2013 Farm Bill: Beginning of the End for Traditional Commodity Programs?

SLC Annual Meeting

July 29, 2013

Mobile, AL

Dr. Nathan B. Smith
Current Safety Net

• Broad Diverse Farm Bill with Large Number of Constituents

• Viewed as a Relatively Strong Safety Net in Total
  – But... to get full benefit need to make a crop
  – Payment Limit and AGI changes in 2008 capped for largest farms. Presents challenges for farms with value-added businesses.

• Combination of Decoupled Income Payments (direct) and Coupled Price Payments (counter-cyclical, loan rate) and Coupled Revenue Payments (ACRE)

• Downward Trend in Government Commodity Program Expenditures
Where is the $ Spent?

• $289 Billion net budget and revenues
• CBO scored outlays at $307 Billion for the 2008-2012 period
  – $209 (68%) billion is for nutrition programs,
  – $35 (11%) billion is for agricultural commodity programs,
  – $25 (8%) billion is for conservation programs.

CBO -$307 B. cost for FCEA for 2009-2012:
76.5% Nutrition Title
11% Commodities.
2013 Farm Bill - Where are We?
Program Crop Price Trends

% of 2002 MYA

- Wheat
- Corn
- G. Sorg.
- Cotton
- Peanuts
- Soybeans
Net farm income and net cash income, 2000-2013F

Net cash income
(and 10-year average)

Net farm income (and 10-year average)

F = Forecast.
Federal spending and revenue, 1995-2012, in inflation-adjusted dollars

Source: OMB historical tables, CBO. All figures are expressed in 2005 dollars.
Farm Bill Environment

• Agricultural economy has been doing very well

• The rest of the economy has been struggling

• The federal budget situation is not sustainable
New Farm Bill

• 2008 Farm Bill expired September 30, 2012 (provisions on commodities carried into 2013 based on crop marketing seasons)
• Probably the worse environment to try to write a new farm bill:
  – 2012 Election year
  – Huge budget deficit
  – Record high commodity prices
Super Committee & Farm Bill Process

• Farm Bill now partisan versus mainly regional differences in the past.
  – Still have regional differences over price loss program.

Pic Source: John Anderson, American Farm Bureau Federation
Importance of Government Payments by Region

- Gov’t payment during 2007-09 time period was lowest since 1997
- SE and So. Plains payments have highest share of net cash farm income.
Figure 5

Value per base acre of direct and counter-cyclical payments, 2008 Farm Act

<table>
<thead>
<tr>
<th>Crop</th>
<th>Direct Payment</th>
<th>Maximum Counter-cyclical Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peanuts</td>
<td></td>
<td>170</td>
</tr>
<tr>
<td>Rice</td>
<td>90</td>
<td>70</td>
</tr>
<tr>
<td>Upland cotton</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Corn</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Wheat</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Sorghum</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Soybeans</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Barley</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Sunflower</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Canola</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Oats</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

*Assumes national average payment yields for direct and counter-cyclical payments. Maximum counter-cyclical payments assume 2009 target prices.

Source: USDA, Economic Research Service analysis using data from USDA, Farm Service Agency.
Where will cuts come from?

**Government payments to farm producers, 2003–13F**

- **Red**: All other payments
- **Blue**: Conservation payments
- **Green**: Payments that are a function of crop prices
- **Yellow**: Fixed payments

**Notes**:
- Production flexibility contract payments and direct payments whereby payment rates are fixed by legislation.
- Counter-cyclical payments, average crop revenue election (ACRE) payments, loan deficiency payments, marketing loan gains, and certificate exchange gains in which commodity payment rates vary with market prices. The certificate exchange program ended after making payments for the 2009 crop year.
- All other payments include disaster relief payments, tobacco transition payments, and dairy program payments.

**Source**: USDA, Farm Service Agency, Natural Resources Conservation Service, and Commodity Credit Corporation. Forecast as of February 11, 2013.
Where are we?

Senate Version of 2013 Farm Bill

- **Agriculture Reform, Food and Jobs Act of 2013** approved by committee on May 14
- Bi-partisan, passed 66-27 vote, but regional differences that were ironed out with change in minority leader.
- Cut of $23 B including sequestration cuts.
  - $16 B in Commodities
  - $5 B in Conservation
  - $4 B in Nutrition
Where are we?

House Version of 2013 Farm Bill

• **Federal Agriculture Reform and Risk Management (FARRM) Act of 2013** approved in committee May 16

• Cut of $40 B including sequestration cuts.
  – $14 B in Commodities
  – $6 B in Conservation
  – $20 B in Nutrition

• Failed to pass the House floor, 195-234 vote on June 20.
Where are we?
House Version of 2013 Farm Bill

Federal Agriculture Reform and Risk Management (FARRM) Act of 2013

• H.R. 2642 passed on July 11, 216-208 vote, all 196 Democrats voted against.

• No Nutrition title.

• Replaces permanent farm bill law for farm support programs with the 2013 House farm support programs.

• Scored by CBO to reduce deficit by $12.9 B over 10 yrs.
## Where were we?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Payment</strong></td>
<td>Repealed</td>
<td>Repealed</td>
</tr>
<tr>
<td><strong>ACRE</strong></td>
<td>Shallow Loss program - Agricultural Risk Coverage (ARC), Farmers chooses between individual farm level or county level. Paid if the 12 month marketing year price is below reference price on 85% of base. STAX for cotton.</td>
<td>Shallow Loss program - Revenue Loss Coverage (RLC), based on county-wide losses. Payment if actual county revenue is less than the county revenue loss coverage trigger and paid on planted acres. STAX for cotton.</td>
</tr>
<tr>
<td><strong>Counter-Cyclical Payment (CCP)</strong></td>
<td>Adverse Market Payments (AMP), Basically CCP repackaged. Payments on 85% of base</td>
<td>Price Loss Coverage (PLC), based on planted acres. Payments if Effective Price is less than Reference Price and paid on planted acres.</td>
</tr>
<tr>
<td><strong>Marketing Loan</strong></td>
<td>ML same as 2008 Farm Bill</td>
<td>ML same as 2008 Farm Bill</td>
</tr>
</tbody>
</table>
## Where were we?

<table>
<thead>
<tr>
<th>2008 FCEA</th>
<th>Senate S. 954 ARFJ</th>
<th>House H.R. 1947 FARRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop Insurance</td>
<td>Supplemental coverage, STAX - GRIP policy for cotton, Revenue Insurance for Peanuts by 2014 crop, Enterprise Units</td>
<td>Crop Insurance</td>
</tr>
<tr>
<td>Sugar Quota</td>
<td>Quota</td>
<td>Quota</td>
</tr>
<tr>
<td>Supplemental Ag Disaster Assistance LIP, LFP, ELAP, TAP, SURE</td>
<td>LIP, LFP, ELAP, TAP</td>
<td>LIP, LFP, ELAP, TAP</td>
</tr>
<tr>
<td>Conservation CRP, EQIP, CSP, CIG, WHIP, WRP, GRP, etc...</td>
<td>23 programs to 11</td>
<td>23 programs to 13</td>
</tr>
</tbody>
</table>
Basically 3 Programs
(Farmers choose in which program to participate on a crop-by-crop basis)

• STAX for cotton only
• Reference or Target Price program favored by rice, peanuts, and maybe wheat.
  – Senate Adverse Market Payments (ARM)
  – House Price Loss Coverage (PLC)
• Shallow Loss program – favored by corn and soybeans.
  – Senate Agricultural Risk Coverage (ARC)
  – House Revenue Loss Coverage (RLC)
Eligibility Requirements

• Active Farmers
  – Person or legal entity (definition is tightened).

• Adjusted Gross Income (AGI)
  – House: $950,000 3-yr average.
  – Senate: $750,000 3-yr average.
Payment Limits

– House: $125,000 Total
  • $75,000 marketing loan gains/deficiency payments.
  • $50,000 PLC and RLC per entity.
  • Spousal rule allows double the limit.

– Senate:
  • $75,000 marketing loan gains/deficiency payments.
  • $50,000 ARC and ARM per entity.

– Peanuts retains separate payment limit in both versions.
Farm Bill Questions

• What do we need?
  – A reliable safety net.

• What do we need to avoid?
  – Producing for the program, not the market.
  – Breaking the budget.
  – WTO complications.
## Loan Rate & Reference Prices Relevance

<table>
<thead>
<tr>
<th>Crops</th>
<th>Loan Rates</th>
<th>Target Price</th>
<th>2013 Farm Bill Reference Price</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010-12</td>
<td>2010-12</td>
<td>2014 House</td>
<td>2014 Senate</td>
</tr>
<tr>
<td>Corn ($/bu)</td>
<td>1.95</td>
<td>2.63</td>
<td>3.70</td>
<td>3.08</td>
</tr>
<tr>
<td>Sorghum ($/bu)</td>
<td>1.95</td>
<td>2.63</td>
<td>3.95</td>
<td>2.94</td>
</tr>
<tr>
<td>Wheat ($/bu)</td>
<td>2.94</td>
<td>4.17</td>
<td>5.50</td>
<td>3.69</td>
</tr>
<tr>
<td>Upland Cotton ($/lb)</td>
<td>0.52</td>
<td>0.7125</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Peanuts ($/ton)</td>
<td>355</td>
<td>496</td>
<td>535</td>
<td>523.77</td>
</tr>
<tr>
<td>Soybeans ($/bu)</td>
<td>5.00</td>
<td>6.00</td>
<td>8.40</td>
<td>6.44</td>
</tr>
<tr>
<td>LG Rice ($/cwt)</td>
<td>6.50</td>
<td>10.50</td>
<td>14.00</td>
<td>13.00</td>
</tr>
<tr>
<td>Barley ($/bu)</td>
<td>1.95</td>
<td>2.63</td>
<td>4.95</td>
<td>2.84</td>
</tr>
<tr>
<td>Oats ($/bu)</td>
<td>1.39</td>
<td>1.79</td>
<td>2.40</td>
<td>1.62</td>
</tr>
</tbody>
</table>

*July 2013, WASDE*
WTO Trade Compliance

U.S. commodity support notified to the World Trade Organization

Final AMS ceiling $19.1 billion

AMS = aggregate measurement of support, commonly called the “amber box” in reference to the WTO.
Source: USDA, Economic Research Service using data from U.S. domestic support notifications to the WTO.
Distribution of Current Government Support Example: Cotton

Revenue per pound

Target Price - $0.7125
Loan Rate - $0.52
Market Price

CCP
MLG/LDP
Market Receipts

Reflects payments not on full production (payment acres = .85 x base acres)

Decoupled (do not have to produce to receive payment)
Coupled (do have to produce to receive benefits from marketing loans gains or LDPs)

Source: Joe Outlaw, Texas A&M University
Distribution of Shallow Loss/Gap Revenue Coverage Example: Cotton

Payments likely made on planted acres instead of base acres

- Should there be a target price/reference price - whatever to provide support to the benchmark

- This will be the centerpiece of the gov’t safety net

- Coupled (do have to produce to receive benefits from all components now)

- Crop insurance coverage

Source: Joe Outlaw, Texas A&M University
Program Participation

Liability by Plan Type

Issues to Consider

• Shallow losses only
  ✩ Will pay more frequently but not very large amounts
  ✩ Most have a 5 yr moving Olympic average benchmark
    ✓ Hidden deductible (doesn’t consider past government payments in benchmark)

• Very different levels of buy-up coverage levels by crop and region will create a coverage gap for some crops and areas

• Most paying on planted acres – will be much more coupled than current program
  ✓ This will result in a Baseline spending shift away from wheat, rice and cotton
SNAP

• “...even if its authorization expires, Congress can continue the Supplemental Nutrition Assistance Program (SNAP - previously called the Food Stamp program), by appropriating money for it. Thus, both history and the current situation suggest it is possible to write a farm bill without a food assistance title, although farm bills since the 1970s have included food assistance. Hence, from the perspective of process, like any difference between House and Senate bills, a Conference Committee will be impaneled to try to bridge the difference.”

Carl Zulauf (Ohio State University) and Gary Schnitkey (University of Illinois) “2013 Farm Bill Update - July 2013” farmdoc DAILY, July 17, 2013.
Where Do We Go From Here?

• Possible Conference Committee in September
• Extension expires September 30, 2013.
• End of year before end of 113th Congress?
  – Another extension?
  – Finally pass new 5 year Farm Bill.
Thank You

Nathan Smith
Department of Agricultural and Applied Economics
nathans@uga.edu
229-386-3512