

**Prices and Payments Update:  
Making the Generic Base Conversion Decision**

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Under the Bipartisan Budget Act of 2018, seed cotton (SC) is now a covered commodity and eligible for Agriculture Risk Coverage (ARC) / Price Loss Coverage (PLC) in 2018—the last year of the current 2014 farm bill. Farmers and landowners are wondering about what PLC payments might be on seed cotton base and/or what payments would have been had such a program been in effect in recent years. Such information would be helpful to landowners in making the generic base conversion decision.

You will recall that under provisions of the 2014 farm bill, cotton base on a farm (under the previous 2008 farm bill) was converted to generic base. The Bipartisan Budget Act of 2018 established a new seed cotton (SC) program. Under the new seed cotton (SC) program, beginning with the 2018 crop, this generic base will no longer exist and landowners must decide how they wish to convert the generic base on a farm to seed cotton base or other covered commodities. This converted new seed cotton (SC) base will be eligible for ARC/PLC payments. In addition to the landowner generic base conversion decision, producers must choose between ARC or PLC for seed cotton.

Most industry observers and analysts seem to concur that PLC is the way to go. Little if any analysis comparing ARC and PLC has not been done. UGA Extension has developed a tool to assist with making the generic base conversion decision. This decision-aid assumes PLC is chosen.

The period for landowners and producers to begin allocating generic base, selecting ARC or PLC for seed cotton, and enrolling the farm in the seed cotton program began July 30<sup>th</sup>. Election and sign-up ends December 7<sup>th</sup>.

For generic base conversion, the landowner has two options:

The higher of 1-A or 1-B

- 1-A Seed cotton base would be 80% of the generic base
- 1-B Seed cotton base would be the average cotton acres planted for 2009-2012, but not to exceed the amount of generic base

Or option 2

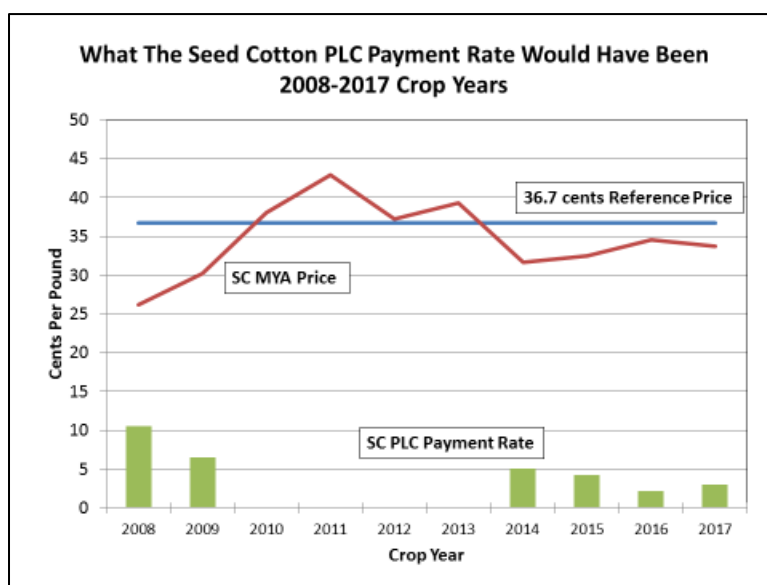
- 2 Generic base allocated to seed cotton base and base of other covered commodities (peanuts, corn, soybeans, wheat, etc.) based on 2009-2012 acres planted.

These options are more fully explained with examples in the following publication that is available on-line or through your local UGA Extension office.

*"Understanding Your Generic Base Conversion Options with the Seed Cotton Program", AGECON-18-04, February 2018. <http://agecon.uga.edu/content/dam/caes-website/departments/agricultural-and-applied-economics/documents/extension/GB%20conversions%20paper%200221rev2.pdf>*

The choice is basically this—option 1 (either A or B) will give you seed cotton base only; option 2 will give you seed cotton base plus bases of other covered commodities depending on your planting history. So, the decision is which conversion option is likely to result in the highest payments not only in 2018 but beyond. When converting the generic base, do you want just seed cotton base or a mix of bases based on your planting history? The decision is going to vary from farm to farm because planting histories will be different. For a farm business typically with multiple farm serial numbers (FSN), the landowner will make the generic base conversion decision for each FSN. This decision applies only to farms (FSN's) with generic base.

Assuming the seed cotton (SC) program had been in effect beginning with the 2008 farm bill, what the SC PLC payment rate would have been is shown in the graph below. For the 10-year period 2008-2017, a PLC payment would have been received in 6 of the 10 years. The payment rate would have ranged from roughly 10 ½ cents/lb to a little over 2 cents/lb in those 6 years and zero in 4 years. Including zero years, the average payment rate would have been roughly 3.15 cents/lb over the 10 years.



The SC MYA (market year average) price is a weighted average “combo” price for cotton lint and cotton seed. A PLC payment is made if the MYA price is less than the PLC reference price of 36.7 cents/lb. The method used for calculating the MYA price and PLC payment is found in the following publication:

*“MYA Prices and Calculating Payments with the Seed Cotton PLC”, AGECON-18-03, February 2018.*  
<https://site.extension.uqa.edu/aaecext/files/2018/02/SC-PLC-18-03-0213rev.pdf>

PLC is received on 85% of base acres. For each farm FSN, the PLC payment for Seed Cotton (SC) received will be:

$$\text{Total Farm SC PLC} = \text{PLC payment rate} \times \text{SC PLC payment yield} \times \text{SC base acres} \times 85\%$$

A spreadsheet-based decision-aid has been developed by UGA Extension agricultural economists and is available on-line and/or through your local county Extension office.

*“Seed Cotton Generic Base and Yield Update Decision Aid”, March 2018.*  
<http://agecon.uqa.edu/extension/policy.html#Tools-Decision-Aids>

The UGA decision tool (on the “Payments Analysis” Tab) contains a table that shows what the SC PLC payment rate would have been had it been in effect for all of the 2014 farm bill (2014-2016 actual, 2017 estimate, and 2018 current projection). The following table is revised/updated from what is shown earlier in the decision aid.

US MYA Prices and PLC Payment Rates Used					
Cotton	2014	2015	2016	2017E	2018P
Cotton Lint cents/lb	61.3	61.2	68	68	75
Cotton Seed \$/ton	194	227	195	139	155
SC MYA Price cents/lb	31.606	32.450	34.563	33.229	36.870
Payment cents/lb	5.094	4.25	2.137	3.471	0.000

Using the most recent USDA projections for prices and production for the 2018 crop<sup>1</sup>, the SC market year average price (MYA) for 2018 would be 36.87 cents/lb. This would be above the SC reference price of 36.7 cents—thus, it is currently projected there could possibly be little or no SC PLC for the 2018 crop.

Landowners may also choose to update the farms payment yield to be used for the seed cotton program. The SC PLC payment yield will be 2.4 times the farm’s 2013 countercyclical payment (CCP) yield or the yield used may be updated to 90% of the farm’s 2008-2012 average yield times 2.4, if higher. The yield update will be certified on form CCC-864.

The following table illustrates an example of what the SC PLC payment would be per acre based an example CCP yield and SC yield. The example uses a 2,040 lb seed cotton PLC yield (2.4 times the CCP or updated yield). Payment shown would be received per acre on 85% of the farms seed cotton base acres. Payments are shown for various combinations of cotton price (cents/lb) and cottonseed price (\$/ton).

2013 CCP or Updated Yield		850									
SC PLC Yield		2040									
SEED COTTON (SC) PLC PAYMENT PER ACRE on 85% OF SC BASE											
	130	140	150	160	170	180	190	200	210	220	230
60	149.18	143.34	137.51	131.67	125.83	120.00	114.16	108.32	102.49	96.65	90.81
61	140.45	134.62	128.78	122.94	117.11	111.27	105.43	99.60	93.76	87.92	82.09
62	131.72	125.89	120.05	114.22	108.38	102.54	96.71	90.87	85.03	79.20	73.36
63	123.00	117.16	111.32	105.49	99.65	93.82	87.98	82.14	76.31	70.47	64.63
64	114.27	108.43	102.60	96.76	90.92	85.09	79.25	73.42	67.58	61.74	55.91
65	105.54	99.71	93.87	88.03	82.20	76.36	70.52	64.69	58.85	53.02	47.18
66	96.82	90.98	85.14	79.31	73.47	67.63	61.80	55.96	50.12	44.29	38.45
67	88.09	82.25	76.42	70.58	64.74	58.91	53.07	47.23	41.40	35.56	29.72
68	79.36	73.53	67.69	61.85	56.02	50.18	44.34	38.51	32.67	26.83	21.00
69	70.64	64.80	58.96	53.13	47.29	41.45	35.62	29.78	23.94	18.11	12.27
70	61.91	56.07	50.24	44.40	38.56	32.73	26.89	21.05	15.22	9.38	3.54
71	53.18	47.34	41.51	35.67	29.84	24.00	18.16	12.33	6.49	0.65	0.00
72	44.45	38.62	32.78	26.94	21.11	15.27	9.43	3.60	0.00	0.00	0.00
73	35.73	29.89	24.05	18.22	12.38	6.54	0.71	0.00	0.00	0.00	0.00
74	27.00	21.16	15.33	9.49	3.65	0.00	0.00	0.00	0.00	0.00	0.00
75	18.27	12.44	6.60	0.76	0.00	0.00	0.00	0.00	0.00	0.00	0.00
76	9.55	3.71	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
77	0.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Payments shown are approximations/estimates based on the average ratio of cottonseed to lint over 5 years (2014-2018 projected). In actuality, the SC MYA price and any PLC payment is based on the actual

<sup>1</sup> “World Agricultural Supply and Demand Estimates, USDA-WAOB, August 10, 2018, page 17; “Oil Crops Outlook”, USDA-ERS, July 16, 2018, page 13.

production of cotton and cottonseed for the particular year; but looking forward these are useful estimates depending on what prices do.

This table is available as an Excel spreadsheet. Users can enter their own 2013 CCP yield or updated yield to calculate their estimated payment per acre. This per acre payment would be received on 85% of seed cotton base acres.

In summary, landowners and producers have until December 7, 2018 to make decisions on generic base option, yield update, and ARC or PLC for seed cotton and to enroll in the SC program. The seed cotton program begins with the 2018 crop year and is expected to continue in the new farm bill that begins with the 2019 crop through 2023. Future prices and payments are unknown but choices should reflect what producers and landowners expect to result in not only high payments but a good risk management safety net for the farms actual production.

### **Acknowledgements**

Appreciation is expressed to individuals with the National Cotton Council and USDA-FSA for review and comment. Any remaining errors and misinterpretations are those of the authors. Appreciation is expressed to the Georgia Cotton Commission for funding support.

