

The Farm Bill:

Potential changes in how farm programs may operate in 2014 and beyond

Pat Westhoff (westhoffp@missouri.edu)

Director, Food and Agricultural Policy Research Institute

Professor, Agricultural and Applied Economics

University of Missouri

www.fapri.missouri.edu

NGFA Country Elevator Conference

St. Louis, Missouri

Dec. 9, 2013

Food and Agricultural
Policy Research Institute



Agenda

- A little background for the debate
- Farm bill status
 - Senate and House bills
 - Conference issues
 - Steps ahead
- What a new farm bill might mean

Federal budget deficit

CBO baseline under current laws, May 2013

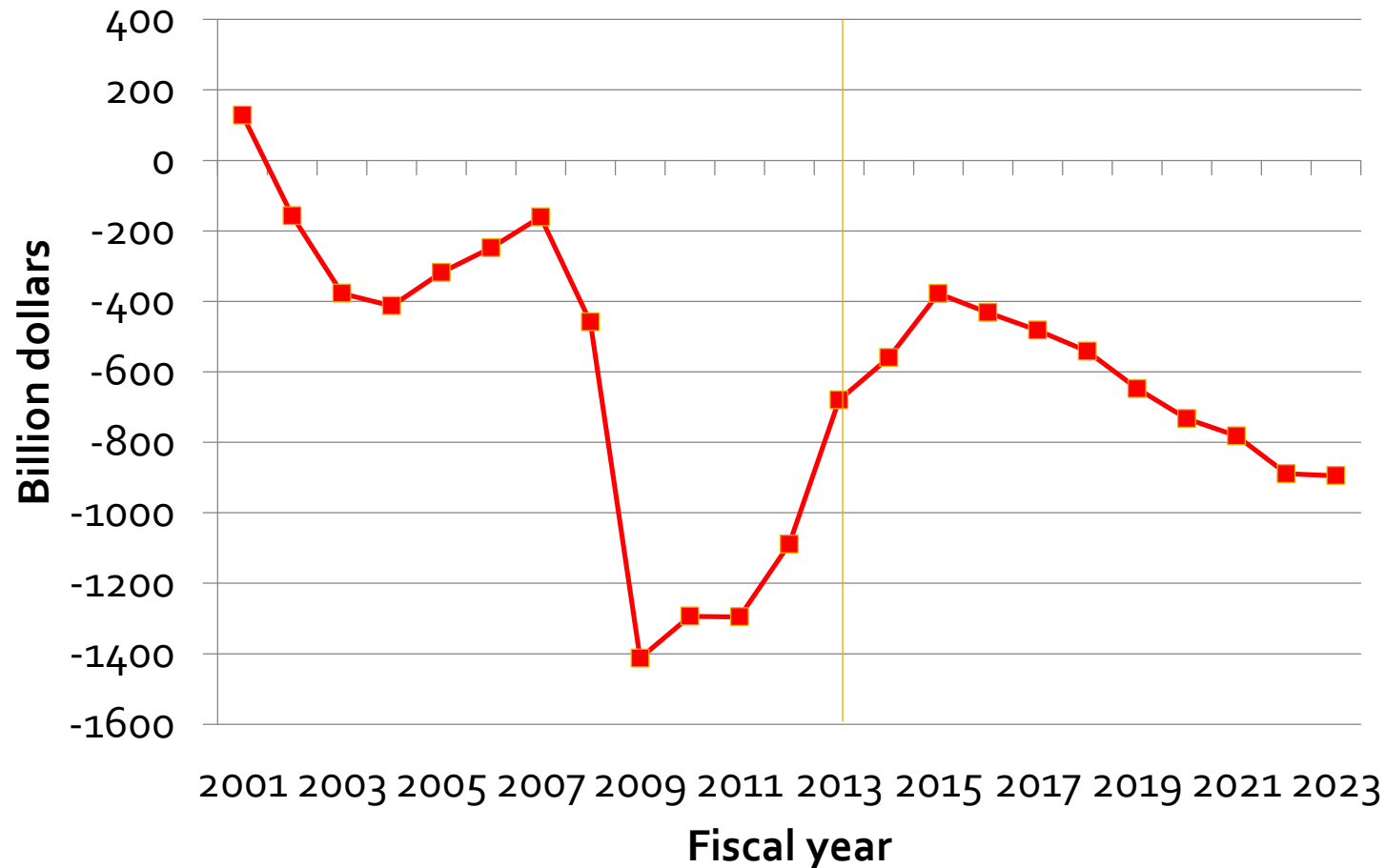


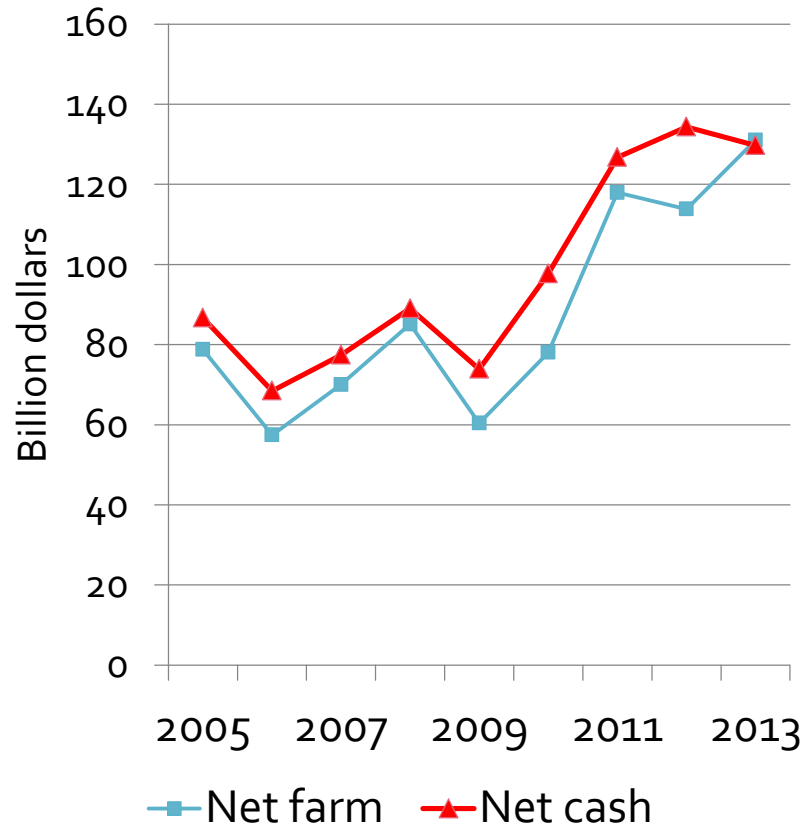
Chart updated for final FY 2013 deficit of \$680 billion, down from \$1089 billion in FY 2012

—■ Deficit

Source: Congressional Budget Office, May 2013.

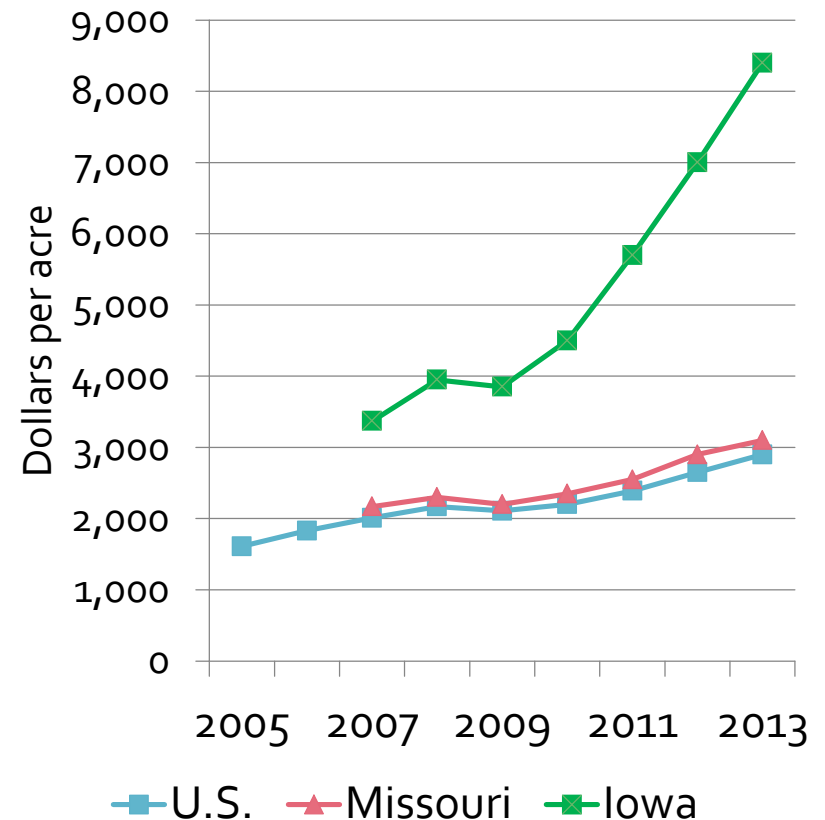
U.S. net farm income and farm real estate values

U.S. net farm income



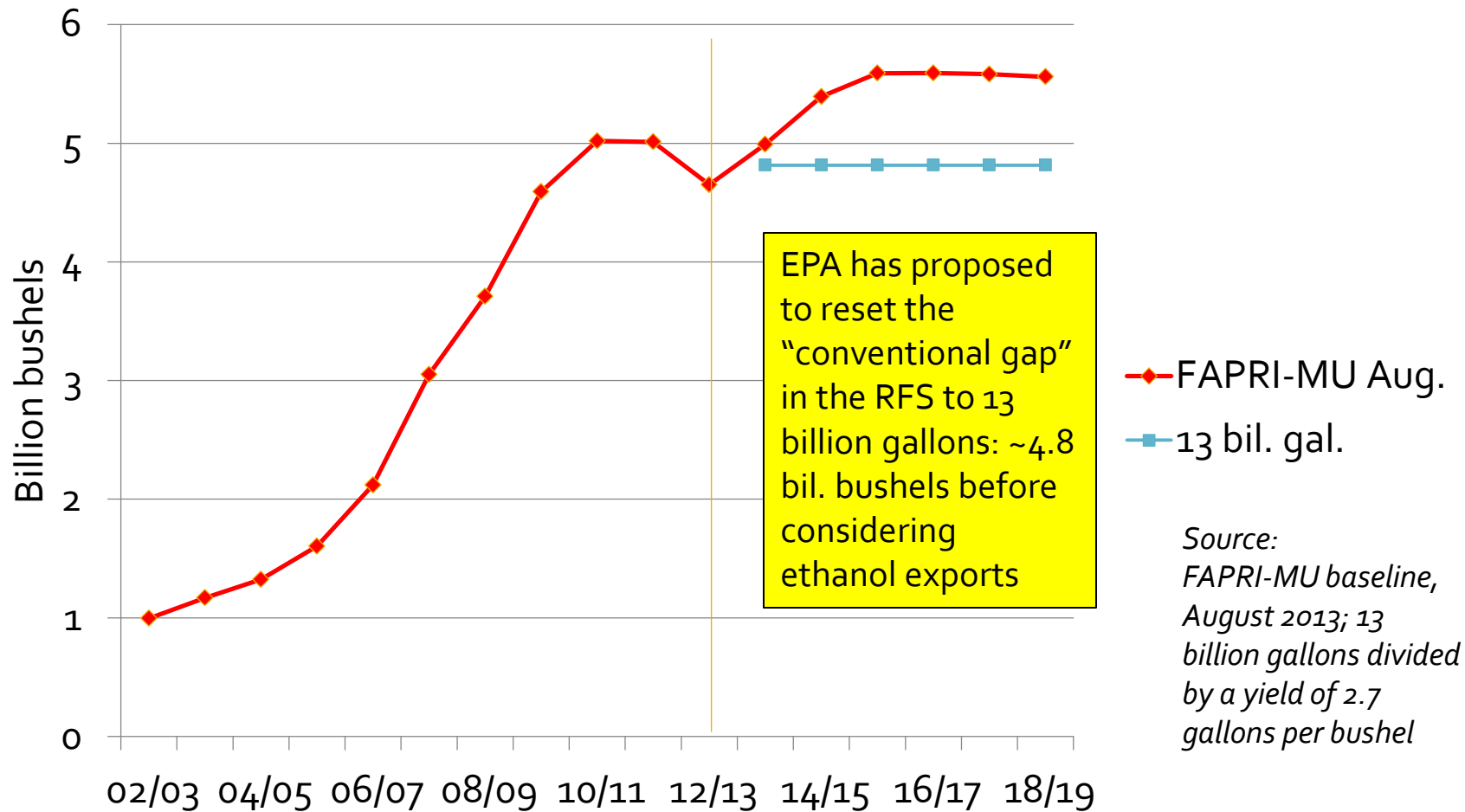
Source: USDA ERS, November 2013

Farm real estate values



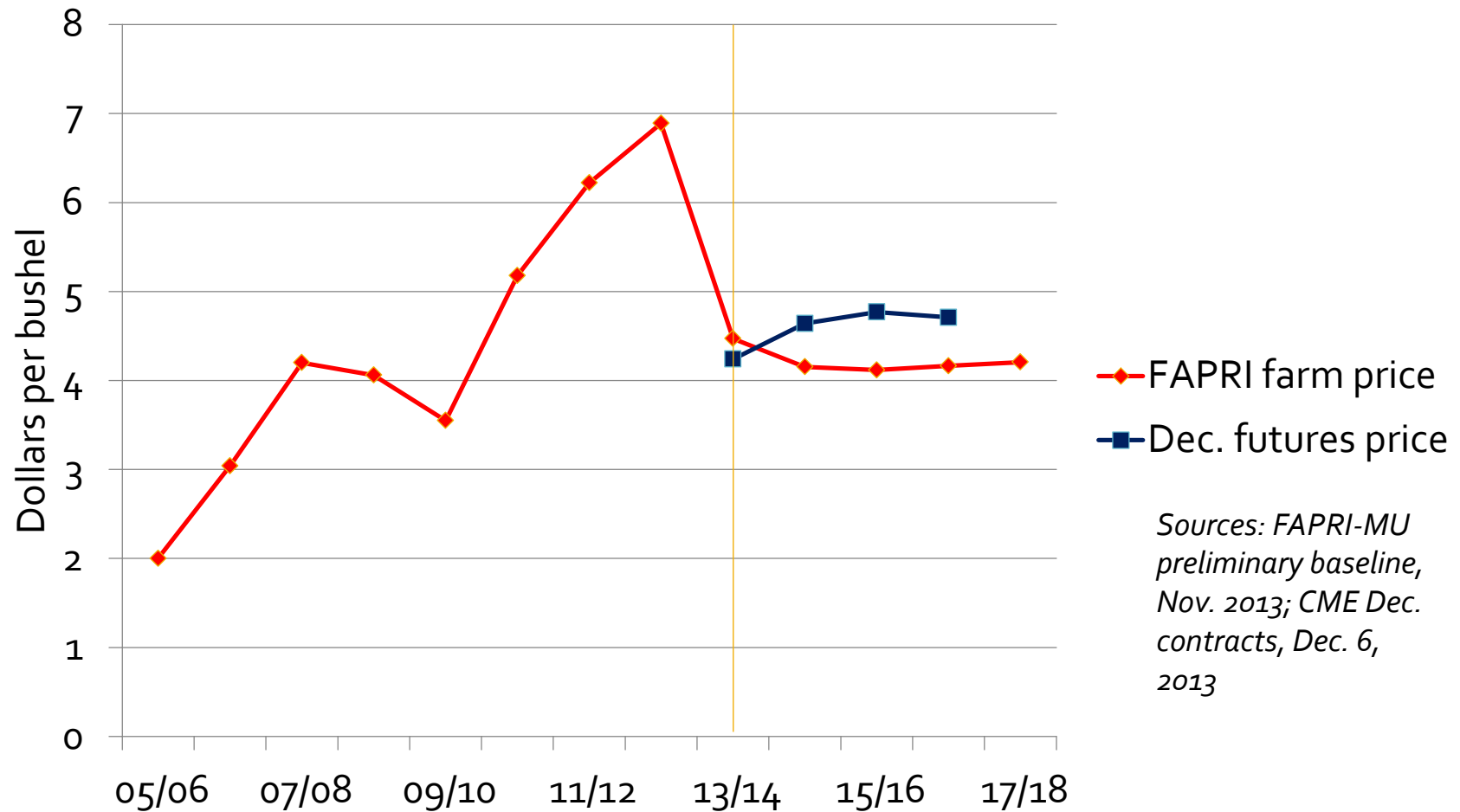
Source: USDA NASS, August 2013

U.S. corn ethanol & coproduct use



U.S. corn prices

Farm and futures prices



Farm bill

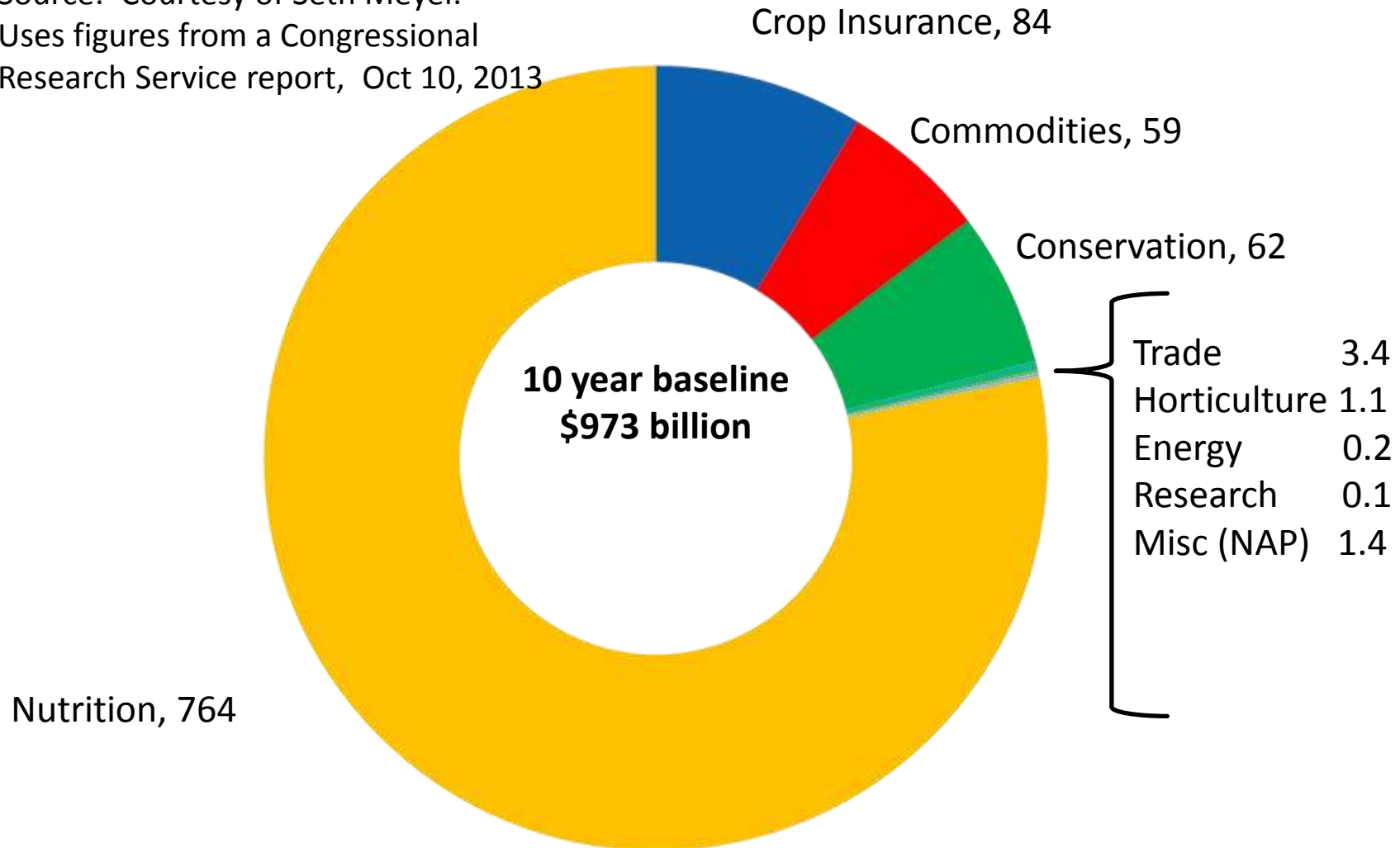
- Senate and House have now passed their respective versions of the farm bill
- But it's uncertain how we will get from here to a final bill that becomes law
- FAPRI-MU provides analysis to Congress and others on the possible impacts of proposed legislation



10-year spending under current policies

Congressional Budget Office estimates for FY 2014 – FY 2023 by farm bill title

Source: Courtesy of Seth Meyer.
Uses figures from a Congressional
Research Service report, Oct 10, 2013

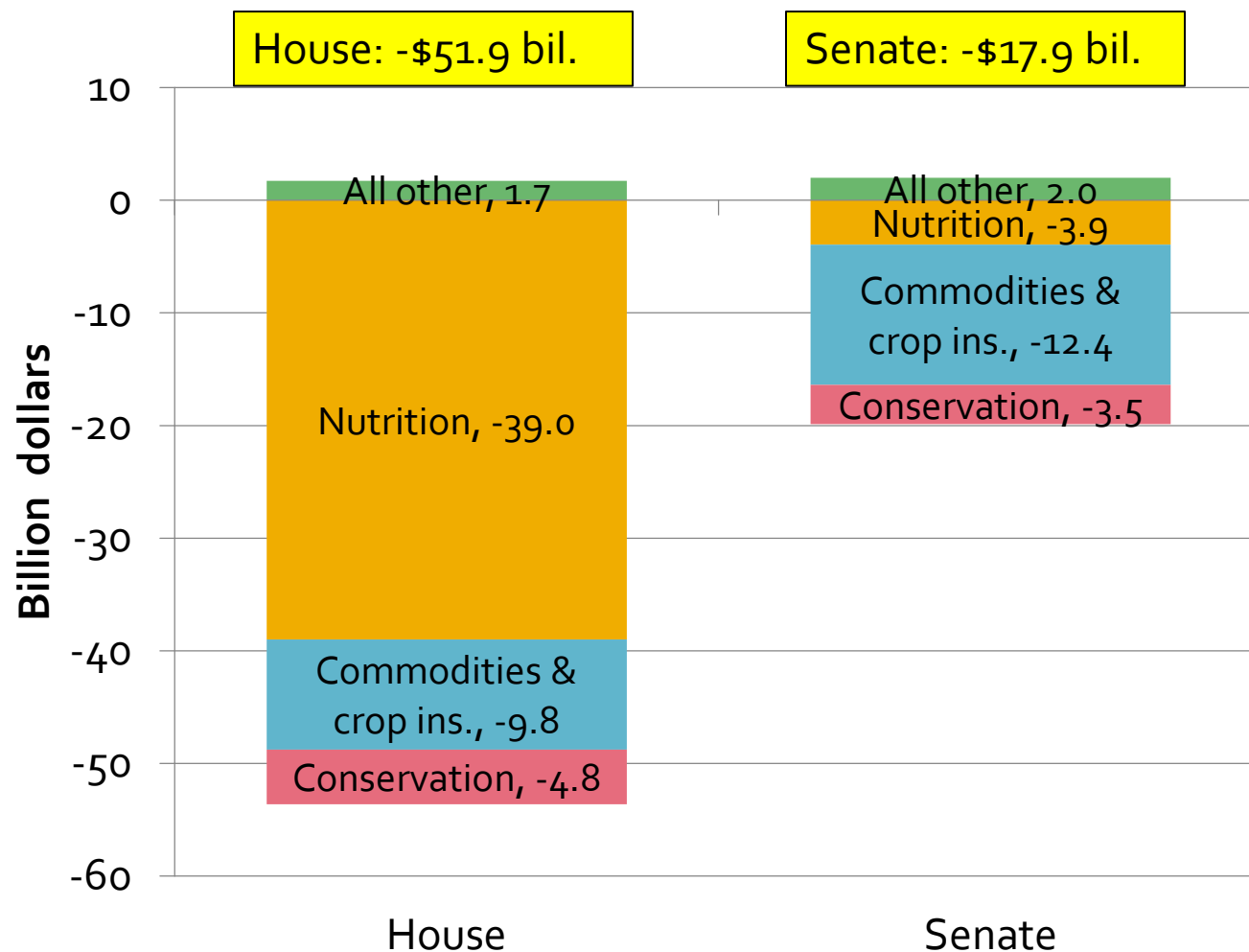


Congressional farm bill proposals

- House and Senate would eliminate many existing farm programs
 - Direct payments, countercyclical payments, ACRE
 - Dairy price supports and MILC payments
- Allocation of “savings”
 - Reduce federal deficit
 - Create new programs that pay farmers when prices or revenues fall below a trigger
 - House and Senate have different proposals for these new programs
- Major difference on SNAP (food stamps)
 - Senate makes relatively small cuts (<1%)
 - House makes about \$39 billion in cuts over 10 years (10x Senate cuts)

Farm bill effects on federal spending

Change from current law, FY 2014-2023 total



Source:
Congressional
Research Report
of CBO estimates,
Oct. 2013,
<http://www.fas.org/sgp/crs/misc/R43076.pdf>.

Some comparisons of 2013 farm bill provisions: Revenue programs

SENATE BILL

- Agriculture Risk Coverage (ARC)
 - Payments if per-acre revenues fall below 88% benchmark
 - Benchmark: 5-yr. Olympic avg. national price * 5-yr. Olympic avg. farm or county yield
 - Maximum payment: 10% of benchmark
 - Paid on 65% (farm yield option) or 80% (county yield option) of planted acres

HOUSE BILL

- Revenue Loss Coverage (RLC) option to PLC
 - Payments if per-acre revenues fall below 85% benchmark
 - Benchmark: 5-yr. Olympic avg. national price * 5-yr. Olympic avg. county yield
 - Maximum payment: 10% of benchmark
 - Paid on 85% of planted acres

Some comparisons of 2013 farm bill provisions: Price-based programs

SENATE BILL

- Adverse Market Payments
 - Payments if **12-month** prices below reference prices
 - Reference price levels
 - 55% of a moving average of market prices for corn, soybeans and wheat
 - Rice: \$**13.30**/cwt.
 - Paid on 85% of **base** acres
 - Farmer can **get both** ARC and Adverse Market Payments

HOUSE BILL

- Price Loss Coverage (PLC)
 - Payments if **5-month** prices below reference prices
 - Corn: \$**3.70**/bu.
 - Soybeans: \$**8.40**/bu.
 - Wheat: \$**5.50**/bu.
 - Rice: \$**14.00**/cwt.
 - Paid on 85% of **planted** acres
 - PLC is default option: **cannot get both** PLC & RLC

Possible compromises on safety net programs

- Press reports suggest final deal may include:
 - ARC-like and PLC-like programs for revenue and price protection
 - Paid on base acreage, not planted acreage
- Among the many questions:
 - Do new programs start in 2014?
 - Are adjustments allowed to current base acreage?
 - What choices will producers face?

Some comparisons of 2013 farm bill provisions: Crop insurance

SENATE BILL

- Stacked Income Protection Plan (STAX)
 - Cotton only (cotton does qualify for ARC or AMP)
 - Get benefits if county per-acre revenues fall below a trigger
 - 80% subsidized
- Supplemental Coverage Option (SCO)
 - Add-on to conventional insurance for “shallow” losses
 - 65% subsidized
 - **Restricted coverage if in ARC**

HOUSE BILL

- Stacked Income Protection Plan (STAX)
 - Cotton only (cotton does qualify for PLC or RLC)
 - Get benefits if county per-acre revenues fall below a trigger
 - 80% subsidized
- Supplemental Coverage Option (SCO)
 - Add-on to conventional insurance for “shallow” losses
 - 65% subsidized
 - **No coverage if in RLC**

Some comparisons of 2013 farm bill provisions: Payment rules

SENATE BILL

- Payment limitations
 - Cap of \$50,000 on ARC + AMP
 - **Separate limitation for peanuts**
 - No cap on crop insurance
- Adjusted Gross Income limits
 - No ARC or AMP if AGI > **\$750,000**
 - **15% lower premium subsidy if AGI > \$750,000**

HOUSE BILL

- Payment limitations
 - Cap of \$50,000 on PLC+RLC
 - **Peanuts not separate**
 - No cap on crop insurance
- Adjusted Gross Income limits
 - No PLC or RLC if AGI > **\$950,000**
 - **No crop insurance limitation in bill**
 - Resolution passed on voice vote says take Senate position

Some comparisons of 2012 farm bill provisions: Dairy and CRP

SENATE BILL

- Dairy provisions
 - Margin insurance program replacing MILC and price supports
 - If margins are low enough, **supply control provisions**
- Conservation Reserve Program
 - Limited to **25** million acres

HOUSE BILL

- Dairy provisions
 - Margin insurance program replacing MILC & price supports
 - **No supply control** provisions (amendment on House floor)
- Conservation Reserve Program
 - Limited to **24** million acres

FAPRI-MU Report #06-13

- “Impacts of Selected Provisions of the House and Senate Farm Bills”
- Considers ARC, AMP, SCO, STAX (Senate) and PLC, RLC, SCO, STAX (House)
- Available at www.fapri.missouri.edu
- Following slides are from a Congressional briefing

Acresage impacts (p. 15, Table 7)

(all figures in million acres)

	Baseline (2014-18 avg.)	House change vs. baseline	Senate change vs. baseline
Corn	91.54	+0.13	+0.23
Soybeans	77.15	-0.12	-0.03
Wheat	54.34	+0.05	-0.09
Upland cotton	9.95	+0.13	+0.15
Sorghum	6.74	-0.04	-0.04
Rice	2.85	+0.07	-0.03
Oats	2.86	-0.06	-0.05
Barley	3.19	+0.18	-0.02
Sunflower seed	2.15	-0.02	-0.01
Peanuts	1.40	+0.05	0.00
12-crop total	254.26	+0.36	+0.09

Price impacts (p. 15, Table 8)

	Baseline (2014-18 avg.)	House change vs. baseline	Senate change vs. baseline
Corn (\$/bu.)	4.78	-0.02	-0.03
Soybeans (\$/bu.)	11.33	+0.01	-0.02
Wheat (\$/bu.)	6.11	-0.02	-0.01
Upland cotton (ct/lb.)	68.81	-0.61	-0.67
Sorghum (\$/bu.)	4.61	-0.01	-0.02
Rice (\$/cwt)	14.01	-0.30	+0.13
Oats (\$/bu.)	2.99	0.00	0.00
Barley (\$/bu.)	4.47	-0.22	-0.01
Sunflower seed (ct/lb.)	24.12	+0.04	0.00
Peanuts (ct/lb.)	25.23	-1.97	+0.09

Corn returns (p. 17, Table 9)

(dollars, weighted for participation)

	Baseline (2014-18 avg.)	House change vs. baseline	Senate change vs. baseline
Market sales/a.	797.30	-3.99	-5.44
Marketing loans/a.	0.00	0.00	0.00
ACRE/a.	4.22	-4.22	-4.22
ARC or RLC or PLC/a.	0.00	+16.93	+20.89
Insurance net indemnities/a.	26.50	+5.03	+2.94
Sum of above	828.02	+13.75	+14.17
DPs/base a.	23.38	-23.38	-23.38
CCPs or AMPs/base a.	0.00	0.00	+0.72
Sum per base a.	23.38	-23.38	-22.66

Soybean returns (p. 17, Table 9)

(dollars, weighted for participation)

	Baseline (2014-18 avg.)	House change vs. baseline	Senate change vs. baseline
Market sales/a.	507.10	+0.62	-0.70
Marketing loans/a.	0.00	0.00	0.00
ACRE/a.	3.39	-3.39	-3.39
ARC or RLC or PLC/a.	0.00	+7.20	+9.61
Insurance net indemnities/a.	16.73	+3.24	+1.77
Sum of above	527.22	+7.72	+7.29
DPs/base a.	11.10	-11.10	-11.10
CCPs or AMPs/base a.	0.01	-0.01	+0.38
Sum per base a.	11.12	-11.12	-10.73

Farm income (p. 23, Table 12)

(2014-18 average, billion dollars)

	Baseline (2014-18 avg.)	House change vs. baseline	Senate change vs. baseline
Crop receipts	211.17	-0.21	-0.31
Livestock receipts	179.79	-0.06	-0.14
Gov't payments	11.10	-2.85	-2.70
Crop ins. indem.	9.87	+1.79	+1.16
Rental payments	16.15	-0.17	-0.20
Feed costs	52.88	-0.10	-0.17
Crop ins. prem.	3.98	+0.59	+0.37
Net farm income	108.10	-1.84	-2.10

Consumer food expenditures (p. 23, Table 13)

	Baseline (2014-18 avg.)	House change vs. baseline	Senate change vs. baseline
Total consumer food expenditures (billion dollars)	1,434.46	-0.10	-0.17

Effect of CRP caps (p. 27, Table 14) (2014-18 average, million acres)

	House change vs. baseline	Senate change vs. baseline
Corn	0.24	0.19
Soybeans	0.37	0.28
Wheat	0.63	0.45
Upland cotton	0.11	0.09
Sorghum	0.08	0.06
7 other crops	0.15	0.10
12 major crops	1.58	1.17
CRP	-4.86	-3.61

Note: the baseline (prepared in January) assumed CRP would rebuild to an average of 30 million acres over 2014-18. Actual enrollment in Sep. 2013: 26.8 million acres. Proposed caps are 24 (House) or 25 (Senate) million acres.

So what happens now?

- Plan A
 - Conference works out differences between two bills
 - Both houses vote for compromise farm bill, signed by President
 - This all happens quickly

- Or...
 - Some sort of a farm bill is attached to budget legislation
 - Jan. 15 deadline for continuing resolution funding government
 - A one- or two-year extension of current provisions
 - Might or might not include a cut in/elimination of direct payments
 - No agreement on anything
 - Implying a reversion to 1949 Act provisions (e.g., \$37 support price for milk 1/1/14, almost double current market price)
 - Most expect at least a temporary extension to avoid this outcome

Thanks!

- FAPRI-MU website: www.fapri.missouri.edu
- To contact me:
 - 573-882-4647
 - westhoffp@missouri.edu
- FAPRI-MU team:
 - Julian Binfield
 - Scott Gerlt
 - Lauren Jackson
 - Willi Meyers
 - Kateryna Schroeder
 - Wyatt Thompson
 - Jarrett Whistance
 - Peter Zimmel