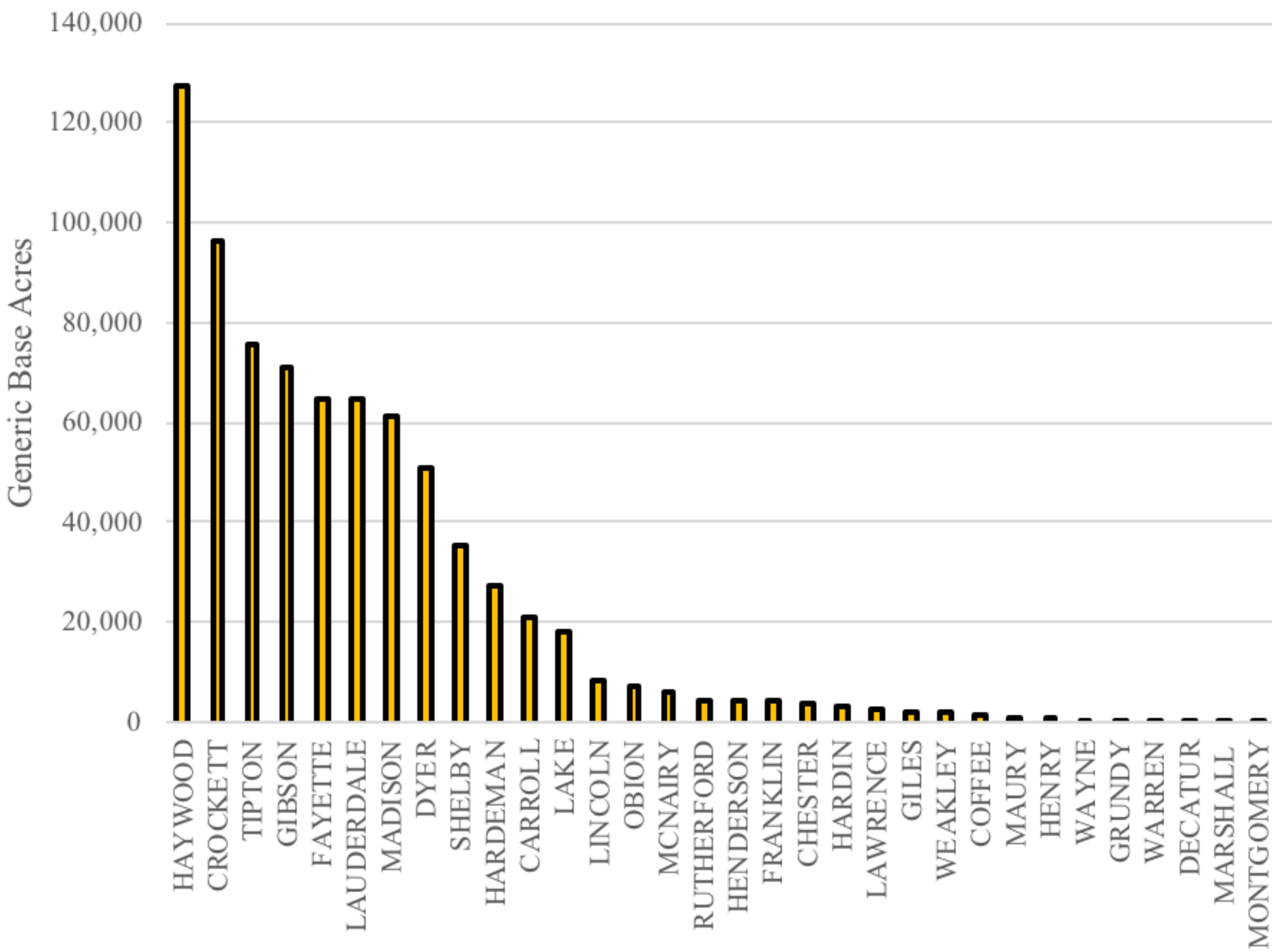


Figure 2. Generic Base Acres in Tennessee by County, 2015

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