

Lecture XXIII: Agricultural Act of 2014 and 2018 Bill

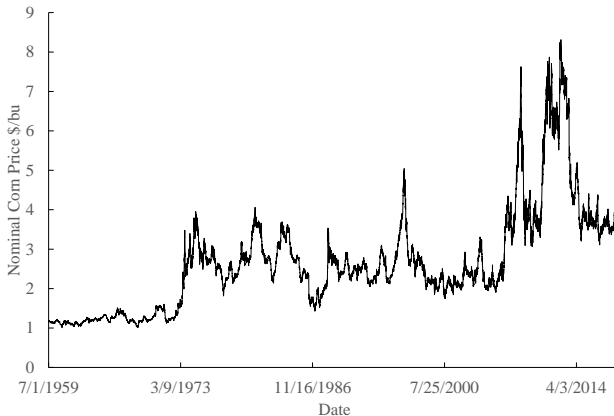
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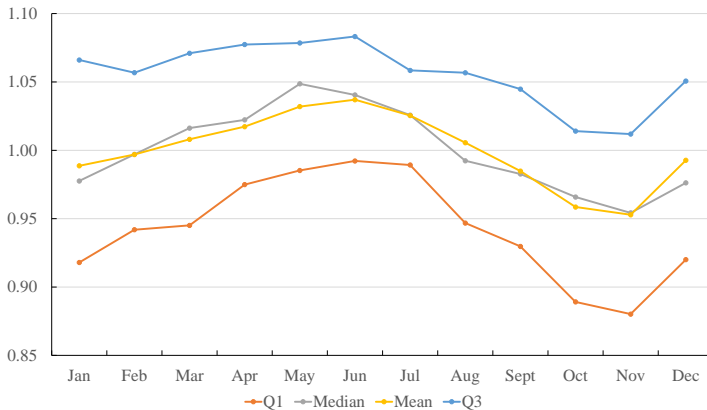
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Daily Corn Prices, 1959 – 2018



Annual Price Cycle



Distribution of Corn Price

- Structural Econometric Model

$$\begin{aligned}y_t^D &= \alpha_{11} + \alpha_{21}p_{ct} + \alpha_{31}p_{wt} + \alpha_{41}p_{lt} + \alpha_{51}Y_t + \epsilon_{1t} \\y_t^S &= \alpha_{12} + \alpha_{22}p_{ct} + \alpha_{32}w_{ft} + \alpha_{42}w_{lt} + \epsilon_{2t}\end{aligned}\tag{1}$$

- Time Series

$$p_{ct} = \beta_0 + \beta_1 p_{c,t-1} + \beta_2 p_{c,t-2} + \beta_3 p_{c,t-3} + \beta_4 p_{l,t-1} + \beta_5 p_{l,t-2} + \dots\tag{2}$$

Nonrecourse Marketing Assistance Loans

- https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/2016/mal_ldp_2016.pdf
- The Agricultural Act of 2014 (2014 Farm Bill) authorizes nonrecourse marketing assistance loans (MALs) and loan deficiency payments (LDPs) for wheat, corn, grain sorghum, barley, oats, upland cotton, extra-long staple cotton, long grain rice, medium grain rice, soybeans, other oilseeds (including sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe and sesame seed), dry peas, lentils, small chickpeas, large chickpeas, graded and nongraded wool, mohair, unshorn pelts, honey and peanuts.

- MALs and LDPs are marketing tools available to producers beginning upon harvest or shearing.
- The MAL provides interim financing at harvest time for to help agricultural producers to meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows, allowing the producer to delay the sale of the commodity until more favorable market conditions emerge
- MALs for commodities are considered “nonrecourse” because the loan can be redeemed by repayment, or by delivering the agricultural commodity that was pledged as collateral to the Commodity Credit Corporation (CCC) as full payment for the loan upon maturity.

National Loan Rates, 2014-2018

Commodity	Production Unit	2014-2018 Amount	Commodity	Production Unit	2014-2018 Amount
Wheat	bushel	2.94	Long Grain Rice	cwt	6.50
Corn	bushel	1.95	Medium Grain Rice	cwt	6.50
Grain Sorghum	bushel	1.95	Soybeans	bushel	5.00
Barley	bushel	1.95	Other Oilseeds	cwt	10.09
ELS Cotton	pound	0.7977	Dry Peas	cwt	5.40
Upland Cotton	pound	*	Lentils	cwt	11.28
Oats	bushel	1.39	Peanuts	ton	355.00

Producer Eligibility

- Comply with conservation and wetland protection requirements;
- Submit an acreage report to account for all cropland on all farms;
- Have and retain beneficial interest in the commodity until the MAL is repaid or CCC takes title to the commodity; and
- Meet adjusted gross income limitations (described in a later section)

Commodity Eligibility

- Have been produced, mechanically harvested or shorn from live animals, by an eligible producer and be in storable condition;
- Be merchantable for food, feed or other uses, as determined by CCC; and
- Meet specific CCC minimum grade and quality standards for nonrecourse MALs.

Loan Deficiency Payment

- A producer who is eligible to obtain a MAL, but who agrees to forgo the MAL, may obtain an LDP under certain market conditions. The LDP rate equals the amount by which the applicable loan rate where the commodity is stored exceeds the effective MAL repayment rate for the respective commodity. The LDP amount equals the LDP rate times the quantity of the commodity for which the LDP is requested.

Item	Loan Rate = 1.95		
	Scenario 1	Scenario 2	Scenario 3
Loan Rate Plus Interest	1.98	1.98	1.98
Effective Posted County Price (PCP)	2.05	1.90	1.98
MLG or LDP Rate	0.00	0.05	0.00

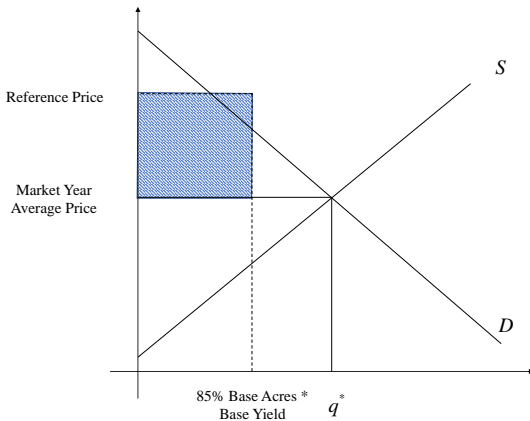
Alachua PCP Rates - 2018

Commodity	30 Day Period PCP	Terminal Market	Terminal Price	Adjustments	Price after Adjustments	Alternative PCP
Barley	3.29	GLF	3.48	-0.86	2.62	2.62
Canola	13.77	ARL	14.47	-1.04	13.43	13.43
		AUG	14.47	-1.32	13.15	
Corn	4.08	CIN	3.48	-0.04	3.44	3.44
		GLF	4.03	-0.61	3.42	
Soybeans	8.38	CIN	7.99	-0.44	7.55	7.55
		GLF	8.60	-1.13	7.47	

Choosing Programs

- Historically, the farm program has been a take it or leave it proposition. If you choose to participate in the program – you get a certain set of benefits.
- Sometimes you had to agree to do things like set aside acreage.
- The 2013 bill included a producer election
 - Price Loss Coverage (PLC) which works like the older deficiency program, or
 - Agricultural Risk Coverage (ARC) which works like an insurance policy.

Price Loss Coverage



Comparison of CCP and PLC

Commodity	2008 CCP Target Price	2014 Farm Bill Reference Price
Wheat	4.17/bu.	5.50/bu.
Corn	2.63/bu.	3.70/bu.
Grain Sorghum	2.63/bu.	3.95/bu.
Barley	2.63/bu.	4.95/bu.
Soybeans	6.00/bu.	8.40/bu.
Peanuts	495/ton	535/ton

- <https://farmdocdaily.illinois.edu/2014/02/arc-and-plc-in-2014-farm-bill.html>