Update/Status and Provisions of the New Farm Bill

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The Farm Bill

"Farm Bill"– the federal legislation that provides for commodity support, resource conservation (land, water, and wildlife), trade, nutrition, credit, rural development, forestry, ag-energy, and research.

Most Recent Farm Bills– 1996, 2002, 2008

2008 Farm Bill– In effect for the 2008 through 2012 crop years.

- Continued DCP from 2002 bill
- began ACRE Option

2013 Farm Bill currently being debated and developed

- Senate Bill version passed
- House version passed by Committee only

Why the Farm Bill Safety Net Must Change

- High commodity prices make it hard to defend Direct Payments
- The political will to support continuing DCP just is not there
- Budget considerations and the need to cut spending
- The WTO cotton case

Status and Timetable For the New Farm Bill

- The Senate passed it's version of the Farm Bill on 6/21/2012.
- The House Ag Committee completed its version on 7/11/2012. The full House, however, did not take up the Committee report before recess.
- Some parts of the 2008 Bill expired on 9/30, others continue. Crop provisions, for example, are good through the 2012-13 crop year. Dairy program expires on 12/31/2012
- The House may take up the Farm Bill after the 11/06 election.
- Differences in the House and Senate versions must be worked out in Conference Committee then approved by both House and Senate and signed by the President.

Farm Bill Alternatives

Passing a farm bill requires support from all interests– not only commodities but also nutrition, conservation, trade, etc.

- **A new farm bill passed during the lame-duck session.**
- **6-month extension of the 2008 Bill. The intent would be to then still pass the new Farm Bill in time for the 2013 crop year.**
- **1-year extension of the 2008 Bill for 2013. There would nevertheless likely be cuts in DCP and other payments for 2013.**
- **A "1+4" Bill (extension of 2008 Bill for 2013 with new safety net beginning with the 2014 crop year).**

Title I- Commodity Program

Purpose of Title I – To provide an income "<u>safety net</u>" for producers. To provide <u>income support</u> against adverse markets.

How is this "safety net" accomplished?

Answer: Traditionally, this has always been done through
-the <u>Loan Program</u>
-and through <u>Payments</u>…….

But this will change significantly with the next farm bill.

A Brief Review of the 2008 Farm Bill

Loan Rate. The price at which the Commodity Credit Corporation (CCC) provides a loan to the producer for a specified period of time (typically 9 or 10 months) accepting the crop as security or collateral for the loan.

A non-recourse loan– the crop may be forfeited to the CCC in payment of the loan.

2012 Loan Rates:

Corn	**$1.95 per bushel**
Cotton	**$0.52 per pound**
Grain Sorghum	**$1.95 per bushel**
Oats	**$1.39 per bushel**
Peanuts	**$355 per ton**
Soybeans	**$5.00 per bushel**
Wheat	**$2.94 per bushel**

Loan Rates are set but not tied to the market. The new farm bill will likely tie Loan Rates to market historical prices.

A Brief Review of the 2008 Farm Bill

Loan Repayment Rate/Rule. Provision which allows a CCC loan may be repaid at LESS than the Loan Rate IF the Loan Repayment Rate is less than the Loan Rate.

For wheat and feed grains, the Loan Repayment Rate is the *Posted County Price (PCP)* which reflects local cash market conditions.

For cotton, the Loan Repayment Rate is the *Adjusted World Price (AWP)* which is the world price of cotton adjusted for US quality and location.

For peanuts, the Loan Repayment Rate is the *National Posted Price* which reflects US supply and demand conditions.

A Brief Review of the 2008 Farm Bill

<u>Loan Deficiency Payment</u> (LDP). The difference between the Loan Rate and the Loan Repayment Rate **<u>IF the Repayment Rate is less than the Loan Rate</u>.**

An **LDP** is available (1) when the Repayment Rate is less than the Loan Rate and (2) **<u>if the producer agrees not to place the crop in Loan</u>**.

If the crop is placed in CCC Loan, the <u>Repayment Rule</u> still applies. When the crop is redeemed (when the Loan is paid off), if the Repayment Rate is less than the Loan Rate, the difference or benefit realized is called a **<u>Marketing Loan Gain</u>**.

A Brief Review of the 2008 Farm Bill

Commodity Program Payments. Since the 2002 farm bill and continuing in the 2008 farm bill, the commodity payments portion of Title I has been the "DCP Program" -- **Direct and Countercyclical Payments.**

The DCP Program will likely be terminated in the new farm bill.

A Brief Review of the 2008 Farm Bill

Direct Payment. A decoupled, fixed payment. This payment is received on 85% (for 2012) of the farms Base Acres times the Direct Payment Yield.

2008-2012 Direct Payment Rates:	
Corn	**$0.28 per bushel**
Cotton	**$0.0667 per pound**
Grain Sorghum	**$0.35 per bushel**
Oats	**$0.024 per bushel**
Peanuts	**$36.00 per ton**
Soybeans	**$0.44 per bushel**
Wheat	**$0.52 per bushel**

A Brief Review of the 2008 Farm Bill

Example: 2012 Direct Payment (DP)

Corn Base Acres: 500 acres

Corn Payment Acres: 500 Base acres x 85% = 425 acres

Direct Payment Yield: 140 bushels per acre

Direct Payment Rate: $0.28 per bushel

Farm Direct Payment (Corn): 425 ac. x 140 bushels x $0.28/bu = $16,600

Payment = $33.32 <u>per acre of Base</u>

A Brief Review of the 2008 Farm Bill

Countercyclical Payment (CCP). A payment if market price is low. Decoupled from production but not price.

CCP = Target Price – Direct Payment – higher of the Loan Rate or MYA

Target Price minus the Direct Payment is referred to as the Effective Price.

	Target Price	DP Rate	Effective Price
Corn	$2.63	0.28	$2.35
Cotton	$0.7125	0.0667	$0.6458
Grain Sorghum	$2.63	0.35	$2.28
Oats	$1.79	0.024	$1.766
Peanuts	$495	36	$459
Soybeans	$6.00	0.44	$5.56
Wheat	$4.17	0.52	$3.65

A Brief Review of the 2008 Farm Bill

Example: Countercyclical Payment (CCP)

Cotton Base Acres: 900 acres
Cotton Payment Acres: 900 acres Base x 85% = 765 acres
Countercyclical Payment Yield: 890 lbs per acre

Example 1: MYA = 90 cents per pound (Above the Effective Price)
No payment

Example 2: MYA = 50 cents per pound (Below the Loan Rate)
CCP Rate = 71.25 - 6.67 - 52 = 12.58 cents per pound (maximum)
CCP = 765 acres x 890 lbs x $0.1258 = $85,651
Payment = $95.17 per acre of Base

Example 3: MYA = 60 cents per pound (Between Loan and EP)
CCP Rate = 71.25 - 6.67 - 60 = 4.58 cents per pound
CCP = 765 acres x 890 lbs x $0.0458 = $31,183
Payment = $34.65 per acre of Base

How Will The Safety Net Likely Change in the New Farm Bill?

- Loan Program will continue but with modifications for cotton
- DCP and ACRE eliminated, replaced with revenue loss payments
- A separate revenue loss program (STAX) begun for cotton
- MILC and Dairy price support programs reduced or eliminated, replaced with new/alternative programs.
- Funding for conservation programs reduced
- Funding for Organic programs may change

A Comparison of House and Senate

Comparison of Current and Proposed New Loan Rates

	2008 FB	Proposed
Corn	$1.95	$1.95
Cotton	$0.52	**
Grain Sorghum	$1.95	$1.95
Oats	$1.39	$1.39
Peanuts	$355	$355
Soybeans	$5.00	$5.00
Wheat	$2.94	$2.94

*** Average AWP for the previous 2 crop years but cannot be less than $0.47 or higher than $0.52*

A Comparison of House and Senate

Senate Bill would repeal DCP and ACRE and replace with ARC (Agriculture Risk Coverage). ARC would be available for all program crops except cotton.

ARC Payment:

- **Producers have the option of choosing coverage based on Individual farm yield or NASS County average yield.**
- **Once chosen, the decision is irrevocable for the life of the Bill.**

Individual Coverage Option

ARC Payment = ARC Payment Rate x (65% of eligible* planted acres + 45% of prevented acres)

County Coverage Option

ARC Payment = ARC Payment Rate x (80% of eligible* planted acres + 45% of prevented acres)

* Total Eligible Acres on a farm cannot exceed the average total acres planted to covered crops for 2009 through 2012

A Comparison of House and Senate

ARC Payment = ARC Payment Rate x (65% or 80% of eligible planted acres + 45% of prevented acres)

ARC Payment Rate =
(ARC Guarantee - Actual Crop Revenue) or 10% of Benchmark Revenue, whichever is less

ARC Guarantee = 89% x Benchmark Revenue

Benchmark Revenue = 5 year OA Yield x 5 year OA national MYA Price

Actual Crop Revenue = Actual Crop Yield x (Mid-season price* or Loan Rate, whichever is higher)
* For the first 5 months, or $530/ton for peanuts and $13 for rice, whichever is higher.

A Comparison of House and Senate

House Bill would repeal DCP and ACRE and replace it with 2 options– PLC (Price Loss Coverage and RLC (Revenue Loss Coverage). The option choice can be made on a crop by crop basis for all program crops except cotton. Once chosen, the decision is irrevocable for the life of the Bill.

Price Loss Coverage (PLC)
Payment is received if the **Effective Price** for the crop is less than the **Reference Price** for the crop. This is similar to the current Countercyclical Payment (CCP).

Revenue Loss Coverage (RLC)
Payment is received if **Actual County Revenue** for the crop is less than **County Revenue Loss Trigger** for the crop.

A Comparison of House and Senate

PLC Payment = PLC Payment Rate x Payment Yield x Payment Acres*)

* Payment acres = 85% of planted acres + 30% of prevented acres. Acres paid cannot exceed total base acres on the farm, including cotton base.

PLC Payment Rate = Reference Price - Effective Price

PLC Reference Prices	
Corn	$3.70
Grain Sorghum	$3.95
Peanuts	$535
Soybeans	$8.40
Wheat	$5.50

Effective Price = Higher of the mid-season price* or Loan Rate
* National average price for the 5 months of the crop year

Payment Yield = the 2008 Farm Bill CCP yield. Yield updates are possible.

A Comparison of House and Senate

RLC Payment = RLC Payment Rate x Payment Acres*

* Payment acres = 85% of planted acres + 30% of prevented acres. Acres paid cannot exceed total base acres on the farm, including cotton base.

RLC Payment Rate = County Revenue Loss Trigger - Actual County Revenue

County Revenue Loss Trigger = 85% x Benchmark County Revenue
Benchmark Revenue = 5 Year OA county yield x 5 Year OA national MYA Price*
* If any MYA price is less than the **Reference Price**, the Reference Price is used.

Actual County Revenue = **Actual County Yield** x Higher of the mid-season price* or Loan Rate
* National average price for the 5 months of the crop year

STAX (Stacked Income Protection Plan) For Upland Cotton

- Both House and Senate versions include STAX. The only difference is the inclusion of a Reference Price of 68.61 cents/lb in the House version
- STAX is basically a group risk supplemental insurance plan and included under the Crop Insurance provisions of both House and Senate.
- Decision on participation and level of coverage made each year
- The cotton program had to be changed in order to be compliant with the WTO ruling in favor of Brazil. The NCC pushed for STAX.
- Upland cotton is ineligible for ARC, PLC, and RLC.

STAX (Stacked Income Protection Plan) For Upland Cotton

STAX Payment = (County Reference Income x Coverage Level*) - Actual County Income or 20% of County Reference Income, whichever is Less

* Coverage may be selected from 70% to 90% in 5% increments

County Reference Income =
Price* x the higher of the county Trend Yield or the county 5 year OA Yield

* Price (Senate Version) = higher of **Projected Price** or **Harvest Price**
* Price (House Version) = higher of Projected Price or Reference Price or Harvest Price
Projected Price and Harvest Price are same as used in the regular cotton Revenue policy

Actual County Income = Harvest Price x Actual County Yield

ARC, PLC, RLC, and STAX Producer Issues and Questions
Important Factors To Consider

- Does the choice and program attach to the producer or landowner?
- Is the choice/option by farm or all farm’s within a county?
- Is the choice by crop or all crops on a farm?
- Are irrigated and non-irrigated separate or averaged together?
- Are there payment limitations and if so, what are they?
- If ARC, which would be best– County or Individual?
- If House version, which would be best– PLC or RLC?
- STAX– what coverage level and HPO or not?