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Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

# Weekly Farm Economics: First Draft of New House Farm Bill

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### Overview

On July 5, 2012, the U.S. House Committee on Agriculture released a discussion draft of the 2012 Farm Bill. The Bill's title is the *Federal Agriculture Reform and Risk Management Act* (FARRM). This article summarizes provisions in FARRM that concern the safety net for U.S. crops: The provisions are in Title I, Commodities and Title XI, Crop Insurance. The article also compares FARRM with the 2012 Farm Bill recently passed by the U.S. Senate. An overview of the crop safety net in the Senate Farm Bill is provided in "First Draft of New Senate Farm Bill" by Carl Zulauf, available here, with updates on the Bill as passed by the Senate Committee on Agriculture, Nutrition, and Forestry and the full Senate available here and here, respectively. Note this article is divided into 3 self-contained sections. Each section has its own summary and therefore there is no closing summary. Also note that many provisions contained in the crop safety net provisions of the Farm Bills are not discussed in this article.

### Comparison of Crop Commodity Programs from the House Discussions Bill and Senate Passed Bill

?It is important to first note that considerable agreement exists among the House Discussion Bill and the Senate Pass Farm Bill.

Both Bills embrace risk management as the focus of the crop safety net, have a Supplemental Coverage Option for insurance, contain a county revenue option as a complement to insurance, eliminate direct payments, and retain marketing loans (Table 1).

Both Bills also embrace as a foundation theme that it is not a viable policy option to have a single risk management program that is uniformly applied to all crops. This decision reflects the diversity of crops grown in the U.S. and the wide variation in agro-climates within the U.S. Thus, each bill offers choices to farms (Table 1).

?Program parameters differ between the House and Senate county revenue programs. Key differences exist in (Table 1):

coverage range: 75% to 85% for House Discussion Bill vs. 79% to 89% for Senate Passed Bill,
payment acres: 85% of planted acres and 30% of prevent plant acres for House Discussion Bill vs. 80% of planted acres and 45% of prevent plant acres for Senate Passed Bill, and
availability of Insurance Supplemental Coverage Option: not available to county revenue participants in the House Discussion Bill vs. available to county revenue participants in the Senate Passed Bill.
Overall, payments by the county revenue program are likely to be less from the House Bill than from the Senate Bill
These differences and others will need to be compromised in a final bill if the House Discussion Bill is passed by the House.

?A major difference is that the House Discussion Bill replaces the farm revenue program option in the Senate Bill with a price counter-cyclical program for which fixed minimum support prices have been increased, yields can be updated to 2008-2012, and current planted, not historical base, acres are used (Table 1).

This difference reflects differences in policy philosophy. Should the focus be only on revenue as in the Senate Bill instead of the historical focus on price as in the House Bill? Should support levels be fixed by Congress as in the House Bill or tied to the market as in the Senate Bill. Should farm yield variability be addressed only by insurance programs or should it also be addressed by commodity programs? How these philosophical questions are answered will affect how these policy differences are compromised.
Because the House Bill fixes minimum support prices in the Price Loss Coverage (PLC) program, it is important to assess how these support prices align with recent market prices. Figure 1 presents the ratio of the fixed PLC support prices relative to the Olympic average of U.S. prices for the 2008 through 2012 crop years. In calculating this ratio, it is assumed that the high price for each crop is the forthcoming 2012 crop year due to the current drought. This assumption may not be correct, but it means the Olympic average is its highest possible value. Also note, the minimum price in the STAX program for upland cotton is included in this comparison. The ratio varies substantively, ranging from 72% for corn to 110% for peanuts. The higher the ratio, the higher the PLC price support is relative to recent market prices. The divergence in values among the crops means that the potential exists for the PLC price support program to distort markets by distorting the distribution of acres planted to U.S. crops, even without a significant decline in price. Everything else the same, the PLC program in the House Discussion Bill will tend to increase acres in crops with a high ratio and reduce acres in crops with a low ratio, but the actual impact will depend upon the interplay of many factors.

**Table 1. Comparison of Farm Safety Net Programs, House Discussion Bill and Senate Passed Bill, July 9, 2012**

KEY: Agricultural Risk Coverage (ARC), Price Loss Coverage (PLC), Revenue Loss Coverage (RLC), and Supplemental Coverage Option (SCO)

| Farm Safety Net Program | Description | House Discussion Bill | Senate Passed Bill |
|---|---|---|---|
| Individual Farm Insurance | ►Revenue or Yield Coverage based on Actual Production History (APH) yield for farm, 100% of plant acres, and up to 85% of pre-plant price<br>►Premium subsidy varies from 38% for basic and optional insurance product at 85% coverage level to 100% for catastrophic coverage. | Yes | Yes |
| County Insurance | ►Revenue or Yield Coverage based on expected yield for county, 100% of plant acres, and up to 90% of expected pre-plant price.<br>►Premium subsidy ranges from 44% to 59%. | Yes | Yes |
| Insurance Supplemental Coverage Option (SCO) | ►Revenue or Yield Coverage between individual insurance coverage level selected by farm and 90%<br>►Premium subsidy is 70%. | Yes, if select PLC<br>No, if select RLC | Yes, but if in ARC, maximum coverage is 80% |
| Marketing Loan Program | ►Fixed Price set by crop by Congress (Table 2) | Yes | Yes |
| Target Price Program | ►Fixed Price set by crop by Congress (Table 2)<br>►Payment yield usually will be 90% of 2008-2012 average farm yield [A]<br>►Payment usually on 85% of plant acres plus 30% of prevent plant acres [B] | Yes (PLC) | No |
| Farm Revenue Program | ►Coverage between 79% and 89% of (5-year Olympic average of farm yield times 5-year Olympic average of U.S. crop year price)<br>►Payment usually on 65% of plant acres plus 45% of prevent plant acres [B] | No | Yes (Farm ARC) |
| County Revenue Program | *Senate ARC Version*<br>►Coverage between 79% and 89% of (5-year Olympic average of county yield times 5-year Olympic average of U.S. crop year price)<br>►Payment usually on 80% of plant acres plus 45% of prevent plant acres [B]<br>*House RLC Version*<br>►Coverage between 75% and 85% of (5-year Olympic average of county yield times 5-year Olympic average of U.S. crop year price)<br>Minimum price for an individual year is fixed price in PLC (Table 2)<br>►Payment usually on 85% of plant acres plus 30% of prevent plant acres [B] | Yes (RLC) | Yes (County ARC) |

NOTES: (A) Payment yield could be 1998-2001 counter-cyclical yield. (B) Total payment acres on a farm cannot exceed the farm's base acres.

**Table 2. Comparison of House Discussion Bill's Price Supports and Recent Average Market Prices, U.S., July 9, 2012**

| Crop | Unit | Marketing Loan Rate | Minimum Fixed Price Support | Olympic Average Price 2008-12 [A] |
|---|---|---|---|---|
| Barley | Bushel | $1.95 | $4.95 | $5.14 |
| Corn | Bushel | $1.95 | $3.70 | $5.11 |
| Cotton, Upland | Pound | $0.47-$0.52 [B] | $0.6861 [C] | $0.78 |
| Oats | Bushel | $1.39 | $2.40 | $3.02 |
| Peanuts | Pound | $0.18 | $0.27 | $0.25 |
| Rice | Hundredweight | $6.50 | $14.00 | $15.10 |
| Sorghum | Bushel | $1.95 | $3.95 | $4.75 |
| Soybean | Bushel | $5.00 | $8.40 | $11.21 |
| Wheat | Bushel | $2.94 | $5.50 | $6.59 |

NOTES: (A) Calculation assumes that the 2012 crop year price is the high price due to the current drought. This assumption means the Olympic average is its highest possible value. (B) Upland cotton loan rate is the average of the world price for the previous 2 years, but not less than $0.47/pound nor more than $0.52/pound. (C) This price is the minimum price in the upland cotton STAX program.

## Initial Thoughts on Choice between House Programs: Price Loss Coverage (PLC) vs. Revenue Loss Coverage (RLC)

?Farms are given a one-time choice between PLC and RLC. PLC is the default choice; thus, a farm will need to actively request RLC. The decision is made separately for each crop. While a detailed analysis that incorporates all parameters of the two programs is needed to assess this choice, the following is offered as an initial set of thoughts concerning this decision.

*Considerations that favor choosing RLC over PLC*

(1) Since RLC coverage starts at 85% of a 5-year Olympic Moving Average, RLC is, in general, currently more favorable for crops with a ratio in Figure 1 that is less than 85%. These crops are corn, soybeans, and oats. Note this assessment could change if prices decrease, especially if the decline is notable, over

the 2012-2017 crop years covered by the 2012 Farm Bill.

(2) Payment is made on 100% of yield for RLC. In contrast, payment is made on 90% of yield for PLC.

(3) Yields are updated annually for RLC. In contrast, yields are not updated for PLC. Note this consideration may not end up favoring RLC over PLC if yields decline over the period of the 2012 Farm Bill.

*Considerations that favor choosing PLC over RLC*

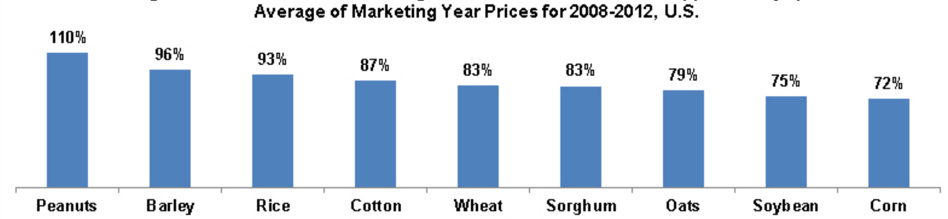
(1) Since RLC coverage starts at 85% of a 5-year Olympic Moving Average, PLC is currently more favorable for crops with a ratio in Figure 1 that exceeds 85%. These crops are peanuts, barley, and rice. Note this assessment could change if prices increase over the 2012-2017 crop years covered by the 2012 Farm Bill.

(2) The annual cap on per unit PLC payment is the difference between the PLC support price and the loan rate. The PLC support prices range in size from 39% to 154% higher than the loan rate. In contrast, the annual cap on per unit RLC payment is 10%.

(3) Participants in PLC are eligible for the Insurance Supplemental Coverage Option (SCO) while participants in RLC are not eligible for SCO. SCO could be an important option, particularly for farmers concerned with payment limits, as there is no payment limit associated with SCO.

(4) PLC is the default choice. The default option is often appealing because there are no transaction and thinking costs. These costs are especially important when it is not clear that any choice is superior.

Figure 1. Ratio Of Price Loss Program's Fixed Minimum Price Support to Olympic Average of Marketing Year Prices for 2008-2012, U.S.




?A quick assessment suggests it will be difficult to devise rules for choosing between PLC and RLC. Moreover, it is impossible to forecast whether PLC or RLC will end up providing the most payments. The end result will depend on how much yields increase and how prices change over the next 5 years. Nevertheless, 2 observations are possible.

Clear differences exist regarding the current value of the two programs. This consideration means that, ignoring all other factors and assuming markets do not change dramatically between now and 2017, PLC currently favors peanuts, barley and rice while RLC currently favors corn, soybeans, and oats.

It is also clear that, if large price declines are a key concern, then PLC will offer more protection, assuming that the farm is not impacted by payments limits. The reason for this conclusion is that, as noted above, the cap on per unit payment is much higher for PLC than for RLC.

**Insurance Provisions**

The insurance provisions in the House Discussion Bill and Senate Passed Bill generally are the same, including many provisions not in the table below. A key difference is that the House Bill contains a minimum price for upland cotton in STAX.

| Insurance Provision | House Discussion Bill | Senate Passed Bill |
|---|---|---|
| Makes permanent 2008 Farm Bill pilot program for enterprise crop insurance | Yes | Yes |
| APH yield calculated using 70%, instead of 60%, of insurance transitional yield | Yes | Yes |
| Separate enterprise insurance for irrigated and non-irrigated acres | Yes | Yes |
| Future Standard Reinsurance Agreements should be budget neutral | Yes | Yes |
| STAX (Stacked Income Protection Plan) — separate insurance program for upland cotton. Farm can elect coverage between its individual insurance deductible and 90% of expected county revenue. If individual insurance not purchased, STAX coverage can be elected between 70% and 90%. A multiplier factor up to 120% is allowed. Premium subsidy is 80%. STAX is not available to upland cotton acres in the Supplemental Coverage Option. | Yes<br>minimum price of $0.6861/pound | Yes<br>no minimum price |
| Requires development of peanut revenue insurance product | Yes | Yes |

### Entitlement Criteria for Farm Program Eligibility

Entitlement criteria are less binding in the House Discussion Bill than in the Senate Passed Bill. Differences exist between the two Bills concerning the marketing loan payment limit, crop program payment limit, AGI limit, and Conservation Compliance for crop insurance.

| Entitlement Criteria | House Discussion Bill | Senate Passed Bill |
|---|---|---|
| Payment Limit on Loan Program | None | $75,000 per payment entity |
| Payment Limit on Crop Program | $125,000 per payment entity | $50,000 per payment entity |
| Separate Crop Program Limit for Peanuts | Yes | Yes |
| Aggregate Gross Income Limit | $950,000 per payment entity | $750,000 per payment entity |
| Reduced Crop Insurance Premium Subsidy | No | 15 percentage points reduction if AGI > $750,000 |
| | | |
| Conservation Compliance for Loan Program | Yes | Yes |
| Conservation Compliance for Crop Program | Yes | Yes |
| Conservation Compliance for Crop Insurance | No | Yes |

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