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A Policy of First among Equals – The Case of PLC and "Other Oilseeds"

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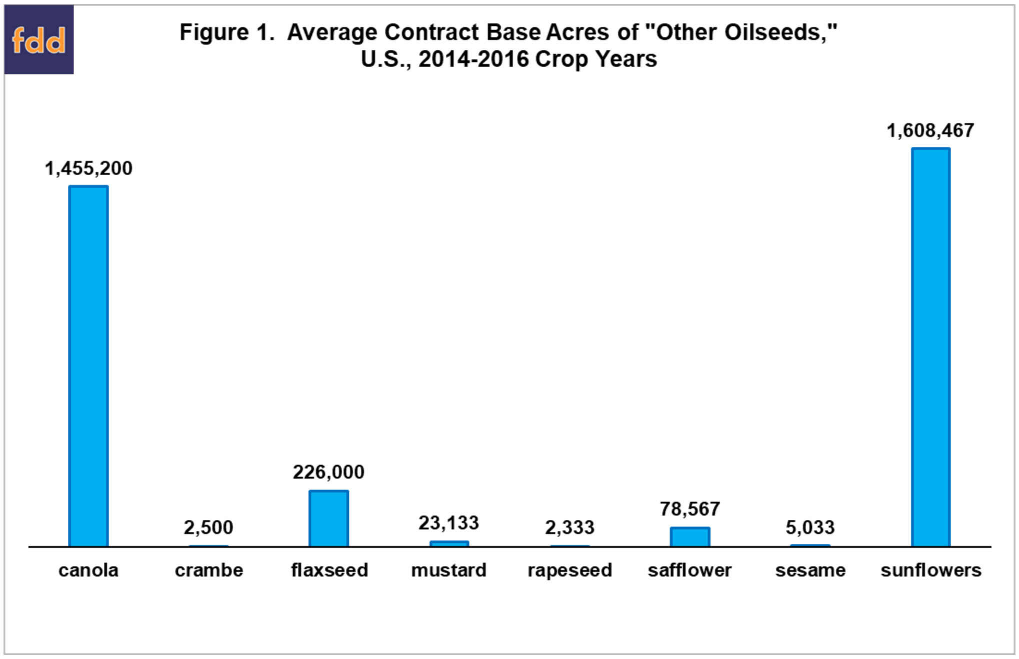
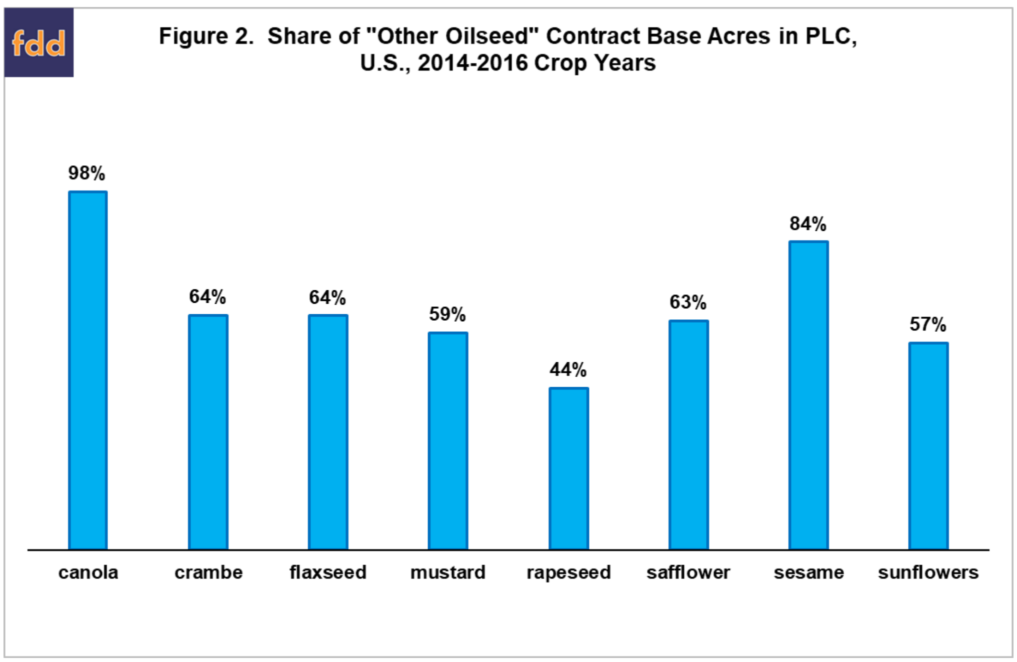
In the context of U.S. commodity policy, "other oilseeds" include canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sesame seed, and sunflower seed, as well as "any oilseed designated by the Secretary" (P.L. 113-79, sec. 1111(12)). What makes "other oilseed" policy informative and interesting is that a single reference price applies to all "other oilseeds" even though their prices differ notably, in part because they have different product attributes that match different but related market segments. As a result, PLC (Price Loss Coverage) becomes a "first among equals" policy that clearly favors some of the "other oilseeds." Issues and observations that arise from this policy are discussed.

Background

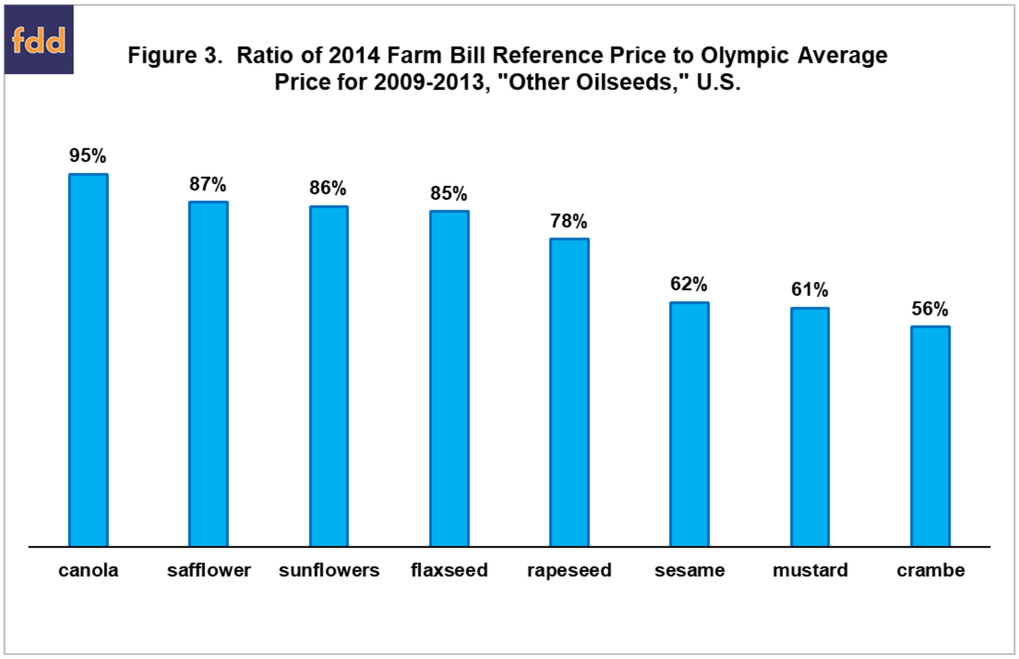
"Other oilseeds" are covered program commodities and thus eligible for both PLC and ARC (Agriculture Risk Coverage). Total contract base acres of "other oilseeds" averaged 3.4 million acres per year for the 2014-2016 crops (see Figure 1). Sunflowers and canola comprise 47% and 42%, respectively, of "other oilseeds" contract base acres. PLC was elected for 75% of "other oilseed" contract base acres, ranging from 44% for rapeseed to 98% for canola (see Figure 2). The "other oilseed" reference price is $0.2015/pound. Its relationship to market price varies by crop. For example, ratio of the "other oilseeds" reference price to the Olympic average price for the 2009-2013 crop years varies from a high of 95% for canola to a low of 56% for crambe (see Figure 3). The *farmdoc daily* articles of January 28, 2016 and February 15, 2017 contain additional discussion of the "other oilseeds," including comparisons with cottonseed, peanuts, and soybeans.

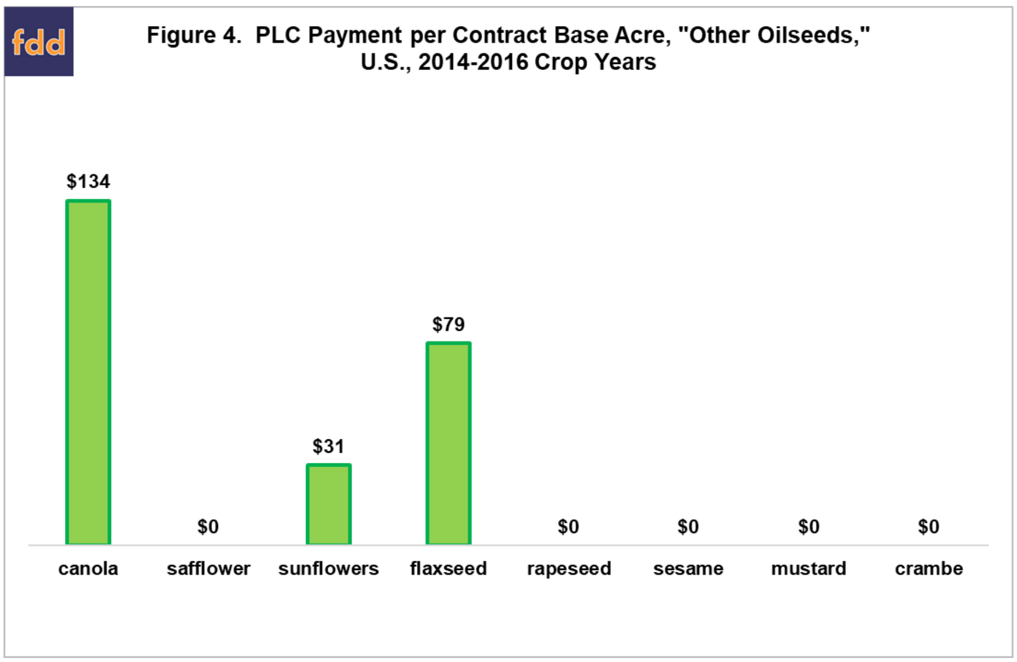




PLC Payments

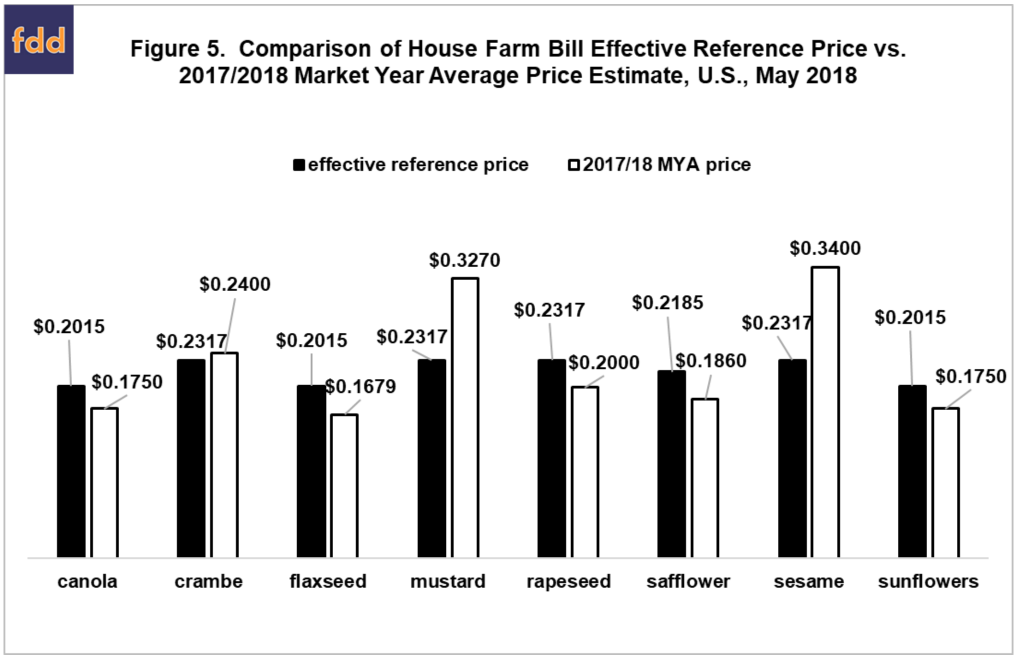
Given that the relationship between a common reference price and market prices varied notably at the time the 2014 farm bill was being written (see Figure 3), it is not surprising that PLC payment per contract base acre has also varied notably under the 2014 farm bill. Highest cumulative payment for the 2014-2016 crops is $134 per acre for canola (see Figure 4). Lowest is $0, which includes the 4 crops with the lowest reference-to-market ratio in Figure 2 (rapeseed, sesame, mustard, crambe). Safflower also has no payment from PLC, but payments appear likely for the 2017 crop. Its estimated 2017 crop year price is currently 8% below the reference price. As a comparison, ARC payment per contract base acre for 2014-2016 range from $34 for flaxseed to $1 for crambe.





House Farm Bill Change to Reference Price

The current farm bill draft before the U.S. House of Representatives proposes to create an effective reference price. It equals 85% of the Olympic average price for the 5 preceding crop years, but it can only vary between a floor of 100% and a cap of 115% of the current statutory reference price. The effective reference price is thus an escalator formula that can increase but not reduce the statutory reference price. If the proposed formula had been authorized for the current 2017 crop year, the effective and statutory reference price would be the same ($0.2015/pound) for canola, flaxseed, and sunflowers (see Figure 5). These are the 3 “other oilseeds” that have received PLC payments. For the other 5 “other oilseeds,” the effective reference price is higher than the statutory reference price. Nevertheless, no 2017 PCL payment is currently expected for crambe, mustard, and sesame since their market price exceeds the effective reference price.



Summary Observations

- The current safety net for the 8 "other oilseeds" has a common reference price for crops whose market prices differ notably, in part because they possess different product attributes and thus match the needs of different but related market segments.

- As a result, payments by PLC under the 2014 farm bill have varied notably across the "other oilseeds," resulting in a "first among equals" policy. Specifically, for the 2014-2016 crops, flaxseed, sunflowers, and, especially, canola have been favored. In stark contrast, the other 5 "other oilseeds" have received no payments from PLC. It should be noted that co-existence of both large payments per contract acre and a large number of covered commodities with no payment is a feature of the PLC program in general (see *farmdoc daily* articles of May 10 and May 17, 2018).

- Variation in payment per contract acre with a large number of covered commodities receiving no payments raises questions of fairness, especially when a key factor creating both large and no payments is how high the reference price is set by Congress relative to market prices (see *farmdoc daily* article of May 10, 2018 for a broader discussion of this factor).

- The concern over fairness dovetails with another policy trend: the recognition in policy that different classes or varieties of a crop can have notably different prices due to differing product attributes that serve different though related market segments. U.S. policy for rice recognized this consideration in the 2014 farm bill by setting a higher reference price for Japonica rice.

- The widely-differing prices across the "other oilseeds" and the different classes of wheat make them the most likely crops to next move in the direction of market differentiated reference prices.

- Variation in payment per acre is much less for ARC than PLC for the "other oilseeds" under the 2014 farm bill, illustrating that a market oriented mechanism consistently applied across crops can reduce variation in payment per acre.

- Given the preceding observations, it is thus not surprising that the House farm bill is proposing to introduce a market setting component into the determination of PLC reference prices, but does it go far enough when payments are still unlikely for some of the "other oilseeds" and can remain relatively large for other of the "other oilseeds"?

- Incorporating recent market prices and revenues into the determination of support prices and revenues has been a featured issue in the last two farm bills. Within this recent historical context, it is thus important to watch what happens with "other oilseeds" policy.

References and Data Source

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