

May 20, 2002



What the New Farm Bill Means To Georgia Cotton Producers

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A new farm bill has become reality and will be effective for the 2002-2007 crop years. For the cotton producer, there are many aspects of the bill which should be beneficial. Let me briefly summarize each:

Update Base Acres and Payment Yields. A cotton producer's base acreage is currently the 3-year average of acres planted and prevented planted in 1993-95. The new farm bill will allow farms the election to update base to the 4-year average acres planted and prevented planted in 1998-2001. This should result in bringing bases closer to actual plantings and thereby improve the income safety net by bringing program benefits more in line with crop income. Georgia producers planted 46% more cotton in 1998-2001 than in 1993-95. Also, farms that did not plant cotton until 1996 or after do not have a base. Under the new farm bill, these farms will qualify for base and payments on base acres. Farms that elect to update bases may also elect to update FSA payment yields.

Counter Cyclical Payments. The 1996 farm bill provided planting flexibility to producers but did not provide an adequate safety net in years of low commodity prices. As a result, Congress had to administer supplemental assistance in recent years. Some of this assistance came in the form of additional (double) AMTA payments. The new farm bill institutes "counter cyclical payments" which are designed to provide additional protection from low prices and eliminate the need for supplemental/ad hoc legislation.

Payments and Payment Limits. The earlier Senate version of the farm bill contained the Grassley-Dorgan amendment which proposed to reduce payment limitations, eliminate multiple entities, and count gains through use of marketing certificates against the payment limit. It also would have included both peanuts and cotton under the same single payment limitation. This would have severely hampered even moderate sized farms producing both cotton and peanuts. In House-Senate conference, these Senate provisions were defeated. The new bill contains a \$40,000/person limit on Direct Payments (called "AMTA" under the old farm bill), \$65,000/person on Counter Cyclical Payments, and \$75,000/person on LDP's/POP's and marketing loan gains (MLG's). The spouse and multiple entity rules are maintained and use of certificates without gain is maintained.

Many Georgia cotton producers also produce peanuts. The opportunity to update cotton base acres along with the decision that must be made about assignment of peanut base presents a critical decision for many producers. Legislation states that total crop bases for a farm *plus* peanut base *plus* CRP (and wetland reserve) acres *may not exceed* the available cropland acres for the farm. Double crop history is considered. This rule may not impact most producers unless it involves the assignment of peanut base. Table 1 illustrates a purely hypothetical example of Direct Payments (DP) and Counter Cyclical Payments (CCP) by crop per acre of base.

Table 1. Hypothetical Example of Payments on Base Acres

	Corn	Cotton	Peanuts	Soybeans	Wheat
6-Year Planning Price	2.25	.55	375	4.75	2.75
DP Yield *	75	600	2500	25	40
CCP Yield **	80	625	2500	28	45
DP Rate	.28	.0667	36	.44	.52
CCP Rate ***	.09	.1073	84	.36	.61
DP Per Acre of Base	\$17.85	\$34.02	\$38.25	\$9.35	\$17.68
CCP Per Acre of Base	\$6.12	\$57.00	\$89.25	\$8.57	\$23.33
Total	\$23.97	\$91.02	\$127.50	\$17.92	\$41.01

* Current (1996 Farm Bill) AMT A Yield

** Producers have a choice of 3 "Payment Yield Options" for CCP if bases are updated.

*** Target Price minus Direct Payment minus the higher of the loan rate or the 12-month avg cash market price.

Producers should evaluate their situation closely. CCP's will vary when market price is above the loan rate for the crop so these payments may change during the 6 year life of the farm bill. If desired bases including assignment of peanut base are above the FSA allowable acres, crop base will have to be reduced or peanuts assigned to another farm.

The new farm bill appears to offer increased payments and income safety net compared to the 1996 bill (Table 2). The combination of updated base and counter cyclical payments, in the example shown, increased return to management, fixed cost, and overhead by 112%. Of course, a portion of this increase was due to increased base acres. Farms without as large an increase in base will not realize the same proportional increase.

Producers are also reminded that CCP's decline at prices above the loan rate. Under the new farm bill as with the '96 bill, the only guaranteed payments are the Direct Payments (DP). Also, total benefits of the new farm bill will not accrue to the producer if land rent rates increase as a result of increased payments.

For more detailed description of farm bill provisions, educational information, and analysis of the 2002 Farm Bill, contact your local University of Georgia Cooperative Extension Service office or visit the following web site:

<http://www.ces.uga.edu/Agriculture/agecon/agecon.html>

**Table 2. Example Hypothetical Comparison of 2002 Farm Bill to 1996 Farm Bill
800 Acres of Cotton, Cotton 40 Cents/Lb, Bases and Payment Yields Updated**

	1996 Farm Bill	2002 Farm Bill
Acres Planted	800	800
Base (1993-95 vs. 1998-2001)	500	800
AMTA or DP Yield	600	600
CCP Yield		625
2002 Expected Yield	675	675
Crop Income	\$216,000	\$216,000
Variable Costs *	\$258,400	\$258,400
Net Return Before LDP	-\$42,400	-\$42,400
POP or LDP	\$91,368	\$91,800
Net Return After LDP	\$48,968	\$49,400
AMTA or Direct Payments	\$14,586	\$27,214
Counter Cyclical Payments **		\$58,352
Total Base Payments (not related to production)	\$14,586	\$85,566
Return To Management, Fixed Costs, and Overhead	\$63,554	\$134,966

* Excludes land rent.

** Maximum amount likely for 2002 because price is less than loan rate. Will decline when prices are above loan rate.