The ~~2012~~, ~~2013~~, 2014 Farm Bill: A New Paradigm or More of the Same?

Darren Hudson
Combest Endowed Chair
Director, International Center for Agricultural Competitiveness
Texas Tech University

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The Art of Compromise

- The political process has been “grinding” on the question of a farm bill for some time
- Several sticky issues
  - SNAP funding
  - Dairy program
  - Payment limitations

SNAP Funding

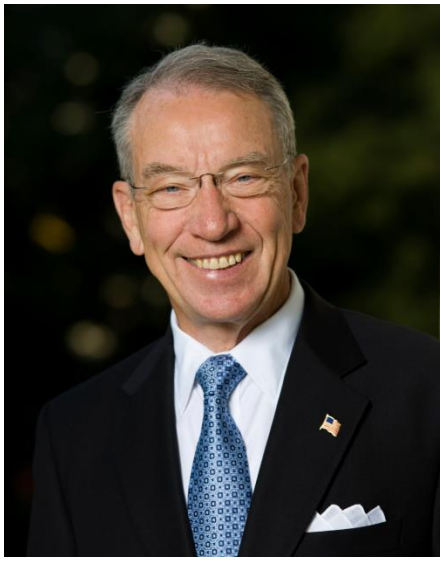
- SNAP program largely unchanged; changes in enrollment and other technical details expected to save around $8B

Dairy Program

- Dairy Product Support and MILC programs replaced with Dairy Production Margin Protection Program
  - Producer elects coverage between $4-$8/cwt (no premium for the $4 but premiums for higher coverage levels)
  - No supply control

Payment Limits

- Both direct and indirect payments to an individual cannot exceed $125K ($250K with spouse).
  - Separate payment limit for peanuts
  - Gains from forfeiture of non-resource loans not included in the single payment limit



COMMODITY TITLE

Direct Payments

- Direct payments are eliminated except for reduced transition payments for cotton in 2014-2015.

Ro	Payment components	2014	2015	Notes
1	WASDE estimate of 2014 Cotton MYA price on June 12 2013	$ 0.83	$ 0.83	Defined in legislation
2	minus WASDE estimate of 2014 Cotton MYA price on December 10 2013	0.74	0.74	Defined in legislation
3	Price Factor=	$ 0.09	$ 0.09	
4	times the national program yield for upland cotton	597	597	Defined in legislation
5	National Payment Factor=	$ 53.73	$ 53.73	
6	times payment factor	60%	37%	Defined in legislation
7	times farm's base acres	400	400	Unique to the farm
8	times farm's payment yield	777.8	777.8	Unique to the farm
9	divided by the national program yield	597	597	Defined in legislation
10	Total Payments for the Farm =	$ 16,800.48	$ 10,220.29	
11	Acres to hit a $40,000 payment limit	952	1,566	

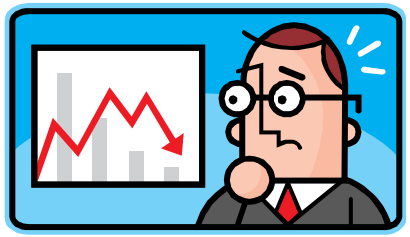
Source: Keith Coble, Mississippi State University

These are NOT direct payments!

Producer Decisions

- Producer has a one-time, irrevocable opportunity to elect either Price Loss Coverage (PLC) or county Agricultural Risk Coverage (ARC) on a crop-by-crop basis
  - Can elect farm level ARC but this applies to whole farm and not likely useful for most producers
  - ALL Producers on a farm must make the same election or face loss of 2014 payments (share lease arrangements must have owner/tenant agreement)

Price Loss Coverage



- PLC payments occur if the US average market price is less than the crop's reference price.
- It does not contain an element for revenue (yield*price).

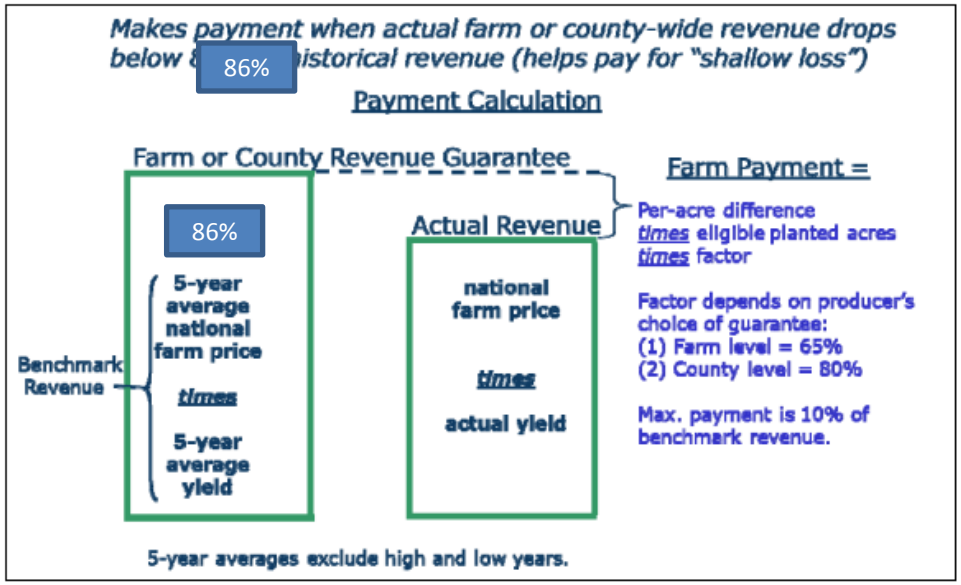
Crop	Units	Reference Price
Wheat	bu	$ 5.50
Corn	bu	$ 3.70
Grain Sorghum	bu	$ 3.95
Barley	bu	$ 4.95
Oats	bu	$ 2.40
Long Grain Rice	cwt	$ 14.00
Medium Grain Rice	cwt	$ 14.00
Soybeans	bu	$ 8.40
Other Oilseeds	cwt	$ 20.15
Peanuts	ton	$ 535.00
Dry Peas	cwt	$ 11.00
Lentils	cwt	$ 19.97
Small Chickpeas	cwt	$ 19.04
Large Chickpeas	cwt	$ 21.54

Payment yields can be updated to 90% of the farm's average planted yield over the 2008-2012 crop years.

Agricultural Risk Coverage

- ARC payments occur when actual crop revenue drops below the ARC revenue guarantee for a crop year.
  - County ARC guarantee is 86% of county ARC benchmark revenue
  - Coverage is capped at 10%, meaning coverage is between 76% and 86% of benchmark
  - Benchmark is based on Olympic average of county yields and US crop average price for preceding 5 years

Figure 3. Agriculture Risk Coverage (ARC)



Source: CRS, hypothetical example.

Agricultural Risk Coverage

Hypothetical Kansas Wheat Example

86%
X
Benchmark revenue = $246.48

=

County Revenue Guarantee = $211.97

Actual Revenue = $6.20/bu x 32 bu = $198.40/ac

(6.48+6.78+5.70)/3
X
(40+42+35)/3

5-year Olympic average takes the high and low and discards them and averages the remaining three years

Farm Payment = (CRG – AR)*AC*0.80
=(211.97-198.40)*500*0.80
= $5,429.12
Max Payment = 10% Benchmark = $24.65
Actual = $13.57

Base Acres

- Both programs, payment acres are 85% of the farm's base
  - Can add "generic base" (former cotton base) planted to that crop (annual decision)
- Total base is the same as current base. However, farm can elect to reallocate base among covered crops according to each crop's share of plantings from 2009-2012 (provision for prevented plantings)

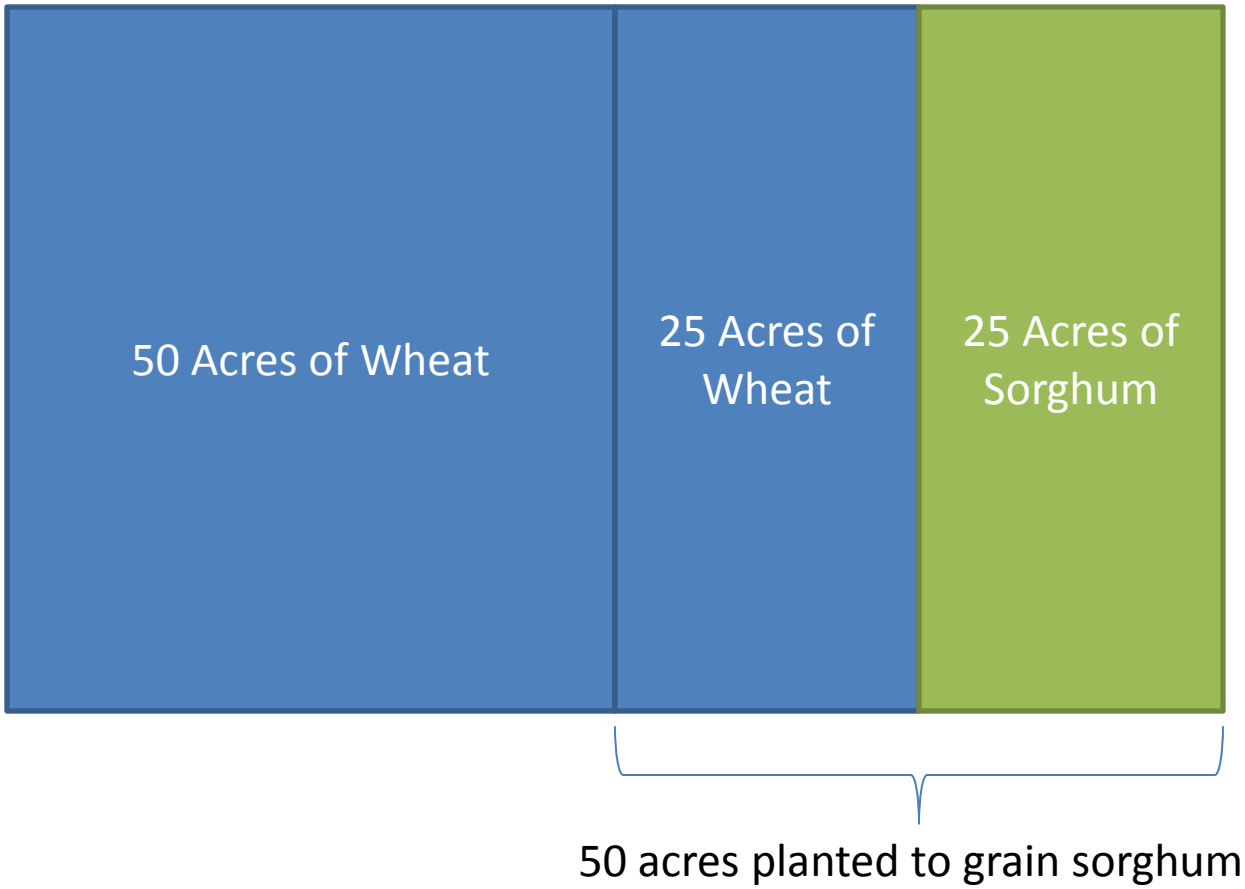
The Secretary has also been given authority to eliminate base acres on land that has been subdivided and developed…a way of focusing payments on actual farm land

Base Acre Update

Year	Corn	Sorghum	Peanuts	Wheat
Base				1000
	Actual Plantings			
2009	250	500	250	0
2010	250	500	250	0
2011	250	500	250	0
2012	250	500	250	0
Average	250	500	250	0
Percentage	25%	50%	25%	0%
New Base	**250**	**500**	**250**	**0**

Generic Base Example

100 acres of base—50 acres of wheat and 50 acres of cotton. Producer decides to plant 50 acres of wheat and 50 acres of grain sorghum.



Generic Base Example

100 acres of base—50 acres of wheat and 50 acres of cotton. Producer decides to plant 100 acres of wheat.

The generic base is converted to match the existing base when planted in that crop.

A Simple Choice?? Think Again

- AT LEAST two layers of choices to be made:
  - Which program to choose (moot if you are cotton)
  - What level of individual coverage/program coverage to you take

Program Choice

ARC

- Based on county revenue
  - Works well in situations of high county yield/price correlation
  - Limited downside protection for only downward price moves (no yield losses)

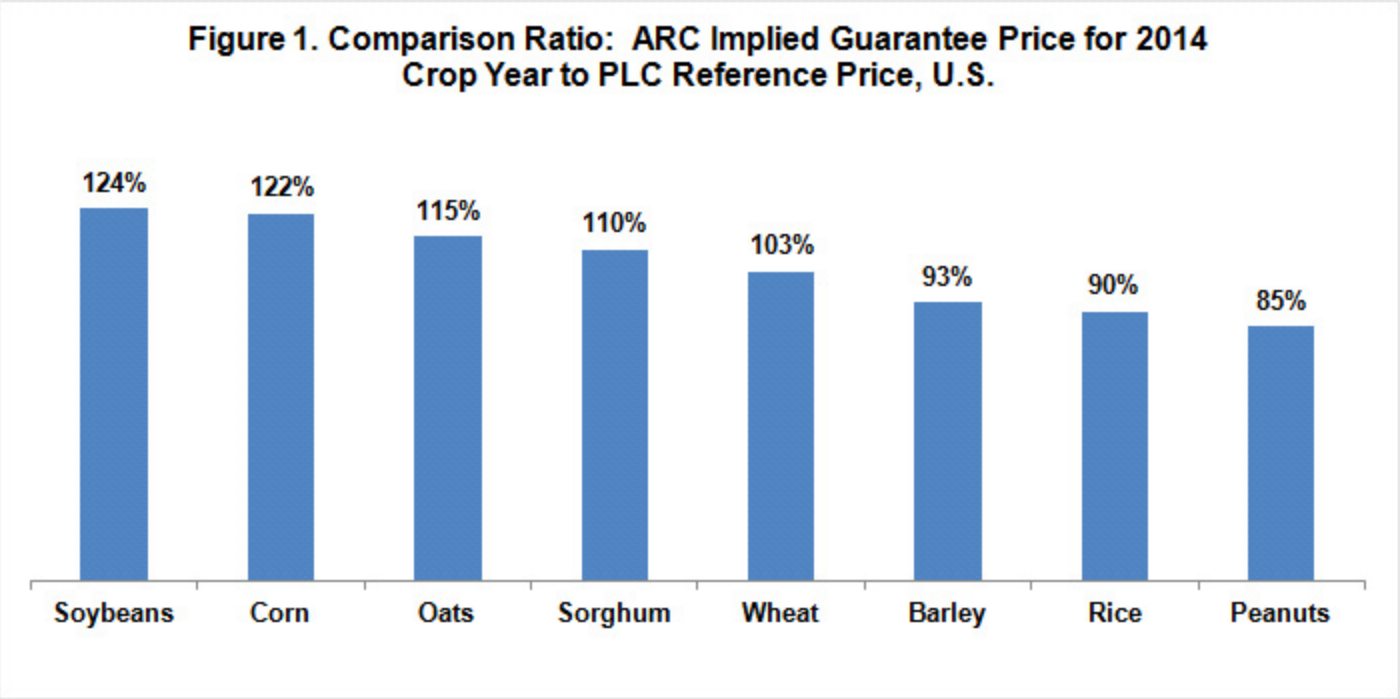
PLC

- Based on MYA crop price
  - Works well where price/yield correlation in a county is low
  - More downside price protection, but does not address yield losses

1. Is your farm yield highly correlated with price? More importantly, is your farm yield highly correlated with county yield
2. Do you think prices will be below reference prices from some or all of 2014-2018?
3. Is yield insurance an effective tool for managing yield risk for you?

Program Choice

- What is the implied guaranteed price?



Note: This is for 2014 only…the decision is actually for the life of the bill? What do you expect to happen?

Program Choice

- What are your price expectations?
- What is you farm/county yield correlations
- What about your landowner?

Conclusions

- Producers must make an election on PLC or ARC when signup begins REGARDLESS of whether you plan to only plant cotton
- Must make a decision about base/yield updates in conjunction with landowner
- Must consider interaction with traditional crop insurance decisions.

Conclusions

- New programs are more data intensive
  - Gear up to capture your farm data and understand your relationship to your county
- New programs are more farm-specific and management intensive
  - Requires farmers to bear more of the burden for decisions and risks
- There has been a paradigm shift, with a spoonful of the same to make the medicine go down