

# Farm Bill Details and Decisions for 2014

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# Farm Bill Budget

Area	Updated 2014-2023 Baseline	Senate Proposal (S954)	House Proposal (HR1947/3102)	Agricultural Act of 2014 (HR2642)*
Commodities	\$58.8 billion	-\$17.4 billion	-\$18.7 billion	-\$14.3 billion
Crop Insurance	\$84.1 billion	+\$5.0 billion	+8.9 billion	+5.7 billion
Conservation	\$61.6 billion	-\$3.5 billion	-\$4.8 billion	-\$4.0 billion
Nutrition (SNAP)	\$764 billion	-\$3.9 billion	-\$39.0 billion	-\$8.0 billion
Total	\$973 billion	-\$17.9 billion	-\$51.9 billion	-\$16.5 billion

\* HR 2642, the "Agricultural Act of 2014" as reported out of Conference on January 27, 2014 passed the House on January 29, 2014 by a 251-166 vote, passed the Senate on February 4, 2014 by a 68-32 vote, and was signed by the President on February 7, 2014.

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# Farm Bill Directions

- ◆ Commodity program safety net has evolved over time
  - Price support and supply control
  - Income support tied to price and revenue
  - Risk management
- ◆ Future program components
  - Crop insurance as the foundation
  - Revenue safety net or price safety net
  - Underlying marketing loan
  - Supplemental crop insurance
  - Disaster assistance
  - No direct payments

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# Farm Bill Safety Net

## Commodity Program Decisions

- ◆ ARC-F vs. ARC-C vs. PLC
  - 1-time decision for 2014-2018 for all producers on a farm (FSA farm)
    - ARC-F covers participant share of all farms enrolled in ARC-F
    - ARC-C or PLC elected on a crop-by-crop basis for each farm
- ◆ Base acreage update
  - Option to reallocate base acreage based on 2009-2012 planted/prevented planted acreage
    - not to exceed total existing base acres
    - not to exceed actual cropland acres on the farm
- ◆ Payment yield update
  - Option to update payment yields to 90% of 2008-2012 yield on a crop-by-crop basis for farms enrolled in PLC
  - Affects payments only under PLC

# Understanding the Safety Net Programs

## ARC

	Farm ARC	County ARC	No ARC?
Exp Revenue Avg Revenue			
Revenue	Producer Loss	Producer Loss	Producer Loss
	Farm ARC	County ARC	SCO
Crop Ins Guarantee			
Reference Price	Crop Ins Guararantee	Crop Ins Guarantee	Crop Ins Guarantee
Loan Rate			

## PLC

	PLC	No PLC
Exp Revenue Avg Revenue		
Revenue	Producer Loss	Producer Loss
	SCO	SCO
Crop Ins Guarantee		
Reference Price	Crop Ins Guar	PLC
		Crop Ins Guarantee
Loan Rate		

# Farm Bill Safety Net

## Price Safety Net

- ◆ Price Loss Coverage – PLC
  - Following House PLC proposal
    - Adaptation of current CCP program
  - Protects deep (and shallow?) losses below legislated reference (target) prices
  - Parameters
    - Corn = \$3.70/bushel
    - Soybeans = \$8.40/bushel
    - Sorghum = \$3.95/bushel
    - Wheat = \$5.50/bushel
    - Payment yields equal to existing CCP yields or updated payment yields
    - Payment on 85% of existing or updated base acres
  - Impact
    - Provides income support and risk management when price is near or below reference price
    - Protection level set at fixed reference price, creating potential long-term distortion of production/marketing decisions

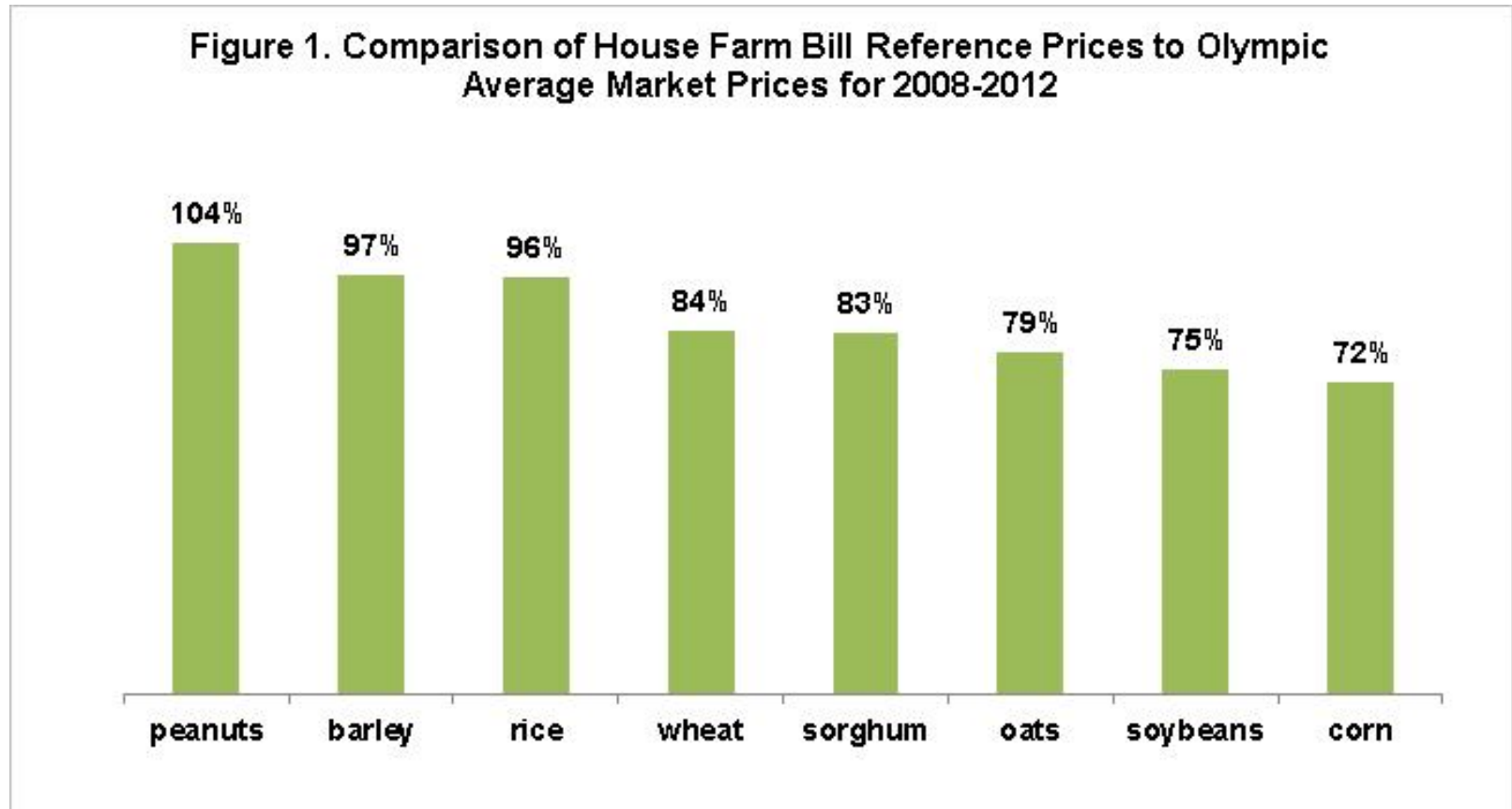
# Commodity Program Rates

## Proposed Reference Prices

<b>Commodity</b>	<b>2010-2013</b>	<b>S954</b>	<b>HR2642</b>
Wheat (bu)	\$4.17	\$3.62*	\$5.50
Corn (bu)	\$2.63	\$2.95*	\$3.70
Sorghum (bu)	\$2.63	\$2.81*	\$3.95
Barley (bu)	\$2.63	2.90*	\$4.95
Oats (bu)	\$1.79	1.65*	\$2.40
Rice (cwt)	\$10.50	\$13.30	\$14.00
Soybeans (bu)	\$6.00	6.29*	\$8.40
Peanuts (ton)	\$495.00	\$523.77	\$535.00
Upland cotton (lb)	\$0.7125	-	-

\* Estimated target prices for 2014 based on Olympic average of 2009-2013 crop marketing year average prices and current market price projections.

# Farm Bill Safety Net Comparison

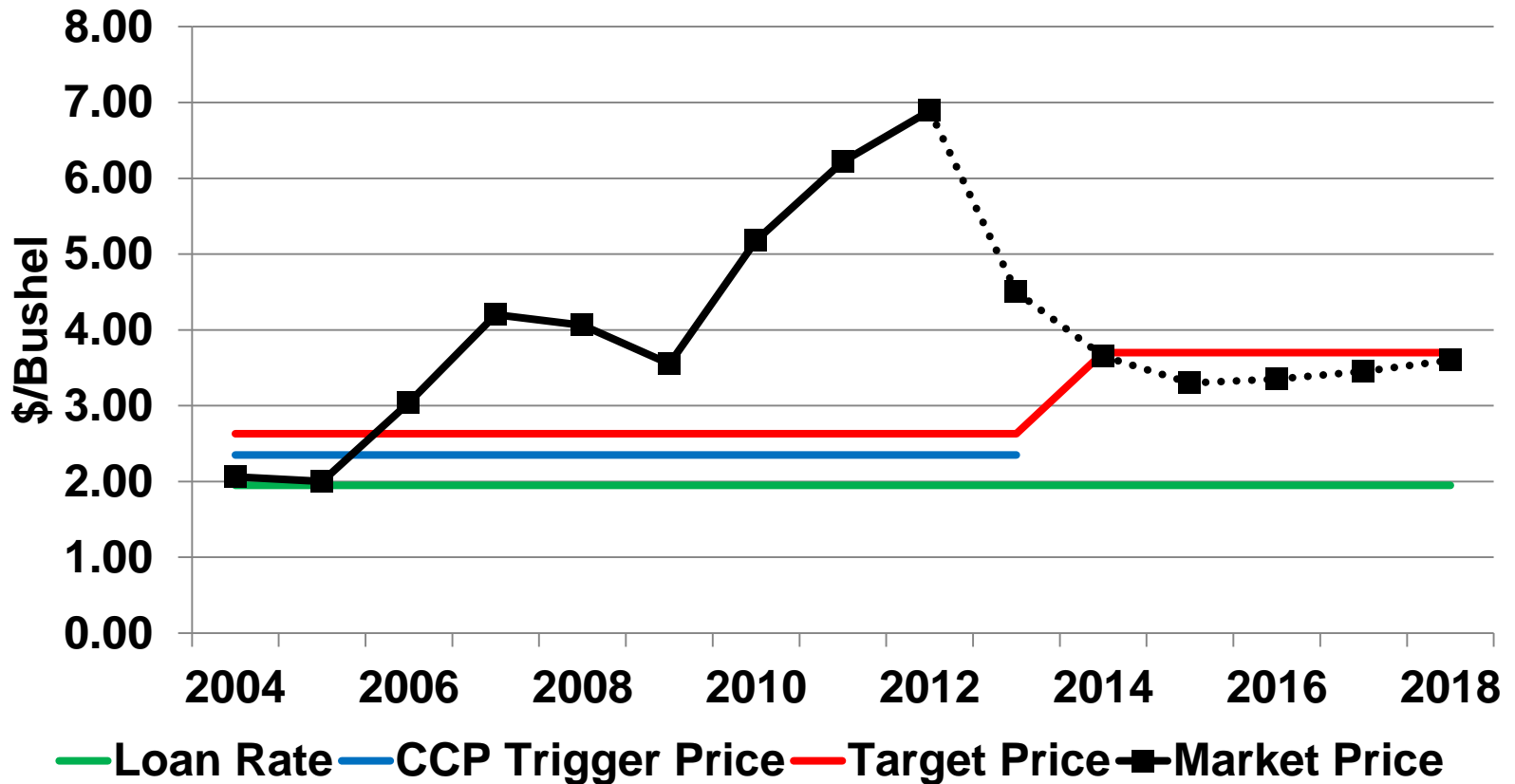


Source: Carl Zulauf, farmdocDAILY, June 7, 2013.



# Farm Income Safety Net

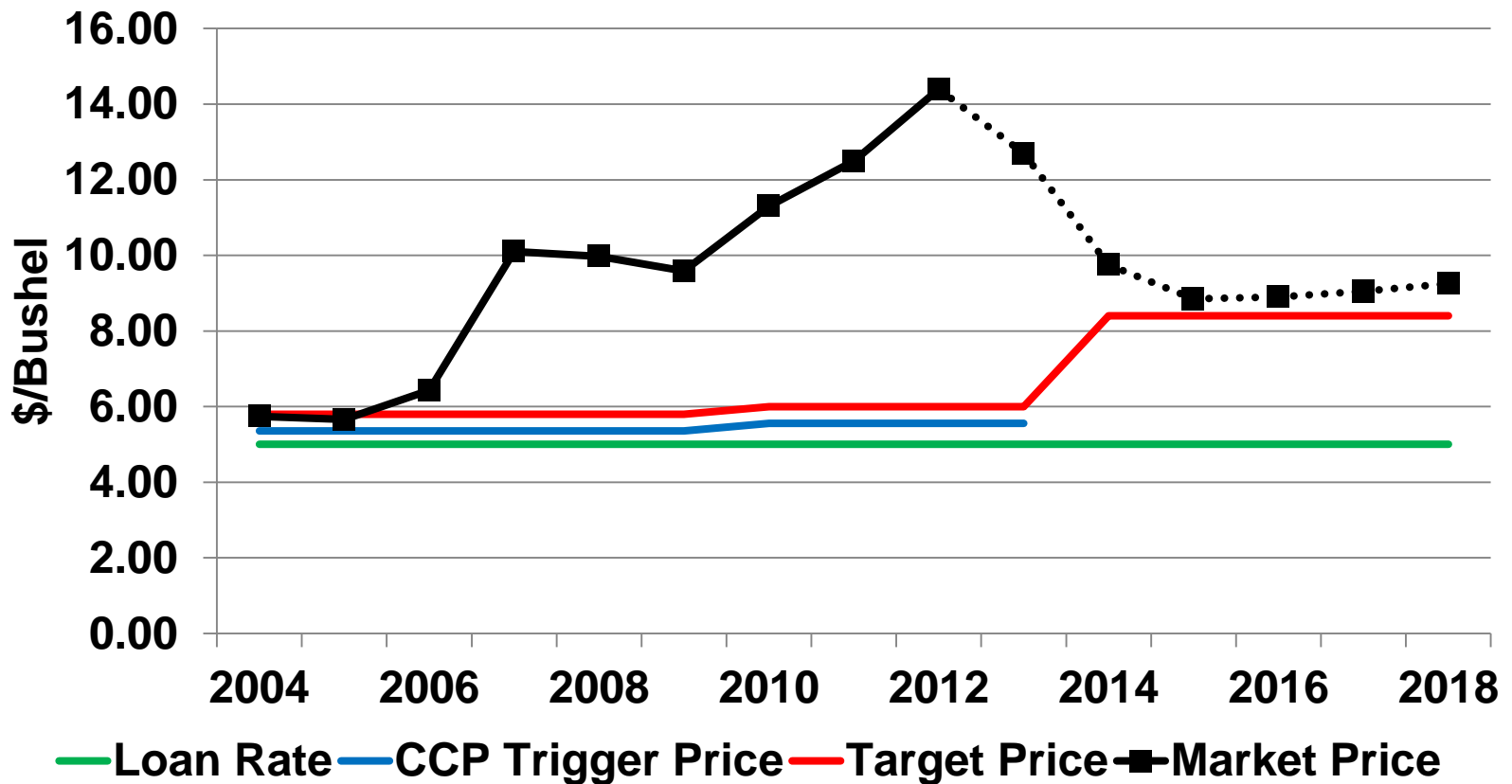
## Corn Prices and PLC/CCP/ML\*



\* Estimated national marketing year average price for 2013 projected from USDA-WAOB as of February 10, 2013. Projected prices for 2014-2018 from USDA-OCE baseline estimates as of February 11, 2014.

# Farm Income Safety Net

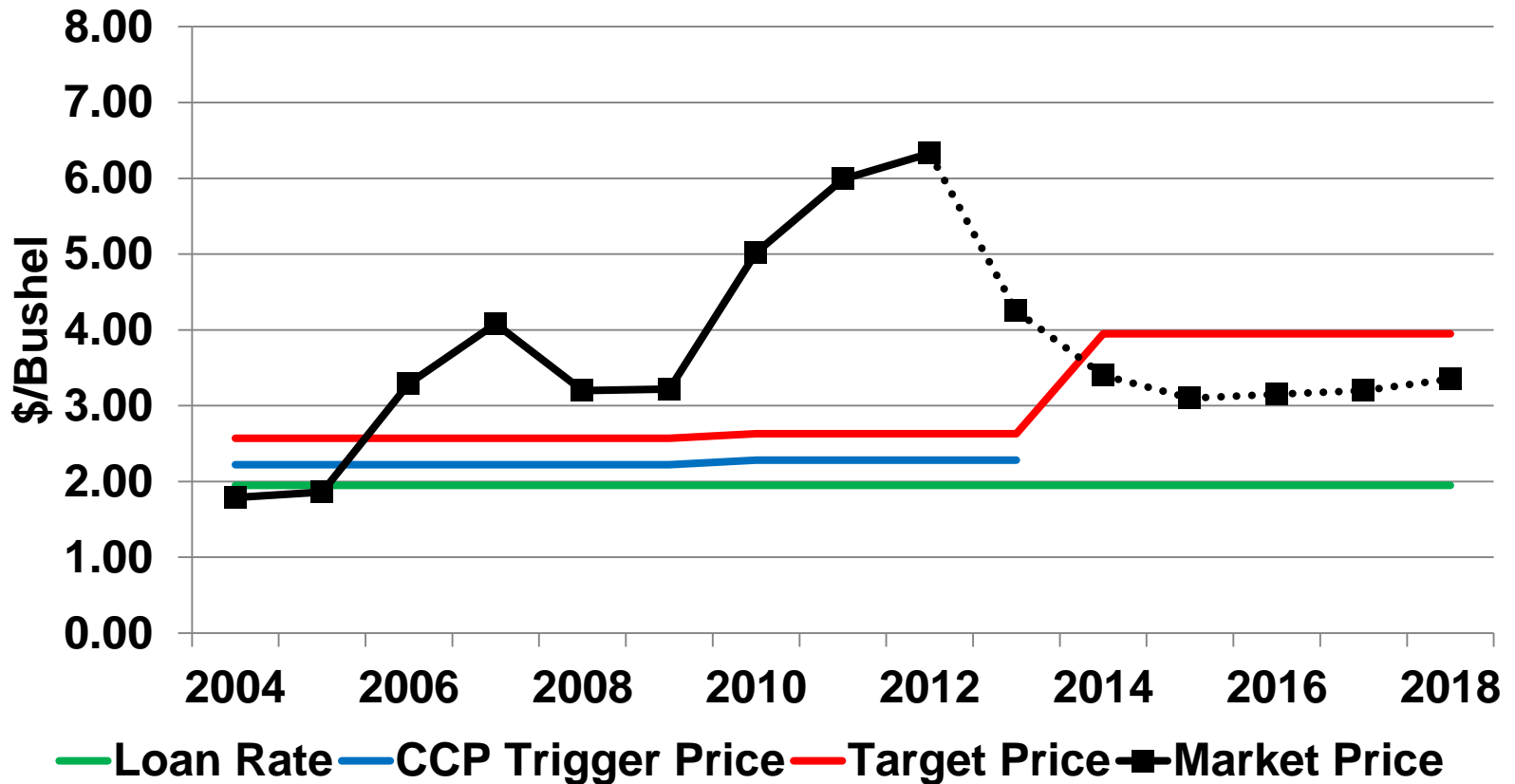
## Soybean Prices and PLC/CCP/ML\*



\* Estimated national marketing year average price for 2013 projected from USDA-WAOB as of February 10, 2013. Projected prices for 2014-2018 from USDA-OCE baseline estimates as of February 11, 2014.

# Farm Income Safety Net

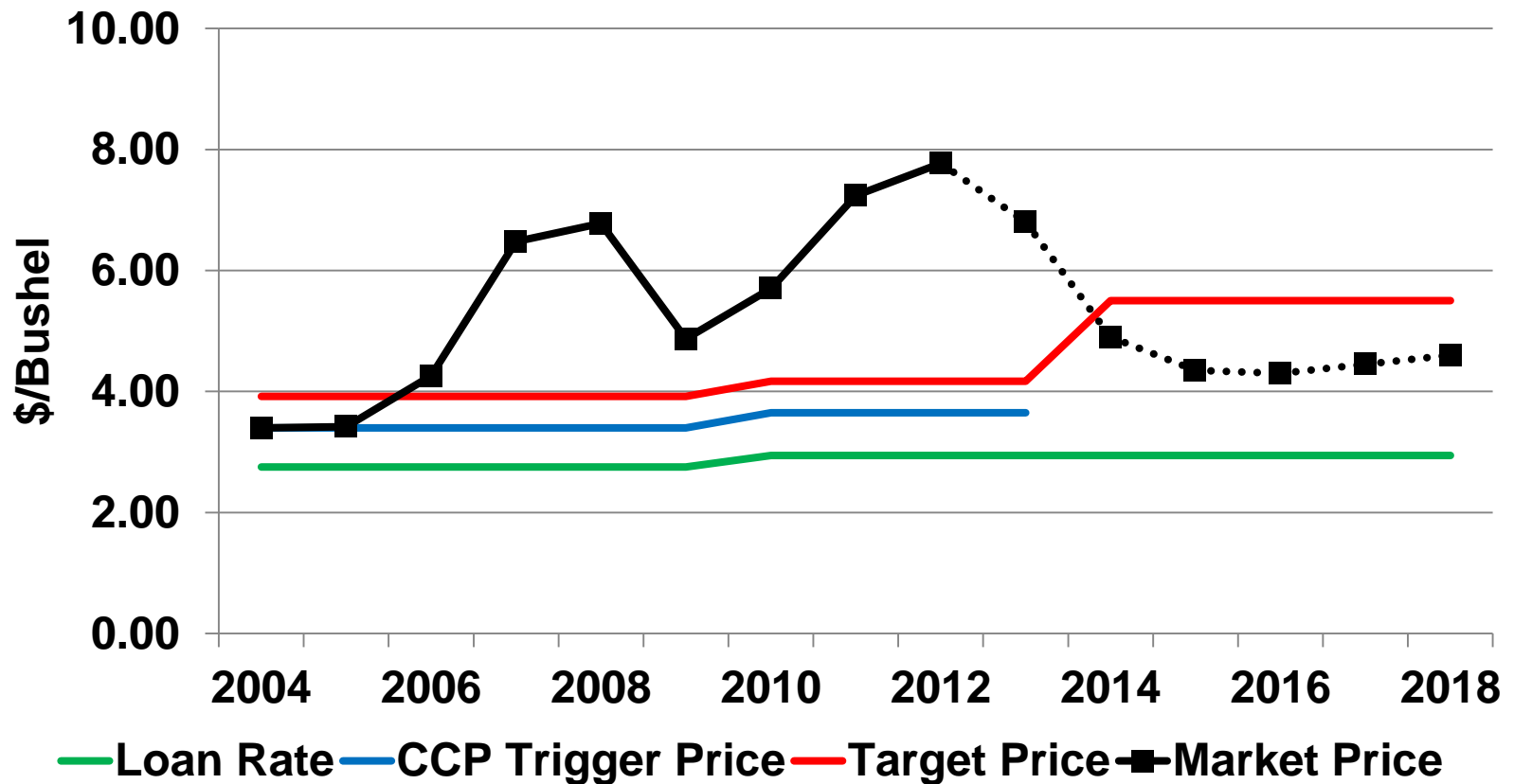
## Sorghum Prices and PLC/CCP/ML\*



\* Estimated national marketing year average price for 2013 projected from USDA-WAOB as of February 10, 2013. Projected prices for 2014-2018 from USDA-OCE baseline estimates as of February 11, 2014.

# Farm Income Safety Net

## Wheat Prices and PLC/CCP/ML\*



\* Estimated national marketing year average price for 2013 projected from USDA-WAOB as of February 10, 2013. Projected prices for 2014-2018 from USDA-OCE baseline estimates as of February 11, 2014.

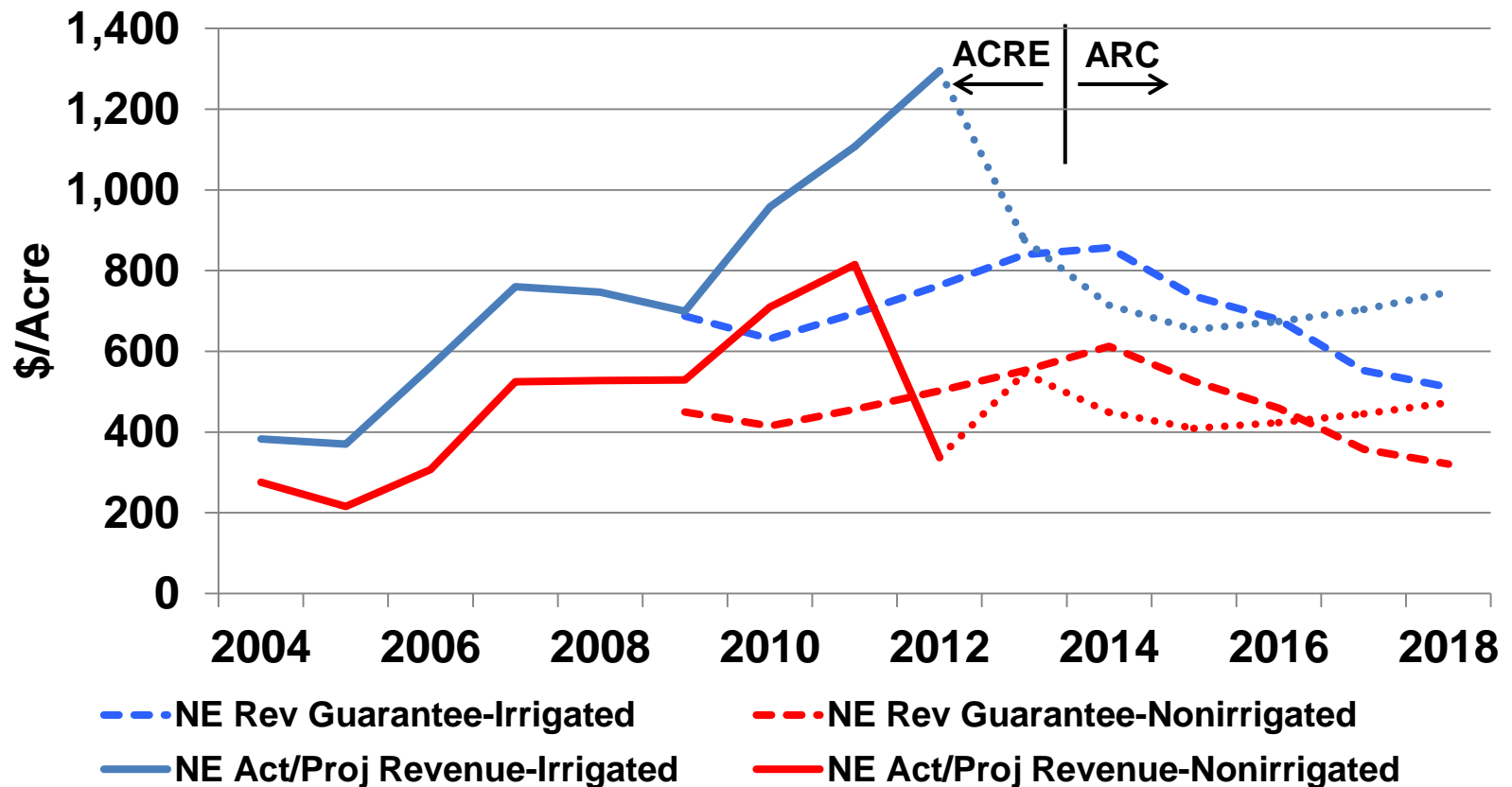
# Farm Bill Safety Net

## Revenue Safety Net

- ◆ Agriculture Risk Coverage - ARC
  - Following Senate ARC proposal
    - Adaptation of current ACRE program for ARCC
    - ARCF similar to AGR or Whole Farm Plan insurance
  - Protects shallow losses below average revenue at farm (ARCF) or county (ARCC) level
  - Parameters
    - Protect 86-76% of average revenue
    - ARC participants ineligible for SCO
    - ARCC
      - Crop guarantee
      - Average revenue = 5-year Olympic average price \* 5-year Olympic average yield
      - Payments on 85% of base acres
    - ARCF
      - Whole farm guarantee
      - Average revenue = 5-year Olympic average revenue across all covered crops
      - Payments on 65% of base acres
  - Questions
    - If not signed up for ARC in a given year, is SCO available?
    - ARCF details and implementation complex
  - Impact
    - Provides risk management when projected revenue is near or below average revenue
    - Protection level changes gradually with changes in revenue, reducing potential long-term distortion of production/marketing decisions

# Farm Income Safety Net

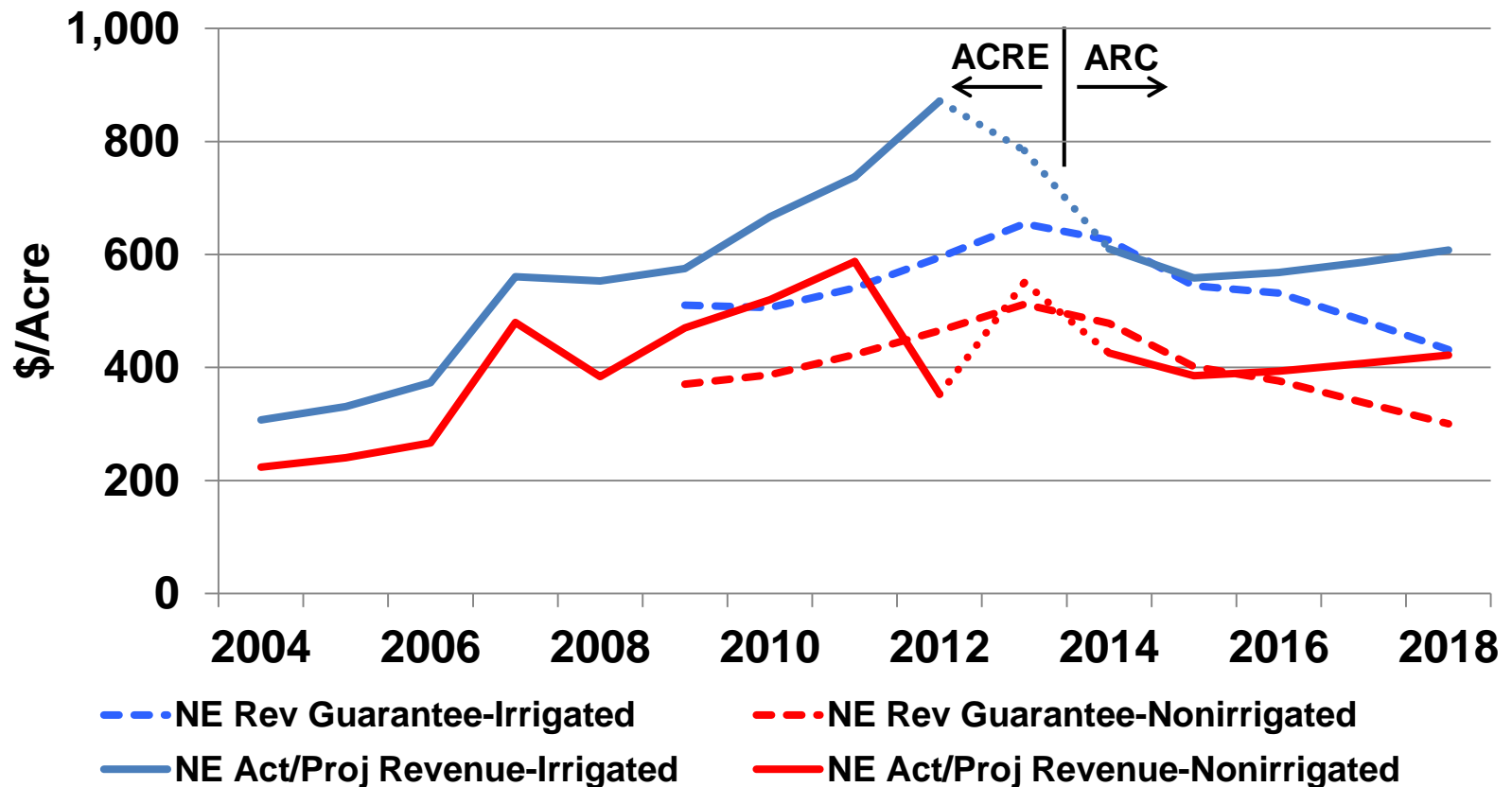
## Nebraska Corn Revenue and ACRE/ARC\*



\* Estimated crop revenue for 2013 projected from USDA-WAOB prices and USDA-NASS yields as of February 109, 2014. Projected revenue for 2014 based on trend yields and USDA-OCE baseline forecast as of February 11, 2014. Projected ARC guarantee for 2014-2018 shown at state level for illustration purposes only.

# Farm Income Safety Net

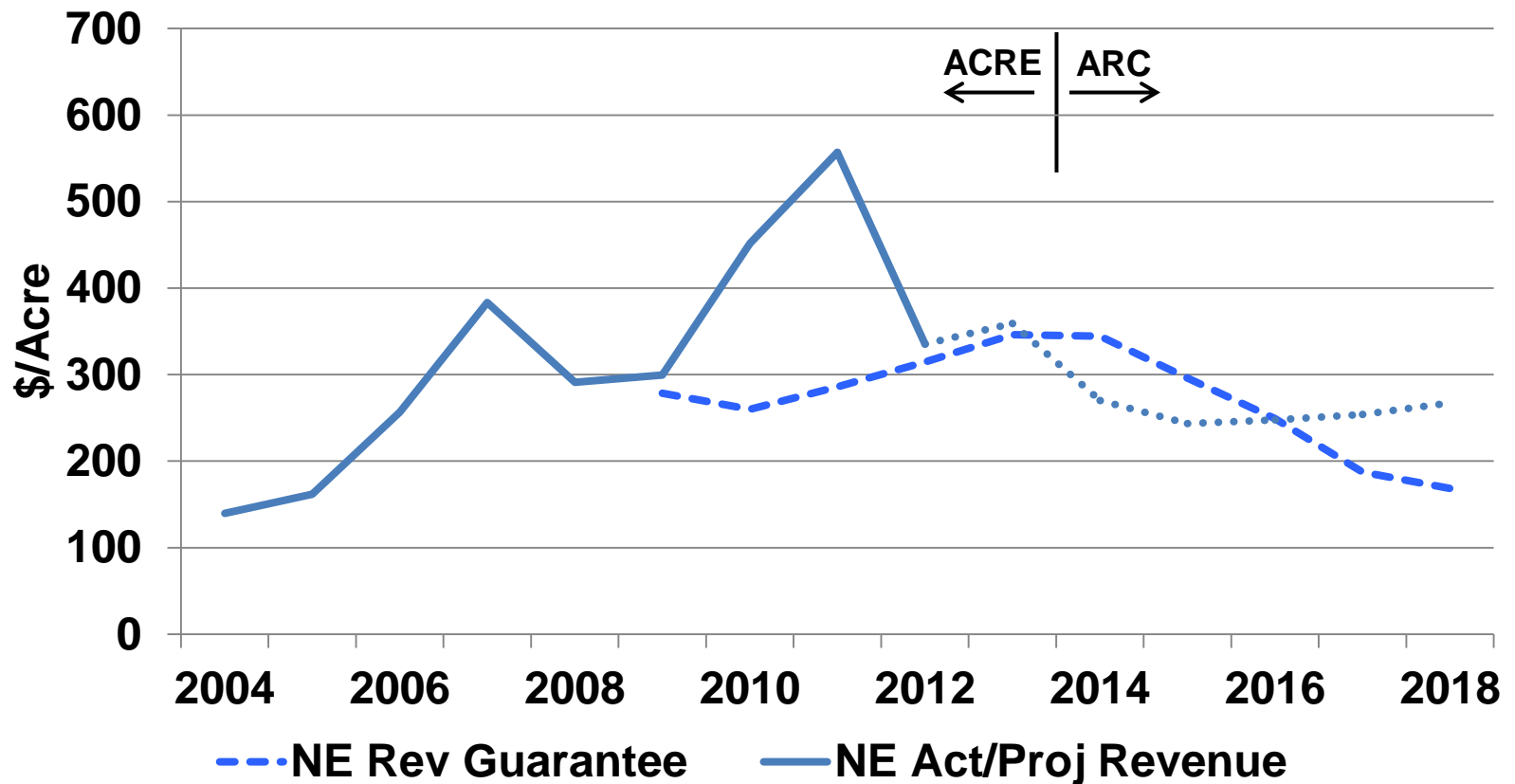
## Nebraska Soybean Revenue and ACRE/ARC\*



\* Estimated crop revenue for 2013 projected from USDA-WAOB prices and USDA-NASS yields as of February 10, 2014. Projected revenue for 2014 based on trend yields and USDA-OCE baseline forecast as of February 11, 2014. Projected ARC guarantee for 2014-2018 shown at state level for illustration purposes only.

# Farm Income Safety Net

## Nebraska Sorghum Revenue and ACRE/ARC\*

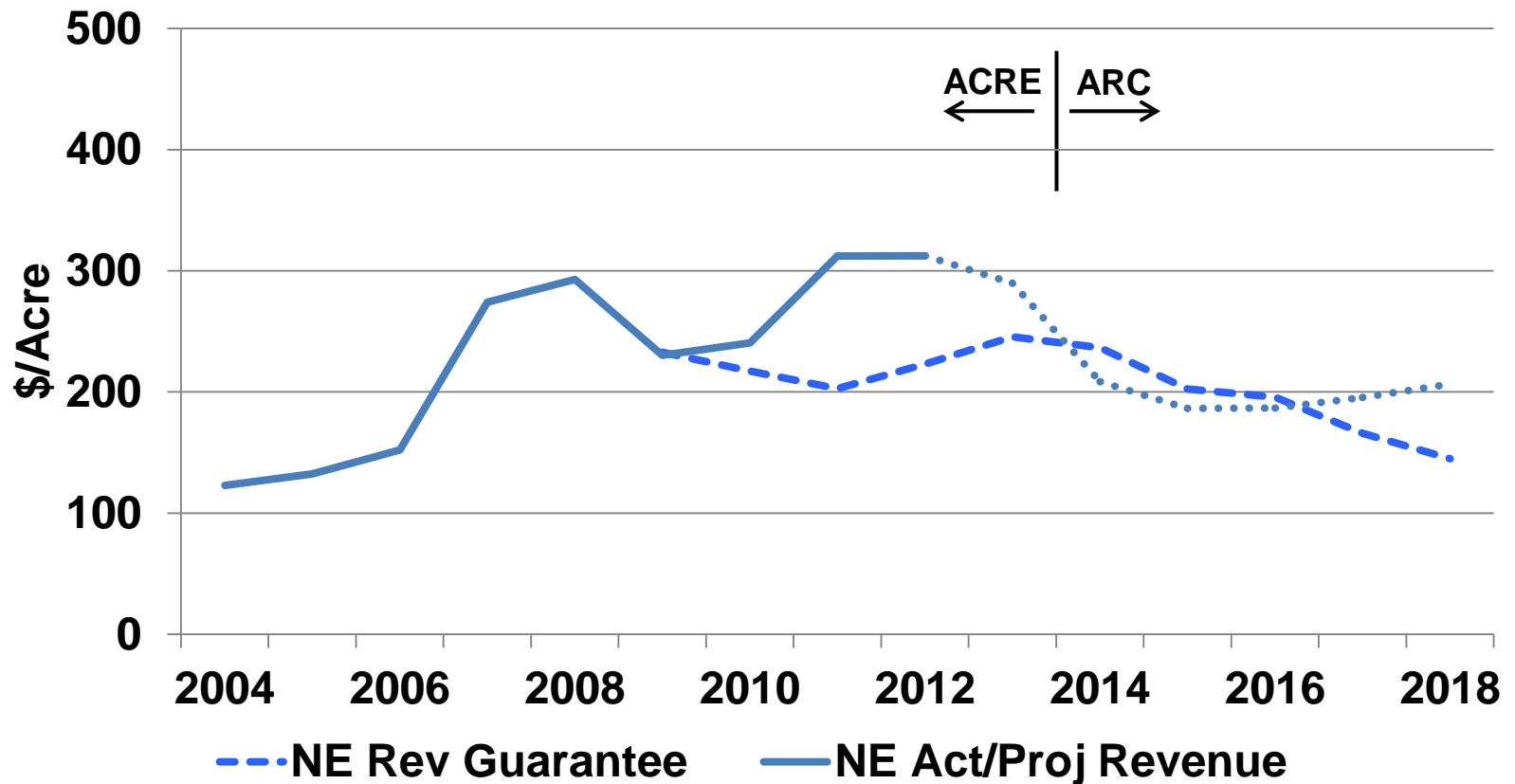


\* Estimated crop revenue for 2013 projected from USDA-WAOB prices and USDA-NASS yields as of February 10, 2014. Projected revenue for 2014 based on trend yields and USDA-OCE baseline forecast as of February 11, 2014. Projected ARC guarantee for 2014-2018 shown at state level for illustration purposes only.



# Farm Income Safety Net

## Nebraska Wheat Revenue and ACRE/ARC\*



\* Estimated crop revenue for 2013 projected from USDA-WAOB prices and USDA-NASS yields as of February 10, 2014. Projected revenue for 2014 based on trend yields and USDA-OCE baseline forecast as of February 11, 2014. Projected ARC guarantee for 2014-2018 shown at state level for illustration purposes only.

# Farm Bill Safety Net

## Supplemental Crop Insurance

- ◆ Supplemental Coverage Option - SCO
  - Following Senate and House proposals
  - Adaptation of current area-based revenue insurance – (ARP, previously GRIP)
  - Provides area-based supplement to individual coverage to cover part of the deductible
  - Protects losses below allowed coverage level and above individual insurance coverage level
  - Parameters
    - Upper coverage level
      - 86% if in RLC or no program
    - Lower coverage level
      - Individual coverage level
      - 0% if no individual coverage purchased?
    - 65% premium subsidy rate
  - Questions
    - Compatibility with crop insurance?
  - Impact
    - Protection dependent on relationship of individual and area yield and loss history – better for higher correlated farm and county histories
    - Protection similar to ARC for the 76-86% band, but based on current price instead of 5-year average price – could impact annual decisions on ARC vs. SCO if allowed

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# Farm Bill Safety Net

## Other Crop Insurance Details

- ◆ Policy issues for crop insurance as the foundation of the safety net
  - Payment limits/eligibility tests debated, but not included
  - Conservation compliance included
  - Interaction with commodity programs
- ◆ Other crop insurance language in the farm bill
  - Permanent approval of enterprise unit subsidy
  - Separate enterprise unit and separate coverage levels available for irrigated and nonirrigated production
  - APH adjustment in years of county yield losses of at least 50%
  - Premium adjustments for CAT
  - Adjustments to crop insurance Sodbuster provisions
  - Beginning farmer premium subsidy increases
  - Organic price provisions
  - Weather index pilot program

# The Farm Income Safety Net

“A Multiplicity of Confused Concepts”

Scope of Risk Protection	Farm Level	Area Level	National Level
Price		<div style="text-align: center;"> <p>Hedging</p> <p>ML/LDP</p> </div>	PLC
Revenue	RP/HPE      AGR <div style="text-align: center;"> <p>RP</p> <p>ARCF</p> </div>	ARP/HPE      SCO <div style="text-align: center;"> <p>ARP</p> <p>ARCC</p> </div>	
Production	YP    CAT    NAP	AYP            PRF	

# Conclusions

- ◆ Federal farm income safety net has evolved over time
  - Price support and supply control
  - Income support tied to price and revenue
  - Risk management
- ◆ Farm income safety net is complex
  - Farm programs integrate with, complement, and substitute for crop insurance
  - Decisions
    - Existing base vs. base acreage reallocation based on 2009-2012 planted/prevented planted acreage
    - ARCF vs. ARCC vs. PLC
    - ARCC vs. PLC by crop
    - ARC vs. PLC/SCO
- ◆ Risk management decisions are complex
  - Risk management decisions need to be based on portfolio analysis, not program-by-program decisions
  - Producer decision tools and education are a critical need

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# Other Farm Bill Issues

- ◆ Dairy
  - Margin insurance program with no supply control
- ◆ Conservation
  - CRP enrollment cap reduced to 24 million acres by 2018
  - Working lands programs to grow at a slower rate
- ◆ Other
  - USDA charged to address active engagement issues regarding farm program eligibility
    - Management vs. labor

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# Farm Bill Outlook

## ◆ Timeline

- Commodity program changes will begin for the 2014 crop year
  - Rules by late Spring?
  - Sign-up from late Spring to late Summer?
- Crop insurance provisions would begin for 2015 crop year
  - Fall seeded crop insurance deadlines beginning in September

## ◆ Implications

- Government payments in 2014 could be small, except for disaster assistance
  - No Direct Payments in 2014
  - 2013 ACRE and CCP payments expected to be small
  - 2014 ARC and PLC payments not due until 2015
  - Disaster assistance on 2012, 2013, and 2014 losses could be paid in 2014

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