

# The U.S. Farm Bill and Implications for Producers

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Transforming agriculture - between policy, science and the consumer

19th Congress of the International Farm  
Management Association (IFMA)  
Warsaw, Poland

July 22, 2013

TEXAS A&M  
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AFPC

# Presentation Outline

- My Perspective
- Factors Influencing Farm Bill
- Where Are We in the Process?
- Future Farm Policy
- Conclusions



# My Perspective

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- Co-Director of the Agricultural and Food Policy Center
- Established in 1983 by the Texas A&M University System
- To conduct analyses of the impacts of government policy proposals and/or implementation procedures on:
  - ✓ Farmers
  - ✓ Agribusinesses
  - ✓ Taxpayers
  - ✓ Consumers

Primary constituency – agricultural committees of the U.S. Congress

# Agricultural and Food Policy Center (AFPC) Operations (Cont.)

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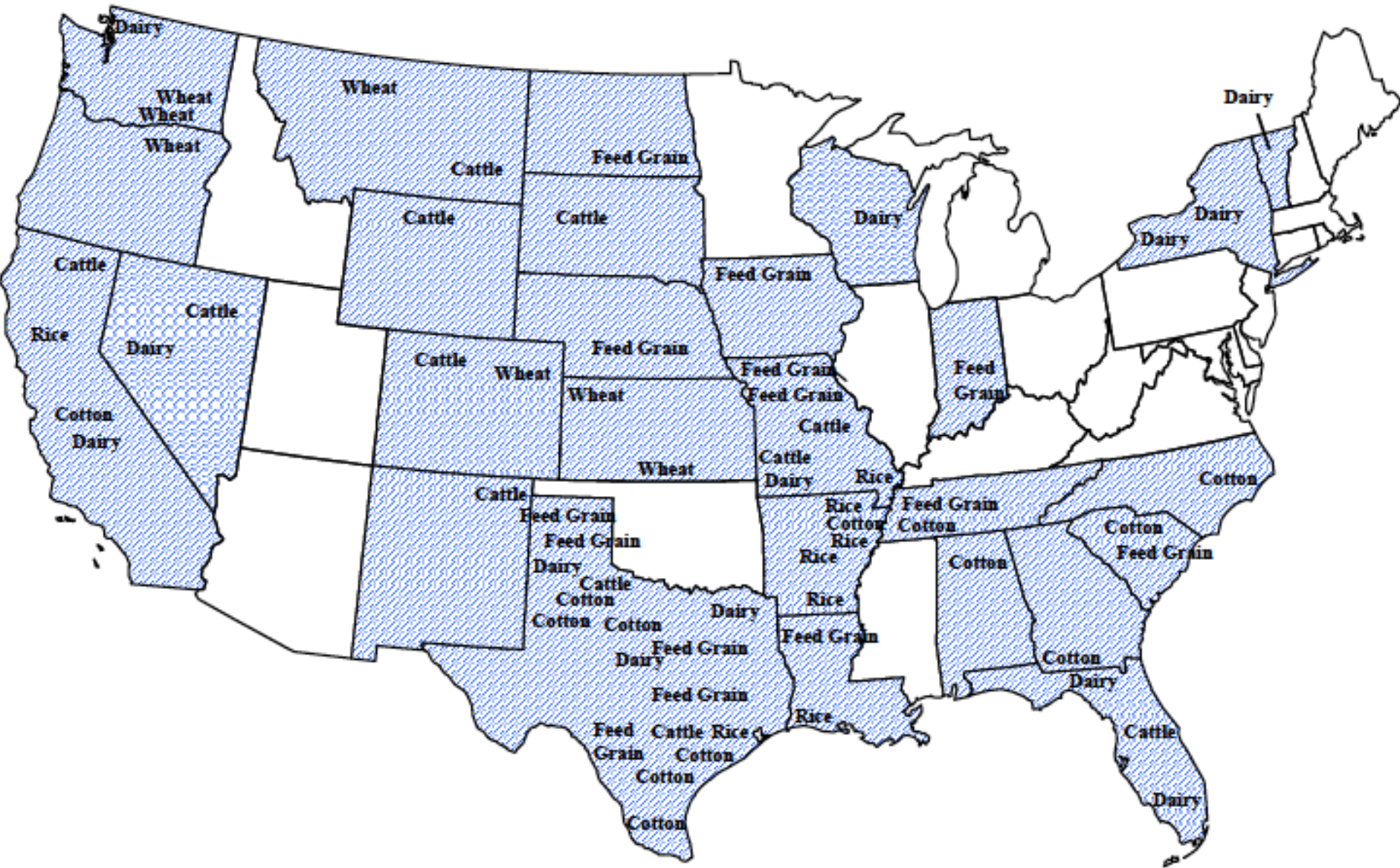
- National and International Reputation
  - Farm level policy analysis incorporating risk
    - Most important component is representative farms where we meet with farmers in key agricultural regions to develop “representative farms”
    - FLIPSIM – farm level simulation policy analysis model

# What We Do

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- Collect financial and production information from representative farms and ranches across the U.S.
- Take sector and macro projections from our partners ' (FAPRI) models and impose on representative farms
  - Results provide indication of policy impacts at the farm level
  - Much like sector models, impacts best viewed relative to Baseline
- Contact with producers across the U.S. leads to perspective we hope is helpful to policymakers

# Representative Farms and Ranches



# Current Farm Policy

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- Under current market conditions traditional farm policy tools are largely irrelevant as a safety net
- Crop insurance is key:
  - Sometimes to make large profits
  - Others to stay in business

# Factors Influencing Farm Bill

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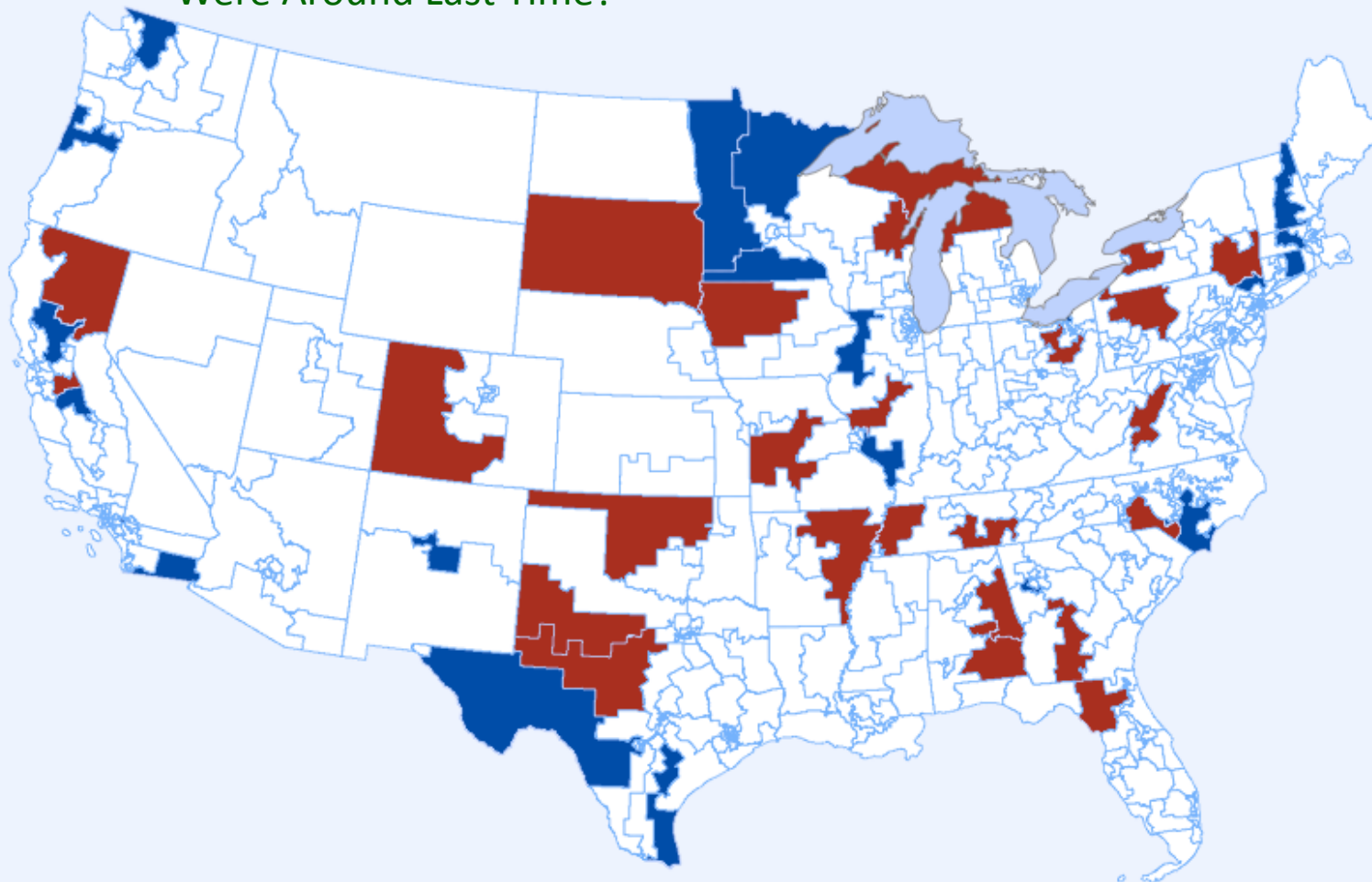
- Perception among many in Congress that recent high prices for some commodities has lessened the need for a farmer safety net
- Moderates of both parties lost in recent elections. The influence of the extreme right of the Republican party and extreme left of Democratic party has made compromise almost impossible
  - Ex. Many new Republican house members voted against the House Bill because it only saved \$30 Billion over 10 years – want more cuts
- Lack of agreement/backstabbing among commodity groups regarding commodity program
- Interest groups such as EWG, Heritage Foundation, Americans for Prosperity, American Enterprise Institute
- New Members on Ag Committees – especially in the House



# House Committee on Agriculture

113th Congress

Out of 46 Members – How Many Ds and Rs  
Were Around Last Time?



**Republicans**

- Frank Lucas (OK-03)
- Bob Goodlatte (VA-06)
- Steve King (IA-04)
- Randy Neugebauer (TX-19)
- Mike Rogers (AL-03)
- K. Michael Conaway (TX-11)
- Glenn Thompson (PA-05)
- Bob Gibbs (OH-07)
- Austin Scott (GA-08)
- Scott Tipton (CO-03)
- Rick Crawford (AR-01)
- Martha Roby (AL-02)
- Scott Desjarlais (TN-04)
- Chris Gibson (NY-19)
- Vicky Hartzler (MO-04)
- Reid Ribble (WI-08)
- Kristi Noem (SD-AT LARGE)
- Dan Benishek (MI-01)
- Jeff Denham (CA-10)
- Stephen Fincher (TN-08)
- Doug LaMalfa (CA-01)
- Richard Hudson (NC-08)
- Rodney Davis (IL-13)
- Chris Collins (NY-27)
- Ted Yoho (FL-03)

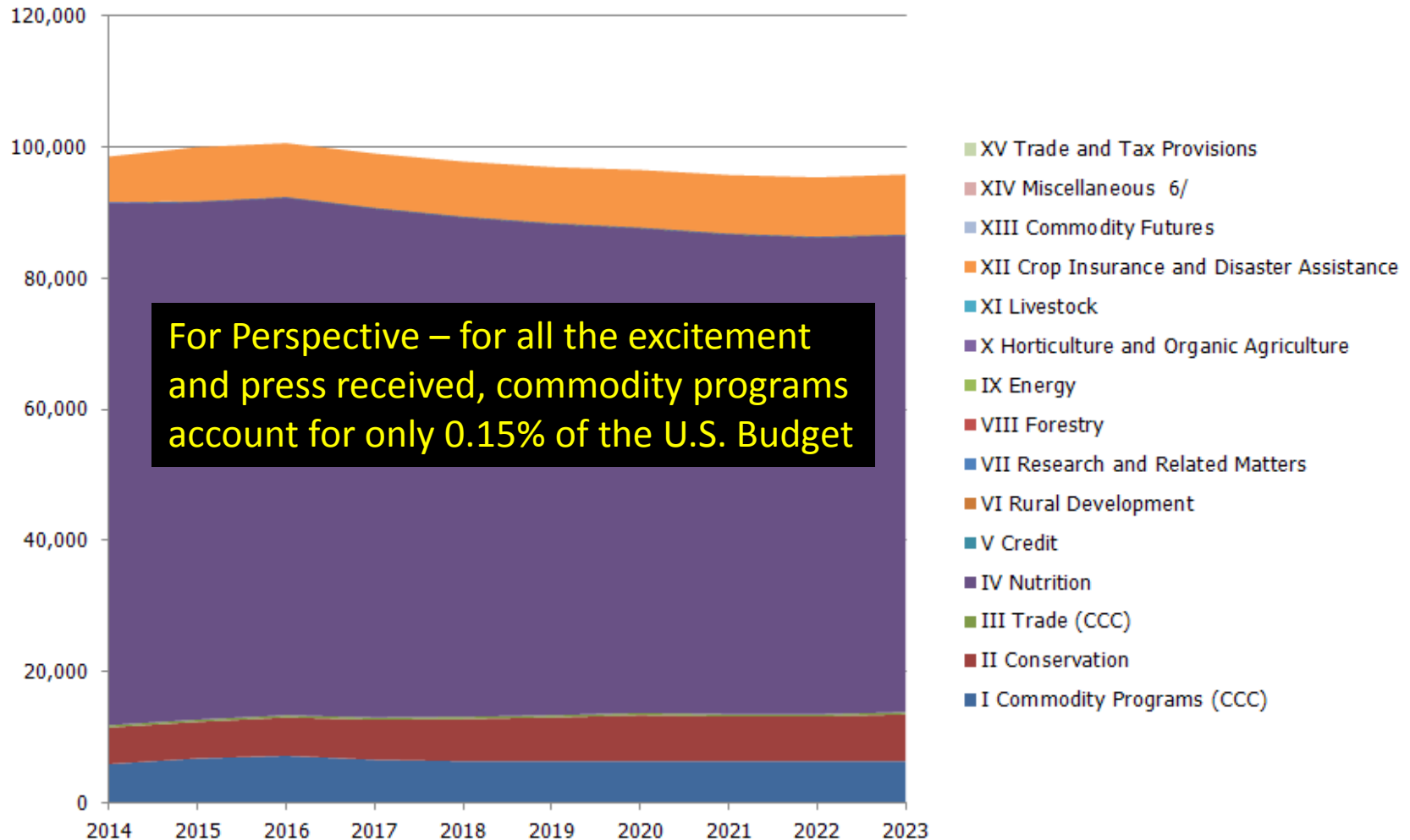
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**Democrats**

- Collin Peterson (MN-07)
- Mike McIntyre (NC-07)
- David Scott (GA-13)
- Jim Costa (CA-16)
- Tim Walz (MN-01)
- Kurt Schrader (OR-05)
- Marcia Fudge (OH-11)
- Jim McCrory (NC-01)
- Suzan DelBene (WA-01)
- Gloria Negrete McLeod (CA-35)
- Filemon Vela (TX-34)
- Michelle Lujan Grisham (NM-01)
- Ann Kuster (NH-02)
- Rick Nolan (MN-08)
- Pete Gallego (TX-23)
- William Enyart (IL-12)
- Juan Vargas (CA-51)
- Cheri Bustos (IL-17)
- Sean Patrick Maloney (NY-18)
- Joe Courtney (CT-02)
- John Garamendi (CA-03)

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# Mandatory Spending Baseline for the 2008 Farm Bill Programs and Provisions, by Title, (\$M), FY 2014-23



Source: CBO February 2013 Baseline

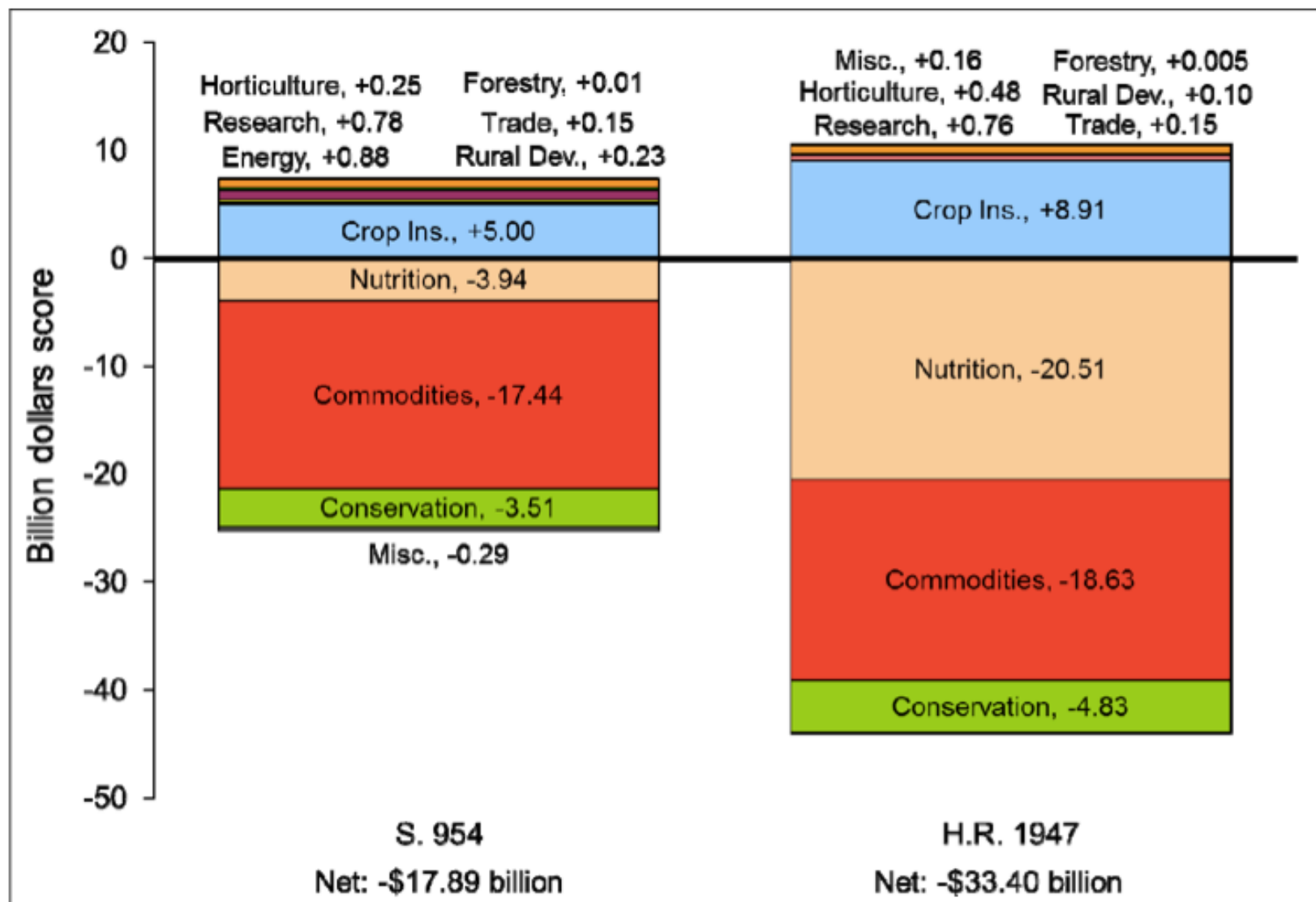
# Where Are We in Process?

- The Senate has passed their version of the bill
- The full House failed to pass its version. They split the Nutrition title out and passed the remaining titles in June
  - Working to find some way to move the Nutrition title before going to conference with the Senate
  - Eliminated the “permanent law” from 1938 & 1949 and replaced with 2013 as “permanent law”



## Figure 1. Ten-Year Scores of the Senate and House 2013 Farm Bills

(change in outlays over FY2014-FY2023 in billions of dollars by farm bill title, relative to baseline)



**Source:** CRS, using CBO cost estimates of S. 954 as reported by the Senate Agriculture committee (<http://cbo.gov/publication/44248>, May 17, 2013), and H.R. 1947 as reported by the House Agriculture committee (<http://cbo.gov/publication/44271>, May 23, 2013),

**Notes:** Incorporates into Title X (Horticulture) the scores of promotion orders that are classified as revenue.

# Not a Question of Whether FB Will Provide Less Support than Previous – Just by How Much?

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- The bills are very similar except for some elements of commodity programs
  - The Senate bill puts all crops other than cotton in:
    - Agriculture Risk Coverage (ARC) - a shallow loss type of safety net program with a choice of using their own yields or county yields and
    - Adverse Market Payment (AMP) which is a CCP type program to provide assistance in the event of price declines
    - A supplemental coverage option (SCO) area-wide insurance program is available for purchase to cover shallow losses on top of current buy-up insurance
  - The House bill allows producers to choose between a shallow loss or price based safety net that also has area based insurance option (SCO)

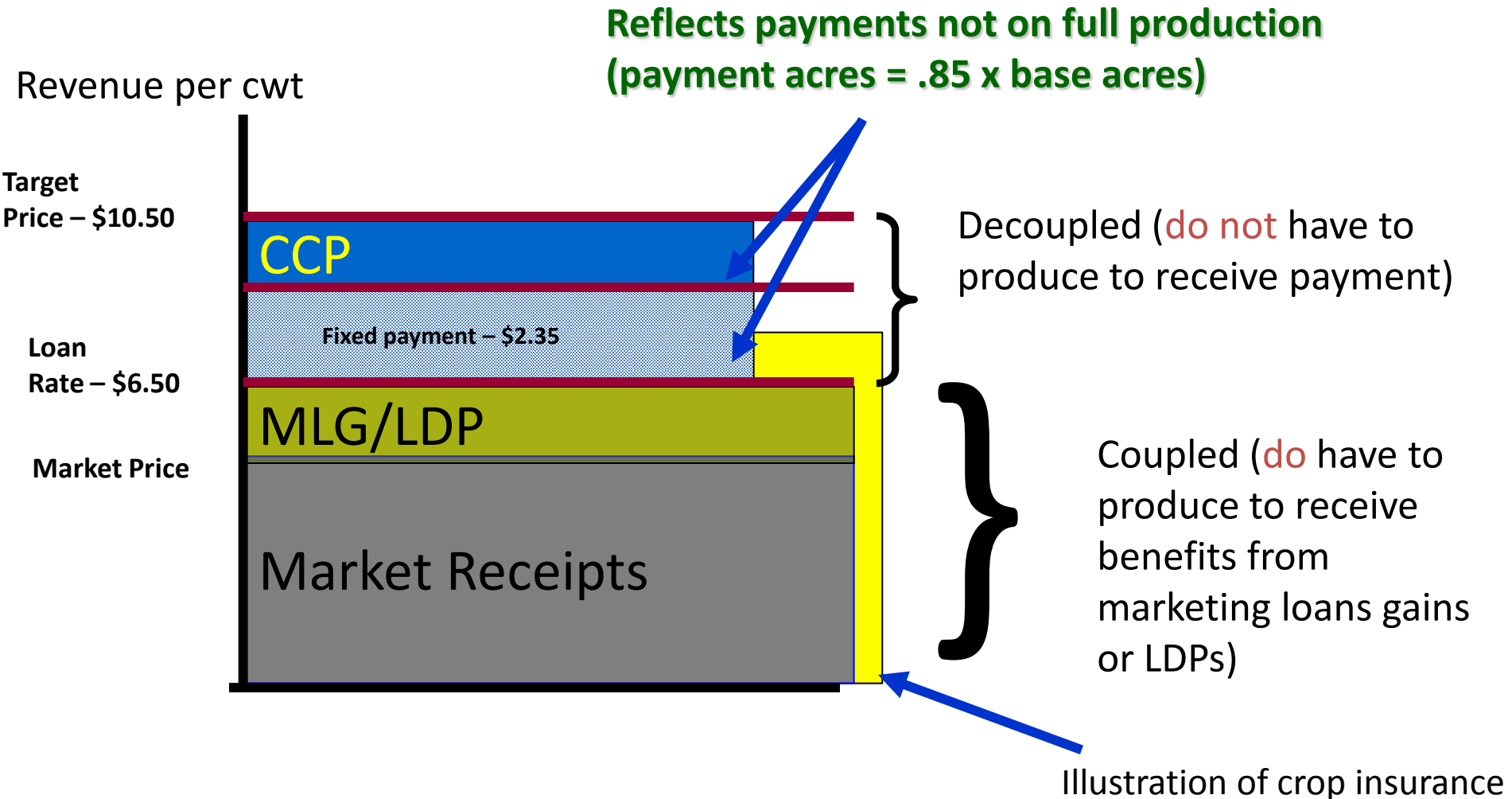
Provisions	Senate Agriculture Risk Coverage (ARC) Provisions	House Revenue Loss Coverage (RLC) Provisions
Revenue guarantee	Starts at 88% of previous 5-year moving Olympic average revenue for the crop	Starts at 85% of previous 5-year moving Olympic average revenue for the crop
County Level or Individual Level Coverage	One time irrevocable selection of either county level or individual level	County level
Payment acres	65% of planted acres not to exceed the average total acres planted or prevented from being planted to covered commodities and upland cotton on the farm for the 2009 – 2012 crop years if individual level coverage is selected or 80% for county level coverage	85% of planted acres and 30% of prevented planted acres not to exceed base acres on the farm (upland cotton base acres are included in total farm base acres) (payment factor of 85% is applied to planted acres before checking whole farm base cap)
Payment band or range	10% (88% to 78%)	10% (85% to 75%)

Provisions	Senate Agriculture Risk Coverage (ARC) Provisions	House Revenue Loss Coverage (RLC) Provisions
Reference Prices Used to Replace Low Prices in Calculating Revenue Guarantee	<p>Only applicable for rice and peanuts</p> <p>Long Grain Rice - \$13.30/cwt</p> <p>Medium Grain Rice - \$13.30/cwt</p> <p>Peanuts - \$523.77/ton</p>	<p>Wheat - \$5.50/bu</p> <p>Corn - \$3.70/bu</p> <p>Grain Sorghum - \$3.95/bu</p> <p>Barley - \$4.95/bu</p> <p>Oats - \$2.40/bu</p> <p>Long Grain Rice - \$14.00/cwt</p> <p>Medium Grain Rice - \$14.00/cwt</p> <p>Soybeans - \$8.40/bu</p> <p>Other Oilseeds - \$20.15/bu</p> <p>Peanuts - \$535/ton</p> <p>Dry Peas - \$11.00/cwt</p> <p>Lentils - \$19.97/cwt</p> <p>Small Chickpeas - \$19.04/cwt</p> <p>Large Chickpeas - \$21.54/cwt</p>

Provisions	Senate Adverse Market Payment (AMP)	House Price Loss Coverage (PLC) Program
Payment Acres	85% of base acres	85% of planted acres and 30% of prevented planted acres not to exceed base acres on the farm (upland cotton base acres are included in total farm base acres) (payment factor of 85% is applied to planted acres before checking whole farm base cap)
Reference Prices	<p>Wheat - \$4.17/bu            Corn - \$2.63/bu            Grain Sorghum - \$2.63/bu            Barley - \$2.67/bu            Oats - \$1.75/bu            Long Grain Rice - \$13.30/cwt            Medium Grain Rice - \$13.30/cwt            Soybeans - \$5.00/bu            Other Oilseeds - \$12.68/cwt            Peanuts - \$523.77/ton            Dry Peas - \$8.32/cwt            Lentils - \$12.81/cwt            Small Chickpeas - \$10.36/cwt            Large Chickpeas - \$12.81/cwt</p> <p>Full Senate passed bill changed reference prices to use the most recent 5 year olympic average market prices multiplied times .55 except for rice and peanuts which are set at \$13.30/cwt and \$523.77/ton, respectively.</p>	<p>Wheat - \$5.50/bu            Corn - \$3.70/bu            Grain Sorghum - \$3.95/bu            Barley - \$4.95/bu            Oats - \$2.40/bu            Long Grain Rice - \$14.00/cwt            Medium Grain Rice - \$14.00/cwt            Soybeans - \$8.40/bu            Other Oilseeds - \$20.15/cwt            Peanuts - \$535/ton            Dry Peas - \$11.00/cwt            Lentils - \$19.97/cwt            Small Chickpeas - \$19.04/cwt            Large Chickpeas - \$21.54/cwt            Temperate Japonica rice – 115% of long grain rice or \$16.10</p>
Price Trigger	If the average marketing year price falls below the reference price for the commodity. Uses the higher of the average market price or national average loan rate.	The average price during the first 5 months of the marketing year falls below the reference price for the commodity. Uses the higher of the first 5 months average market price or national average loan rate.
Payment Yields	<p>CCP yields for all crops other than rice, peanuts, oilseed and pulse crops without a payment yield.</p> <ul style="list-style-type: none"> <li>- Rice allows updating of CCP yields for rice depending upon the percentage of the crops base acres planted over the 2009-2012 period               <ul style="list-style-type: none"> <li>o If the 2009-2012 average planted acres were greater than 50% of base acres then the yield is 90% of the average yield from 2009-2012</li> <li>o If the 2009-2012 average planted acres were less than 50% of base acres then the updated yield equals the CCP yield plus (percent of base acres planted times the difference between the 2009-2012 average yield and CCP yield)</li> </ul> </li> <li>- Peanuts allow for updating using the average of 2009-2012 planted acre yields, omitting years not planted and replacing low yields with 75% of county average.</li> </ul>	CCP yields from the 2008 Farm Bill or establishes a methodology for producers of oilseeds without a CCP yield. Farm owner option to update payment yields to 90% of the average of the yield per planted acre for the crop for the 2008 to 2012 crop years, excluding any crop year in which the acreage planted was zero. Can replace yields lower than 75% of the county average with 75% of the county average when calculating the average.
Payment Limitation	\$50,000 for ARC and AMP combined, peanuts with a separate limit	\$50,000 for PLC and RLC combined, peanuts with a separate limit

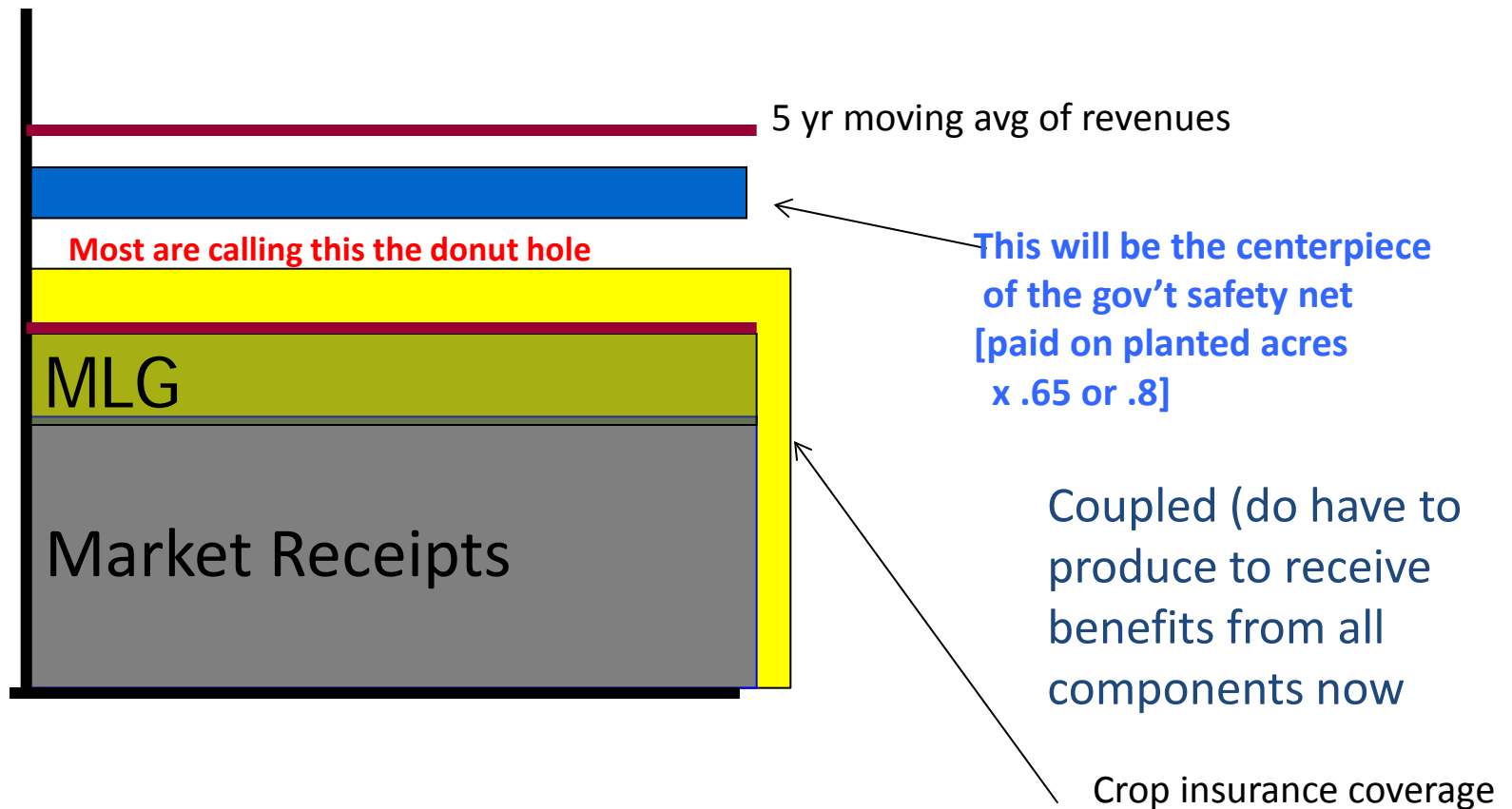


# Distribution of Current Government Support For Rice



# Distribution of Shallow Loss/Gap Revenue Coverage Example: Rice

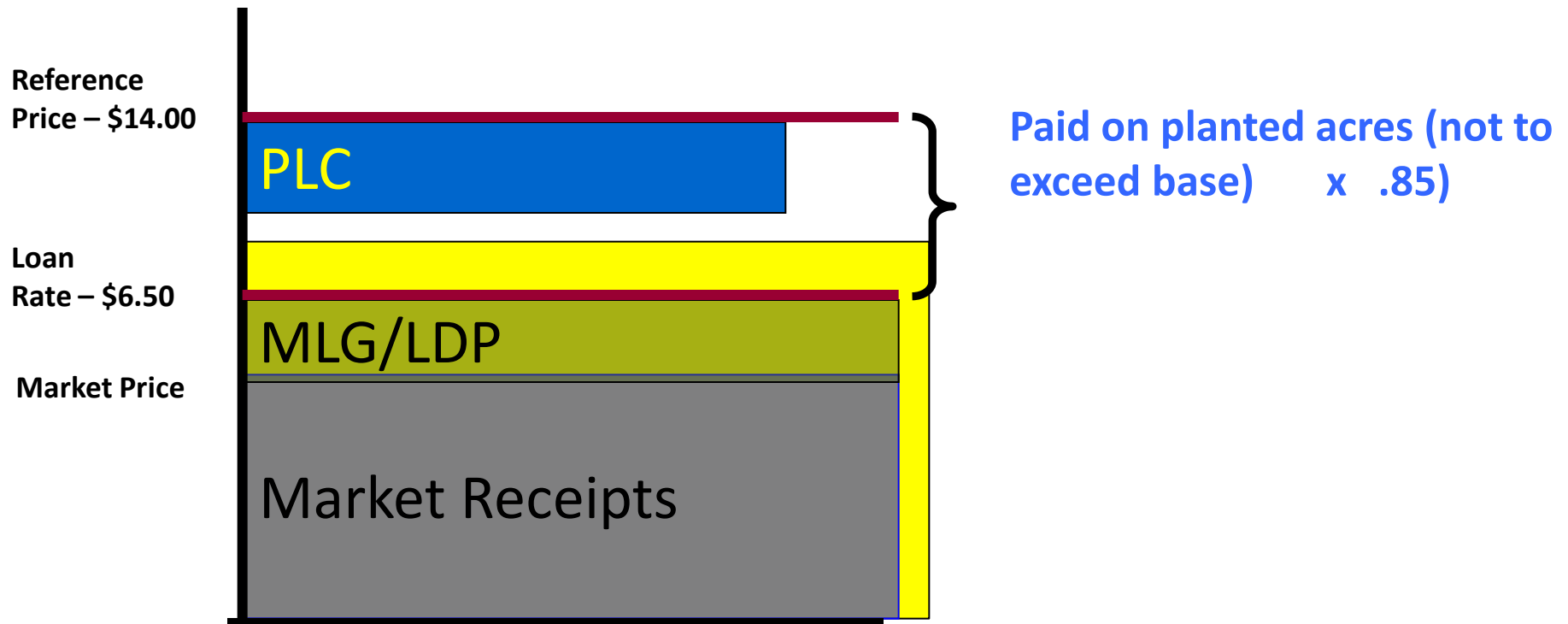
Revenue per cwt



# House Price Loss Coverage

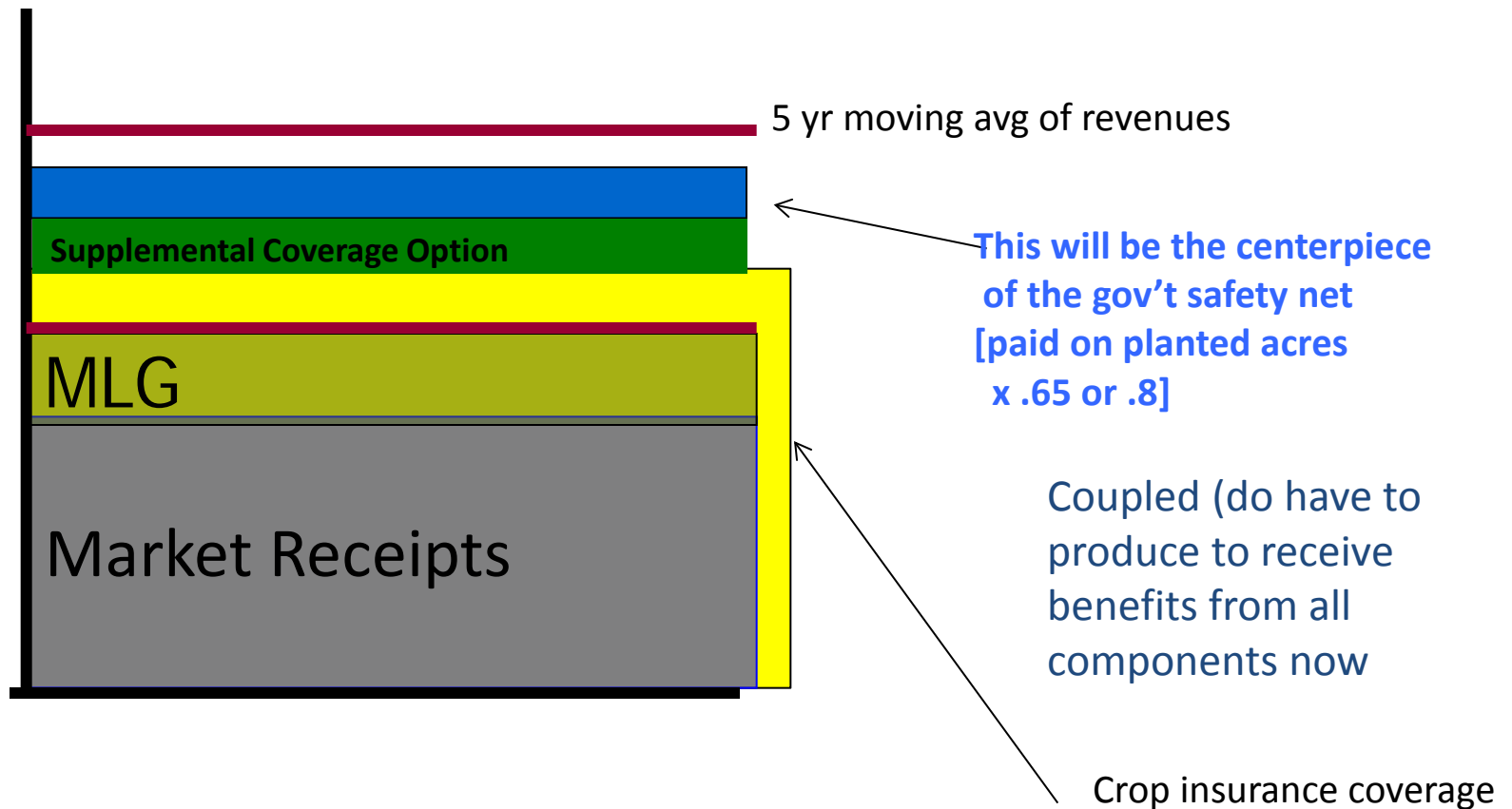
## Example: Rice

Revenue per cwt

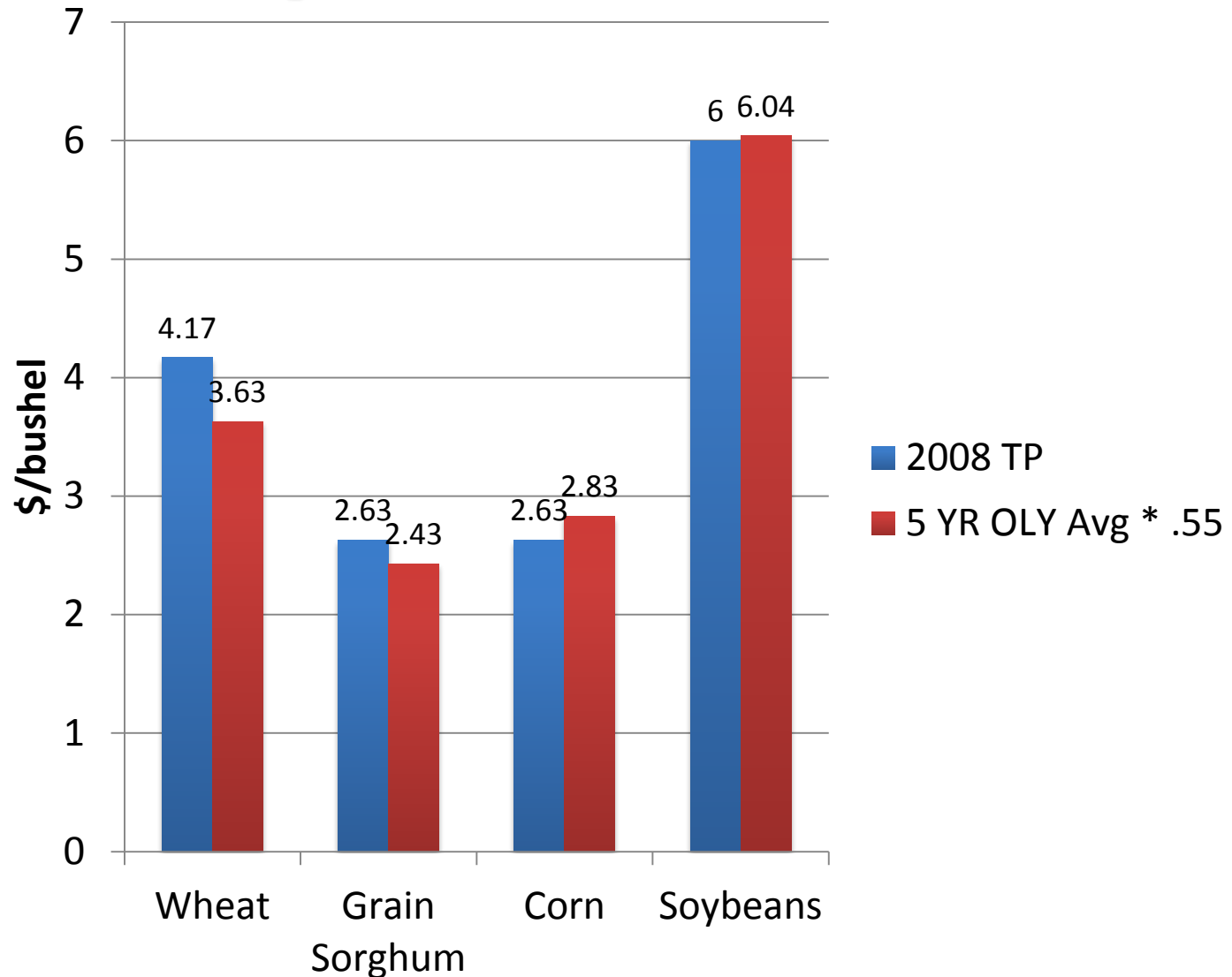


# Distribution of Shallow Loss/Gap Revenue Coverage Example: Rice

Revenue per cwt



# Current TPs and Senate Bill Reference Prices Used to Determine Adverse Market Payments for 2013



**Probability of Triggering a Senate AMP Payment With a Reference Price Using 55% of 5 YR OLY Avg Price.**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>			
Corn	0%	1%	2%	2%	2%	1%	1%	1%	0%	0%			
Rice	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%			
Peanuts	1%	2%	3%	5%	3%	3%	3%	5%	6%	4%			
Sorghum	0%	3%	3%	3%	1%	0%	0%	1%	0%	0%			
Soybeans	0%	1%	3%	3%	1%	2%	1%	1%	1%	1%			
Wheat	0%	1%	2%	2%	2%	1%	1%	1%	0%	0%			

Provisions	Senate SCO and STAX	House SCO and STAX
SCO Coverage	<p>Producer has the option of purchasing on an individual yield and loss basis or an area yield and loss basis or an individual yield and loss basis, supplemented with coverage based on an area yield and loss basis to cover all or a part of the deductible under the individual yield and loss policy, or</p> <p>a margin basis alone or in combination with— individual yield and loss coverage; or area yield and loss coverage</p>	<p>Producer has the option of purchasing additional coverage based on an individual yield and loss basis or an area yield and loss basis or an individual yield and loss basis, supplemented with coverage based on an area yield and loss basis to cover all or a part of the deductible under the individual yield and loss policy</p>
SCO Band	<p>If an ARC participant, coverage from individual producer buy-up insurance coverage level up to 78%. If producer opts out of ARC, then from individual producer insurance coverage level to 90%.</p>	<p>If in PLC, from individual producer insurance coverage level up to 90%. Not available if in RLC.</p>
SCO Premium Subsidy	65%	65%
STAX Coverage Band	<p>Producer elects coverage for revenue loss of not less than 10 percent and not more than 30 percent of expected county revenue, specified in increments of 5 percent.</p>	<p>Producer elects coverage for revenue loss of not less than 10 percent and not more than 30 percent of expected county revenue, specified in increments of 5 percent.</p>
STAX Reference Price	None	None
STAX Premium Subsidy	80%	80%

Additional Upland Cotton Provisions	Senate	House
Transition Payments	None	For the 2014 and 2015 crop years only. Payment acres equal 70% of upland cotton base acres in 2014 and 60% in 2015. Transition payment rate per pound \$0.06667
Marketing Loan Rate	the simple average of the adjusted prevailing world price for the 2 immediately preceding marketing years, determined by the Secretary and announced October 1 preceding the next domestic plantings, but in no case less than \$0.45 per pound or more than \$0.52 per pound	the simple average of the adjusted prevailing world price for the 2 immediately preceding marketing years, as determined by the Secretary and announced October 1 preceding the next domestic plantings, but in no case less than \$0.47 per pound or more than \$0.52 per pound



Conservation Provisions	Senate	House
Spending Cut	\$3.5 billion	\$4.8 billion
Consolidates Programs	23 programs combined into four fundamental program functions	23 programs to 13
CRP	26 million acre CAP	25 million acre CAP
Working Lands	EQIP, CSP, Easements	EQIP, CSP, Easements
Conservation Security Program	Enrollment limited to 10.348 million acres/year	Enrollment limited to 9 million acres/year

# Dairy Security Act Provisions

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- Producer participation is voluntary
- Dairy Producer Margin Protection Program (DPMPP)
  - **Base Program** – 80% historical base, margin < \$4 triggers payments
  - **Supplemental Program** – Producer can buy-up margin coverage, up to \$8 coverage, lower premiums for the first 4 million pounds, supplemental base adjusts, 25 to 90% annual coverage choice
- Dairy Market Stabilization Program (DMSP)
  - Producer milk marketings capped when margins < \$6
  - U.S. to world price triggers kick out the program
- Eliminates dairy price support, milk income loss contract (MILC) program, Dairy Export Incentive Program (DEIP)

# Future Farm Policy

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- How could anyone paying attention to the farm bill process not think it will be much less important going forward – not a lot of safety in the safety net
  - Groups clamoring to reduce safety net must want agriculture left with nothing because there isn't much there now
- IF crop insurance is not severely cut in the Farm Bill process then it will be the centerpiece in the very near future

# Conclusions

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- They will add Nutrition programs back into farm bill in conference
- I believe the farm bill will be finished before the end of the calendar year
  - If not there will be pressure to do another extension and
  - There will be pressure to not do anything to assist agriculture
  - Dairy will be a problem
- To deal with less support, producers will need to understand the relationship and interaction between the commodity programs and insurance programs

# Thanks!!!

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