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The 1978 COTTON PROGRAM

Provided by the Food and Agriculture Act of 1977

Ted R. Nelson

Extension Economist

The Food and Agriculture Act of 1977 provides for loans, deficiency payments and disaster payments for most major farm commodities.* For cotton, these benefits for 1978 are briefly:

1. Eligibility for loan on all cotton produced at 44 cents per lb.

2. Deficiency payments on acreage planted for harvest on the normal production on the acreage planted, with the payment based on the difference between the target price of 52 cents per lb. less the higher of the loan rate (44¢) or the average price received by farmers during the marketing year following harvest (If the average price for those twelve months is above the target price, there would be no deficiency payment).

3. Disaster payments in case of prevented planting or a low yield based on the shortfall below 75% of normal farm yield times 33% of the target price (52¢/3 = 17.33/lb).

Requirements for participation are less rigorous for cotton than for wheat and feed grains which are designated as "setaside" crops. These requirements for cotton for 1978 are:

1. Declare intentions to participate at the ASCS office by May 15, and certify performance by August 15th.
2. If a setaside crop is grown on the farm unit, participate in the setaside for those crops (wheat, barley, grain sorghum, corn).

3. If a setaside crop is grown on any farm in which the owner or the operator has an interest, plantings for harvest must be kept within the Normal Crop Acreage for each of these farms.

Compliance with the conditions above qualifies the farm for cotton program benefits, but the deficiency payment is subject to the allocation factor if 1978 acreage is not reduced by at least 20% from the 1977 cotton acreage. The

*See OSU Current Reports #144, 145, 146 and 148 for details on other crops.

TABLE I

ILLUSTRATION OF PROGRAM BENEFITS

Assumptions: Normal farm yield = 300 lbs lint per acre
Average Price 5 months following harvest = 45¢/lb
Acres cotton planted for harvest in 1977 = 100 acres
National Program Acreage = 10.248 million acres
Actual acreage harvest in 1978 = 13 million acres
Gives National Allocation Factor of 10.248/13.0 = .7883

A. Deficiency Payment at 3 Levels of Participation

1.		Acres for harvest in 1978	100	90	80
2.	X	Farm cotton allocation factor	0.7883	0.8942	1.0000
3.	=	Cotton Program Acreage (acres)	78.83	80.47	80
4.	X	Normal farm yield (lbs)	300	300	300
5.	=	Farm program production (lbs)	23,649	24,124	24,000
6.	X	Target price - 5 mo. average price (¢/lb)	0.07	0.07	0.07
7.	=	Deficiency payment ($)	1,655.45	1,689.95	1,680.00
8.	+	Cotton Sales (yield X acre hr X 45¢) ($)	13,800.00	12,420.00	11,040.00
9.	=	Gross Income	15,455.45	14,109.95	12,720.00
10.	-	Operating costs on harvest acres ($)	13,690.00	12,321.00	10,952.00
11.	=	Net revenue from cotton acres ($)	1,765.45	1,788.95	1,768.00
12.		Acres available for another crop (acres)	0	10	20

TABLE I illustrates computation of program benefits for three levels of participation:

(1) 1978 plantings equal to 1977 acreage for harvest which subjects the deficiency payment to the National Allocation Factor (assumed to be 0.78833 in this case).

(2) 1978 plantings equal to 90% of 1977 acreage for harvest which is also subject to the Allocation Factor, but since acreage is reduced by half the voluntary reduction of 20% requested for cotton, the Farm Program Acreage is reduced proportionately, giving a Farm Cotton Allocation Factor of .8942.

(3) 1978 plantings equal to 80% of 1977 acreage providing immunity to the Allocation Factor. Note that the deficiency payment is about the same in these three cases where the assumed five month average price is low. If the five month average price were to be above the target price there would be no deficiency payment in any case.

B. Disaster Payments are payable under the 1978 program on participating farms if the yield actually achieved falls below 75% of the Normal Farm Yield, regardless of price conditions. The amount of the payment is based on one-third of the Target Price times the shortfall in production below the "guaranteed" yield. Table II illustrates the computation of Disaster payments for three levels of reduced yields. In this case the Normal Farm Yield is again assumed to be 300 lbs. per acre. Disaster payments are made for unrealized production up to 75% of the 300 lb. NFY or up to 225 lbs. When disaster payments are made, however, the deficiency payment is reduced for those pounds compensated for in the disaster payment.

TABLE II

COMPUTATION OF DISASTER PAYMENT AND REDUCTION OF DEFICIENCY PAYMENT WHEN THE DISASTER PAYMENT IS MADE

	Actual yield realized on 1978 crop (lbs)		
	125	150	225
A. Disaster Payment:			
1. (.75 X Normal Yield - Actual yield (lbs)	100	75	0
2. X Target price of 52¢/3) (¢/lb)	17.33	17.33	17.33
3. = Disaster payment per acre ($)	17.33	13.00	0
B. Adjustment to deficiency payment:			
4. Lbs paid for in disaster payment (line 2 above)	100	75	0
Deficiency payment rate =			
5. (Target price - 5 months after harvest) (¢/lb)	0.07	0.07	0.07
6. Deduction from deficiency payment/acre	7.00	5.25	0
7. Deficiency payment per acre (From Table I, A, Line 7)	16.55	16.55	16.55
8. Reduced Deficiency Payment	9.55	11.30	17.33
9. Disaster Payment + Reduced Deficiency Payment per acre ($) (Line 3 + Line 6)	26.88	24.30	17.33

Disaster payments are not subject to reduction by the Allocation Factor. Deficiency payments in this illustration are shown from Column 1 of Table I which assumes that 1978 acreage is the same as for 1977, and were subject to the Allocation Factor.

allocation factor for each farm will be adjusted proportionately according to the fraction of the voluntary reduction of 20% which is made from 1977 to 1978 acreages. So a farm which reduces acreage by 10% rather than the designated 20% will have a farm allocation factor half way between the national allocation factor and 100%. There is no statutory minimum for the cotton allocation factor such as exists for wheat and feed grain of 80%. It is possible that this factor could be below 80% for cotton farmers who do not reduce acreage in 1978!!

Additional Setaside Program for cotton was announced on March 29th which provides an option to cotton producers who reduce from their 1977 acreage by at least 10% and setaside an acreage equal to 10% of the acreage for harvest.

Payments for this phase of the program are two cents per lb on Established Farm Yield times the acreage for harvest. Using the assumptions from Table 1 this payment would be:

Payrate	X	Established Farm Yield	X	Acreage for Harvest	=	Added Diversion Payment
\$.02	X	300 lbs	X	90 Acres	=	\$540.00

In this case the producer would have 9 acres (10% of the 90 acres for harvest) as setaside which could not be used for a harvested crop nor grazed during the non-grazing period established for setaside acreage in his county.

1979-1981 Provisions of the legislation specify that certain adjustments be made from year to year:

Loan rates are to be adjusted according to changes in demand as reflected in domestic and European markets.

Target prices are to be adjusted according to changes in the variable costs, machinery costs and general farm overhead costs comparing "the two crop years immediately preceding the year for which the determination is made from the average adjusted cost of production for the two crop years immediately preceding the year previous to the one for which the determination is made." Thus the adjustment for 1979 crop would be:

$$\frac{\text{Average cost of 1977 and 1978}}{\text{Average costs for 1976 and 1977}} \times \frac{\text{1978}}{\text{Target Price}}$$

but in no event shall the established (target) price for 1979 through 1981 be less than fifty-one cents per pound.

The National Program Acreage for each crop must be announced by the Secretary no later than December 15 preceding the crop year, along with an estimate of the acreage reduction percentage needed to balance supply and demand for the following year. Producers who reduce acreage by that amount will not be subject to the allocation factor.

The allocation factor for farms which do not reduce acreage shall be the result of dividing the National Program Acreage by the acreage harvested.

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