Commodity Programs in 2014 Farm Bill

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Key Provisions

• Eliminates direct, counter-cyclical, ACRE, and SURE payments. Replaces with Price Loss Coverage or Agriculture Risk Coverage

• Includes Loan Deficiency Payment program at loan rates the same as the 2012 Farm Bill (except cotton’s loan rate)

• A new crop insurance product called Supplemental Coverage Option (SCO) is available for commodities in Price Loss Coverage

• Payment Limits
  - $125,000 per person, for all commodity programs, marketing loan gains, and loan deficiency payments, all crops except peanuts
  - $125,000 per person limit for peanut payments

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Decisions

Producers will make the following three decisions for each Farm Service Agency (FSA) farm. These decisions are made one time, likely during summer of 2014 (depends on FSA releasing regulations). Decisions can not be changed for the life of the Farm Bill:

1. Base acres (current or reallocated)
2. Programs yields (current or updated)
3. For each FSA farm/ crop, which program will be used to make payments:
   - Price Loss Coverage (PLC)
   - Agriculture Risk Coverage - County level (ARC - County)
   - Agriculture Risk Coverage - Individual level (ARC - Individual)

Each decisions is described in the following slides

Base Acres

All programs will make payments on base acres

Total amount of base acres on the farm can not be increased from 2013 levels

Producers can:
1. Retain current base acre allocation across program crops
2. Reallocate based acres in each crop based on proportion of planted and prevent planted acres from 2009 to 2012

Note: There are special rules for “generic” base acres that were cotton base acres
Updating Base Acres -- Example

- A FSA farm currently has 100 base acre with 55 base acres in corn, 35 acres in soybeans, and 10 acres in wheat.

- From 2009 to 2012, plantings in program crops averaged 75% in corn, 25% in soybeans. Updated acres would be 75 acres in corn (100 base acres x .75) and 25 acres in soybeans (100 base acres x .25).

- FSA base acres alternatives are:
  - Retain current base acres (55 corn, 35 soybeans, 10 wheat)
  - Reallocate base acres (75 corn, 25 soybeans)

Update Payment Yields

Payment yields will be used to make Price Loss Coverage payments.

Farms can choose:
1. Keep yields used to make counter-cyclical payments under the 2008 Farm Bill, or
2. Update to 90% of the average yields from 2008 through 2012
Program Choice

For each FSA farm, program choices are:

1. Decide to enroll each covered crop in either:
   - Price Loss Coverage (PLC)
   - Agriculture Risk Coverage - County (ARC - County)

2. Agriculture Risk Coverage - Individual (ARC - Individual) - all covered commodities will be in ARC - Individual

Under 1, a farm could enroll corn in ARC-County and soybeans in PLC

Default is PLC. If no choice is made, lose 2014 payments and all commodities are in PLC beginning with 2015 crop year

Price Loss Coverage

Reference Prices

<table>
<thead>
<tr>
<th>Crop</th>
<th>Reference Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn (per bu)</td>
<td>$3.70</td>
</tr>
<tr>
<td>Soybeans (per bu)</td>
<td>$8.40</td>
</tr>
<tr>
<td>Wheat (per bu)</td>
<td>$5.50</td>
</tr>
<tr>
<td>Peanuts (per ton)</td>
<td>$535</td>
</tr>
<tr>
<td>Rice (per cwt) *</td>
<td>$14</td>
</tr>
<tr>
<td>Grain sorghum (per bu)</td>
<td>$3.95</td>
</tr>
</tbody>
</table>

* Applies to both medium and long grain rice

Payments

- Payments occur when Market Year Average price is below the reference price

- Market Year Average (MYA) price is for entire year. For corn and soybeans, calculation of MYA prices begin in September of harvest year and ends in August of following year (i.e., 2014 MYA price known after August 2015)
Price Loss Coverage – Payments

**Payment rate** = Reference price - higher of MYA price or loan rate, when MYA price is less than reference price

**Payment** = Payment rate x payment yield x base crop acres x .85

- Payment yield is based on program yield decisions (second decision described earlier)
- Base acres are determined during acre decisions (first decision described earlier)

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Price Loss Coverage – Example

- MYA price = $3.55
- Payment yield = 150 bu. (payment yield is farm specific)
- Base Acres = 100

**Payment rate** = $.15 = $3.70 reference price - $3.55 MYA price

**PLC payment** = $1,913 = $.15 payment rate x 150 payment yield x 100 acres x .85

On a per acre basis, PLC payment = $19.13
**ARC – County**

Payments when actual county revenue is below county guarantee.

**Benchmark revenue** = five-year Olympic average of county yields x five-year Olympic average of MYA prices

(price can not be below reference prices, yield can not be below 70% of t-yields)

**Guarantee** = .86 x benchmark revenue

**Actual revenue** = county yield x MYA price

**Payment rate** = Guarantee - Actual Revenue, when actual revenue less than guarantee, max payment rate = .10 x benchmark revenue

**Payment** = Payment rate x base acres in crop x .85

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### 2014 Benchmark Revenue Calculation

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>County Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.70 **</td>
<td>186</td>
</tr>
<tr>
<td>2010</td>
<td>5.18</td>
<td>170</td>
</tr>
<tr>
<td>2011</td>
<td>6.22</td>
<td>160</td>
</tr>
<tr>
<td>2012</td>
<td>6.89</td>
<td>110</td>
</tr>
<tr>
<td>2013</td>
<td>4.50</td>
<td>190</td>
</tr>
</tbody>
</table>

**McLean County, Illinois yields**

**Price in 2009 was $3.55, replaced with $3.70 reference price**

**Benchmark price** = $5.30 = (5.18 + 6.22 + 4.50) / 3

**Benchmark yield** = 172 = (186 + 170 + 160) / 3

**Benchmark revenue** = $912 per acre = $5.30 price x 172 yield

**Guarantee** = $784 = .86 x $912

**Max payment rate** = $91 per acre = $912 x .10

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**ARC - County**
2014 Payment -- Example

MYA price = $3.80  
County yield = 190 bushels  
Base corn acres = 100 acres

Actual revenue = $722  = $3.80 price x 190 yield

Payment rate = $62 per acre = $784 guarantee - $722 county revenue (below $91 max rate)

Payment = $5,270 = $62 rate x 100 acres x .85

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**ARC - Individual**

- ARC - Individual is best thought of as whole-farm insurance, payments are calculated based on whole-farm revenue
- Rates are calculated across all FSA farms enrolled in ARC - Individual
- Planted acres in year of payment determine weights in benchmark revenue
- Payments are made on base acres x .65

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ARC – Individual

ARC-Individual will make payments when actual revenue falls below .86 times benchmark revenue.

Actual revenue equals sum of each crops’ revenue (National Market Year Average price x farm yield) weighted based on planted acres.

Benchmark revenue equals sum of each crops’ benchmark weighted based on planted acres.

ARC – Individual

2014 Example

The following example shows a 2014 payment for one FSA farm with 100 total base acres. In this example, no other farms are enrolled in ARC – Individual.

In 2014, the farm plants:

- 60% of acres in corn
- 40% of acres in soybeans
### ARC -- Individual
Each Crop’s Benchmark Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
<th>Farm Yield</th>
<th>Revenue¹</th>
<th>Price</th>
<th>Farm Yield</th>
<th>Revenue¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.55</td>
<td>186</td>
<td>688</td>
<td>9.59</td>
<td>54</td>
<td>518</td>
</tr>
<tr>
<td>2010</td>
<td>5.18</td>
<td>170</td>
<td>881</td>
<td>11.30</td>
<td>59</td>
<td>667</td>
</tr>
<tr>
<td>2011</td>
<td>6.22</td>
<td>160</td>
<td>995</td>
<td>12.50</td>
<td>56</td>
<td>700</td>
</tr>
<tr>
<td>2012</td>
<td>6.89</td>
<td>110</td>
<td>758</td>
<td>14.40</td>
<td>52</td>
<td>749</td>
</tr>
<tr>
<td>2013</td>
<td>4.50</td>
<td>190</td>
<td>855</td>
<td>12.50</td>
<td>54</td>
<td>675</td>
</tr>
</tbody>
</table>

¹Revenue equals maximum of national market year average price or reference price ($3.70 for corn, $8.40 for soybeans) times farm yield

Each crop’s benchmark revenue equals Olympic average of revenues:
- Corn: $831 = ($881 + $758 + $855) / 3
- Soybeans: $681 = ($667 + $700 + $675) / 3

### ARC -- Individual
Benchmark Revenue and Guarantee

Benchmark Revenue weights each crop’s benchmark revenue by proportion of program crop acres planted on ARC-Individual farms

\[
\text{Corn} \quad \text{Soybeans} \\
\$771 = \$831 \times .60 \quad + \quad \$681 \times .40
\]

Guarantee is .86 x benchmark revenue:

\[
\$663 = .86 \times \$771 \text{ benchmark revenue}
\]
ARC - Individual
2014 Revenue

A farm's revenue equals each crop's revenue weighted by proportion of acres:

- $3.75 MYA corn price
- 185 bushel per acre corn yield
- $11 MYA soybean price
- 50 bushel per acre soybean yield

$636 = .6 \times (3.75 \times 185) + .4 \times (11 \times 50)$

ARC - Individual
Payment Rate

Payment rate equals ARC guarantee minus revenue

$27 \text{ Rate} = 663 \text{ Guarantee} - 636 \text{ Revenue}$

Rate can not be less than zero

Rate can not be more than 10% of benchmark revenue ($77 = .10 \times 771$)
## ARC - Individual Payment

Payment equals payment rate x base acres x .65 (payment acres are 65% of total base acres)

<table>
<thead>
<tr>
<th>$27 payment rate</th>
<th>100 base acres</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,755 = $27 payment rate x .65 x 100 acres</td>
</tr>
</tbody>
</table>

### Choice Summary

- **Price Loss Coverage**
  - Fixed reference price program
  - Max payment rate: Effective price - national loan rate
  - Payments on 85% of a crop's base acres

- **ARC - County**
  - Revenue program on county yields
  - Each crop a separate guarantee
  - 86% guarantee
  - Max payment: 10% of benchmark revenue
  - Payments on 85% of crop's base acres

- **ARC - Individual**
  - Revenue program based on farm yields
  - Whole farm program for covered crops
  - Max payment: 10% of benchmark revenue
  - Payment on 65% of total base acre

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Program Choice and SCO

• Supplemental Coverage Option (SCO) is a new crop insurance product that provides county coverage from an 86% coverage level to the coverage level of Combo product

• Only available for commodities in PLC

Loan Deficiency Program

Loan rates (except for upland cotton same as 2008 Farm Bill):
$1.95 per bushel for corn
$5.00 per bushel for soybeans
$2.94 per bushel for wheat
$1.95 per bushel for grain sorghum
$1.95 per bushel for barley

Upland cotton: average of world price for preceding year not less than $.47 per pound, not more than $.52 per pound
$6.50 per cwt for long grain and medium-grain rice
$10.09 per cwt for other oilseeds.

LDPs available based on 30 day average of market prices, adjusted to state or county
# Loan Deficiency Program

- Marketing loans are available no matter program choice (PLC, ARC – County, ARC – Individual)

- LDPs not likely to be significant in coming years for corn, soybeans, and wheat

- Primary benefit for Midwest farmers is from taking out loans for lower interest rate when storing grain