Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA

COTTON MARKETING NEWS

Volume 5 Number 5 February 2, 2007

This newsletter is also available in PDF format on the UGA Cotton web page at:
http://www.ugacotton.com

USDA Releases Farm Bill Proposal

On Wednesday, January 31 the USDA released its' proposals for the 2007 farm bill. This serves as a starting point and now over the next year, the House and Senate will consider the administrations proposals, provide their own plans, debate will take place, and eventually a new farm bill will be worked out.

So, the USDA plan released this week is not the new farm bill and we have a long road yet ahead. I think it is useful, however, to take a brief look at some of the main proposals that apply to the commodity programs. After reading through the 183-page report, my view is that the administrations goals are (1) to continue to provide a "safety net" for the producer while (2) addressing so-called "inequities" in payments and also while (3) moving toward becoming more WTO compliant.

Adjust Loan Rates. Loan rates would be set at 85% of the 5-year "Olympic average" (average of the previous 5-years dropping the high and low) with the maximum loan rate to be the rate proposed in the House version of the 2002 farm bill. For upland cotton, the maximum loan rate would be 51.92 cents per lb and the projected average loan rate over the farm bill would be 45.7 cents per lb. *Comment: The proposal objective is to set loan rates closer to recent market levels as compared to having a loan rate which, in the case of cotton, has been above the market in recent years. What will this do to use of the marketing loan as a tool for marketing and risk management? What implication does this have for merchants and marketing associations? A lower loan rate will mean lower LDP's.*

Increase Direct Payments. Direct Payments would be increased. No changes in bases or payment yield, but the DP would be increased. The Direct Payment on cotton, for example, would increase from 6.67 cents/lb to 11.08 cents/lb. *Comment: It seems the objective is to shift dollars away from loan benefits toward fixed payments. While the Loan Rate would drop 6.3 cents from it's current level (52 cents), the Direct Payment would increase 4.41 cents. So the net loss is less than 2 cents--- but the DP is received on only 85% of base acres and at the DP Yield which is often less than the farms actual yield (LDP's are received on actual production). Thus the decline in benefits will be more significant that it might appear. Also, an increase in Direct Payments may result in an even further escalation of land rent.*

Revenue-Based Countercyclical Payments. Currently, CCP's are received when the market year average price (MYA) is less than the Target Price minus the Direct Payment (72.4 – 6.67 = 65.73 in the case of cotton). The proposal would change CCP's from price-based to "revenue based". The producer would receive a CCP when the national average revenue falls below the target revenue. The national average revenue would be the national average yield times the MYA price or the Loan Rate, whichever is higher. The national target revenue would be 2002-06 national Olympic average yield times the 2002 farm bill target price minus Direct Payment. *Comment: All this is doing is adding a yield component to the existing CCP formula. In the case of cotton, the National Target Revenue would be approximately $517 per acre (786 lb yield x 65.73 cents/lb). If the actual national average yield were to be 800 lbs and the MYA price 55 cents, for example, the actual National Average Revenue would be $440 per acre. The CCP would be 9.8 cents per pound ($77 difference divided by 786 lbs/acre). This compares to 10.73 cents under the 2002 farm bill CCP. (I haven't seen an example calculation on cotton so, I'm guessing at this point that this is how it might look).*

Repeal Step 1 and Step 3. Step 2 payments were eliminated as of August 1, 2006. Step 1 is the authority given to the Secretary of Agriculture to lower the AWP when needed to improve sales and the flow of US cotton. Step 3 is the import quota. Both are seldom used.

Conservation-Enhanced Direct Payment. For producers agreeing to meet certain conservation requirements, this proposal would allow producers to elect to receive an additional 10% in Direct Payments in exchange for forgoing marketing loan benefits and counter-cyclical payments. *Comment: Need to learn more about the conservation requirements and eligibility and how the math would work out, but doesn't sound like much incentive on cotton base.*

Bio-Energy and Conservation CRP. A proposal would enhance the current CRP to include whole-field enrollment of land that could be used for production of biomass for cellulosic energy production.

Eliminate the Planting Restriction on Fruits and Vegetables. Currently planting of fruits and vegetables on base acres is not allowed unless double-cropping and unless the farm has a history of planting fruits and vegetables. Planting fruits and vegetables on base acres, unless double-crop, requires a temporary acre-for-acre reduction in base acres and payments. *Comment: No detail is given on how this will take place and who will or will not qualify to produce fruits and vegetables. The restriction, since fruits and vegetables receive no price support, was originally part of previous legislation as a measure to protect price and markets for the fruit and vegetable. Can we assume that under this proposal fruit and vegetable growers will receive some form of compensation?*

Payments and Payment Limits. The Adjusted Gross Income (AGI) cap would be reduced from $2.5 million to $200,000 annually for commodity program payments. If a producer has an AGI of $200,000 or more, the producer would not be eligible for commodity program payments. The 3-entity rule would be replaced such that "payments are attributed to natural persons directly and through entities that are determined to be actively engaged in Agriculture". The effective payment limits would continue to total $360,000 ($180,000 2X) but Direct Payments would increase from $80,000 to $110,000, Countercyclical Payments would decline from $130,000 to $110,000, and LDP's and loan gains decline from $150,000 to $140,000. **The separate payments limits for peanuts would be eliminated.** *Comment: According to USDA, the lower AGI will not affect over 95% of US farms. I'll have to investigate the AGI calculation and see how some of our typical farms might fair. Eliminating the separate peanut payments and limits will be hurtful to larger farms. The impact could be softened by increasing the overall limit to more than $360,000.*

Don Shurley, University of Georgia
229-386-3512 / donshur@uga.edu