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Comparison of Approaches to Price Supports for the 2013 Farm Bill

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Last week the Senate and House Ag Committees successfully passed their versions of the 2013 Farm Bill (see Senate version here; House version here). As discussed in a post from last week, price support programs now exist in both versions, making it highly likely that price supports will continue to be offered to the major program crops over the next Farm Bill period.

However, the design of the price support programs – the Adverse Market Payment (AMP) program in the Senate, and the Price Loss Coverage (PLC) program in the House – differ in terms of the way in which the target or reference prices for each commodity are defined. Today's post examines the differences in each program's reference price levels and how, in the case of the AMP program, those reference price levels might evolve over the next Farm Bill.

Table 1. House PLC and Projected Senate AMP Reference Prices, 2014 to 2018

Commodity	Price Unit	Current CCP	House PLC 2014-2018	Senate AMP 2014	2015	2016	2017	2018
Barley	$/bu	$2.63	$4.95	$2.84	$2.75	$2.78	$2.60	$2.41
Corn	$/bu	$2.63	$3.70	$3.08	$3.08	$2.92	$2.59	$2.42
Oats	$/bu	$1.79	$2.40	$1.62	$1.62	$1.59	$1.40	$1.35
Peanuts	$/lb	$0.25	$0.27	$0.26	$0.26	$0.26	$0.26	$0.26
Rice	$/lb	$0.11	$0.14	$0.13	$0.13	$0.13	$0.13	$0.13
Sorghum	$/bu	$2.63	$3.95	$2.94	$2.94	$2.76	$2.41	$2.26
Soybeans	$/bu	$6.00	$8.40	$6.44	$6.44	$6.33	$6.00	$5.91
Wheat	$/bu	$4.17	$5.50	$3.69	$3.69	$3.68	$3.41	$3.16

Both the AMP and PLC programs operate similarly to the current counter-cyclical program – payments are triggered if the average price over the full marketing year (in the case of AMP) or over the first five months of the marketing year (in the case of PLC) falls below a reference price level. Support is provided between the reference price and the commodity's loan rate. The PLC program outlined in the House Farm Bill defines fixed reference price levels for each commodity for the 2014 to 2018 marketing years. The current CCP and proposed PLC reference prices are provided below in the first two columns of table 1.

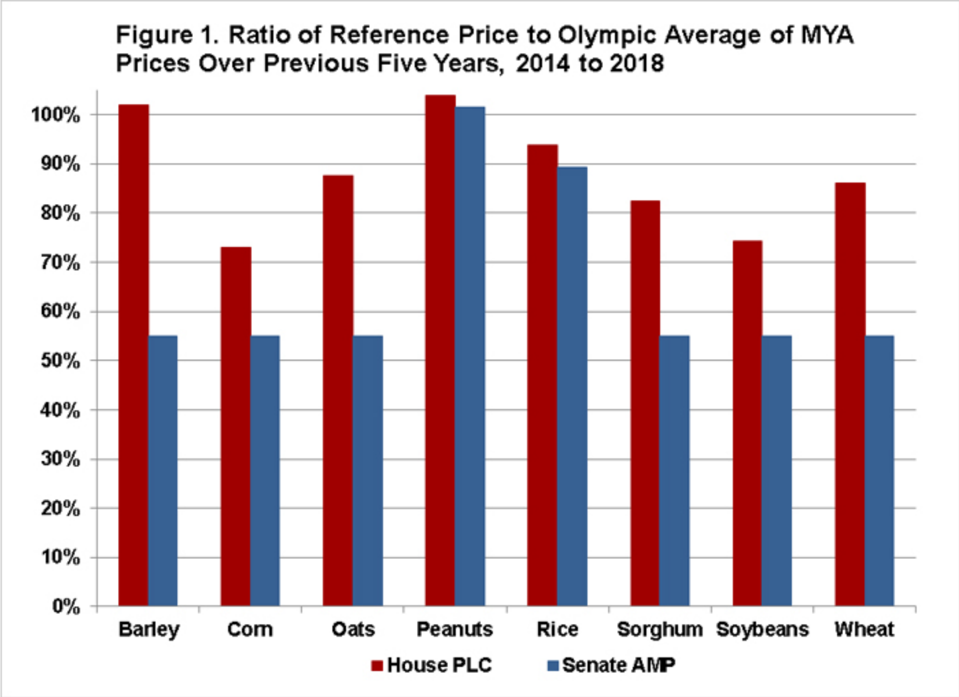
In contrast, the Senate's AMP program defines fixed reference price levels for just two of the major program crops – rice and peanuts – while the other eligible commodities' reference prices are set equal to 55% of the Olympic average of actual prices received over the previous five marketing years. For example, this language implies that the reference price level for the 2014 marketing year will be set to 55% of the Olympic average of prices over the 2009 to 2013 marketing years. Thus, AMP reference prices will adjust over time as they follow the rolling five year Olympic average.

Table 1 also provides expected AMP reference prices for some of the major program crops over the next Farm Bill period from 2014 through 2018. The expected reference price levels are based on:

1. actual prices for the 2009 through 2011 marketing years,
2. current projections for the 2012 marketing year reported by the National Ag Statistics Service (NASS), and
3. USDA baseline outlook projections for the 2013 through 2017 marketing years.

As discussed last week, the reference price levels for the House PLC program represent increases in support relative to the current CCP target prices. Projected reference prices for the Senate AMP program are lower, based on baseline projections for commodity price levels through 2017. For most crops, the initial 2014 AMP reference price is slightly above the current CCP target price (barley, corn, peanuts, rice, sorghum, soybeans) while for oats and wheat the expected AMP reference price for 2014 is below the current CCP target price. With the exception of rice and peanuts, the projected AMP reference prices are expected to decline over the next Farm Bill period. This is due to the use of the rolling Olympic average and the expectation for prices to stabilize at lower levels beginning in 2014 (see the full USDA outlook here). For all covered commodities, again with the exception of rice and peanuts, AMP reference prices are expected to fall below current CCP target price levels by 2018.

Figure 1 plots the average ratio of the House PLC and expected Senate AMP reference prices to the projected rolling five-year Olympic average price for each covered commodity. This provides a measure of the level of price support offered for each crop relative to its expected average market price over the next Farm Bill.



By definition, the ratio of AMP reference prices to the five-year Olympic average is equal to 55% for all covered commodities except rice and peanuts. The fixed AMP reference price for peanuts offers more than full expected price protection, while the fixed AMP price for rice offers nearly 90% protection of expected market price levels. Relative protection offered by the House PLC reference prices varies from more than full expected protection for barley and peanuts to just over 70% for corn and soybeans. Relative protection for oats, sorghum and wheat is greater than 80% while the PLC reference price for rice implies greater than 90% protection of expected market prices over the next Farm Bill.

Summary

Both the Senate and House Ag Committees have resumed work on the 2013 Farm Bill and passed versions for debate on the floors of both chambers. In contrast to the 2012 Farm Bill proposals, both now include price support programs. These price support programs – AMP in the Senate, PLC in the House – are similar in concept, but also differ in many ways including how reference prices for each commodity are set. PLC prices are fixed through time at defined levels, while AMP prices adjust as a percentage of a rolling five-year Olympic average of actual price levels.

These differences result in varying levels of support across the covered commodities. For example, peanut and rice growers would receive much higher levels of relative support in comparing reference price levels to expected market prices, whereas the reference prices for corn and soybeans imply lower levels of relative support.

The differences in program design will need to be reconciled before a final Farm Bill can be passed. The differences in relative support offered to each crop will likely represent challenges to continued progress in finalizing the 2013 Farm Bill.