
2013 Farm Bill: Beginning of the End for Traditional Commodity Programs?

SLC Annual Meeting

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Mobile, AL

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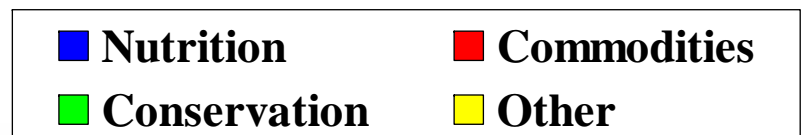
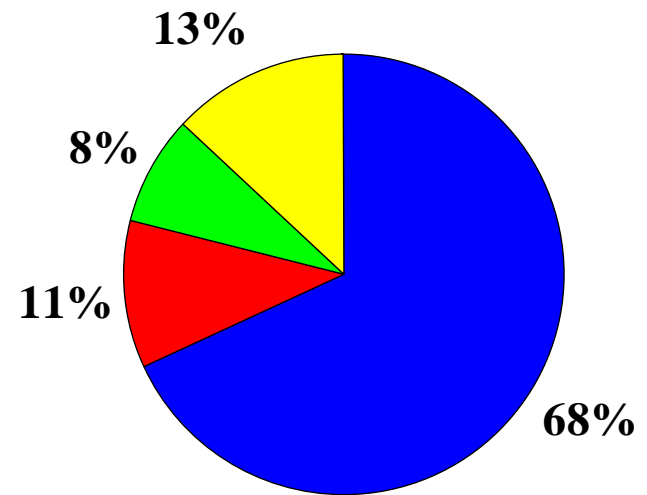
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Current Safety Net

- Broad Diverse Farm Bill with Large Number of Constituents
- Viewed as a Relatively Strong Safety Net in Total
 - But... to get full benefit need to make a crop
 - Payment Limit and AGI changes in 2008 capped for largest farms. Presents challenges for farms with value-added businesses.
- Combination of Decoupled Income Payments (direct) and Coupled Price Payments (counter-cyclical, loan rate) and Coupled Revenue Payments (ACRE)
- Downward Trend in Government Commodity Program Expenditures

Where is the \$ Spent?

- \$289 Billion net budget and revenues
- CBO scored outlays at \$307 Billion for the 2008-2012 period
 - \$209 (68%) billion is for nutrition programs,
 - \$35 (11%) billion is for agricultural commodity programs,
 - \$25 (8%) billion is for conservation programs.

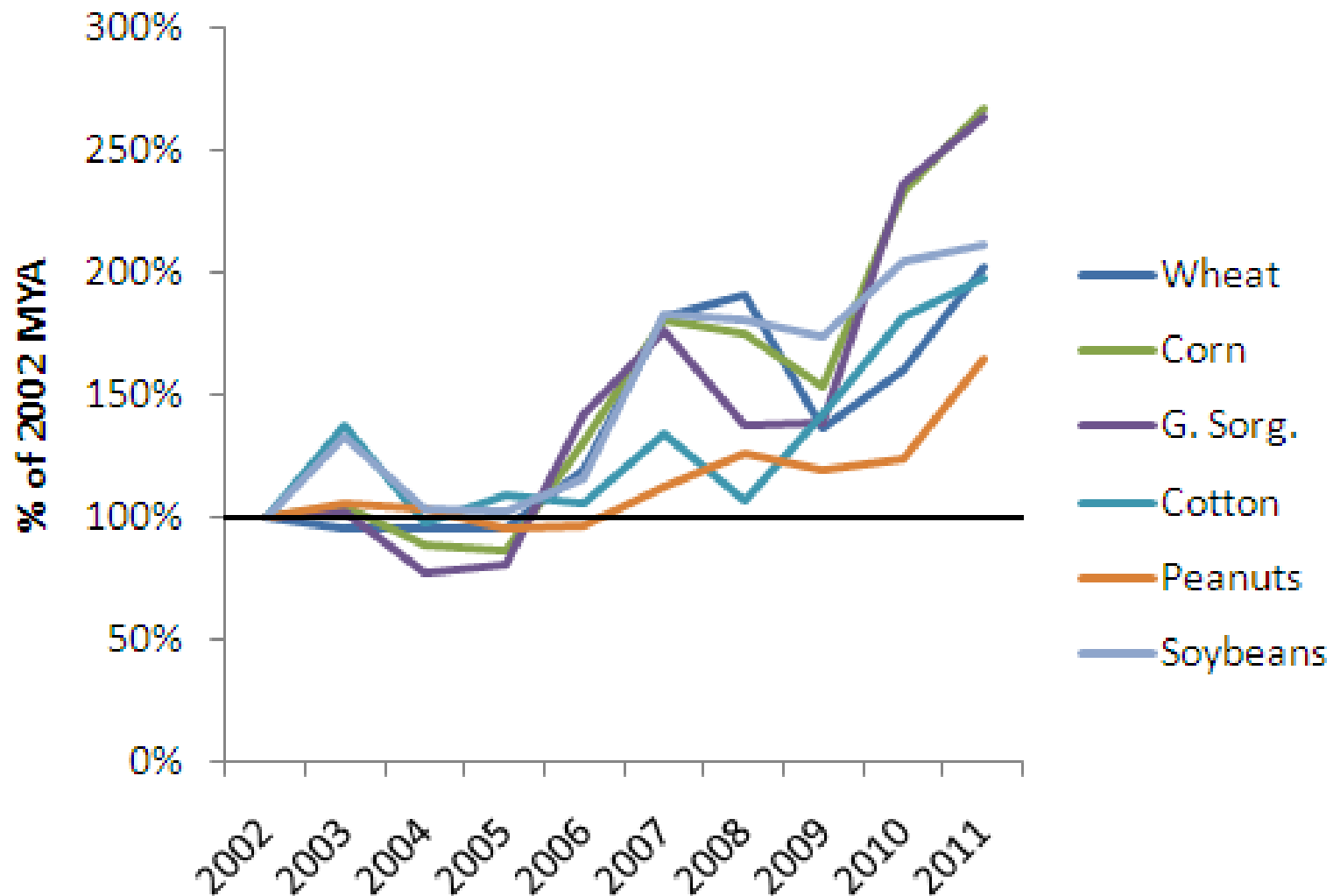


**CBO - \$307 B. cost for FCEA for 2009-2012:
76.5% Nutrition Title
11% Commodities.**

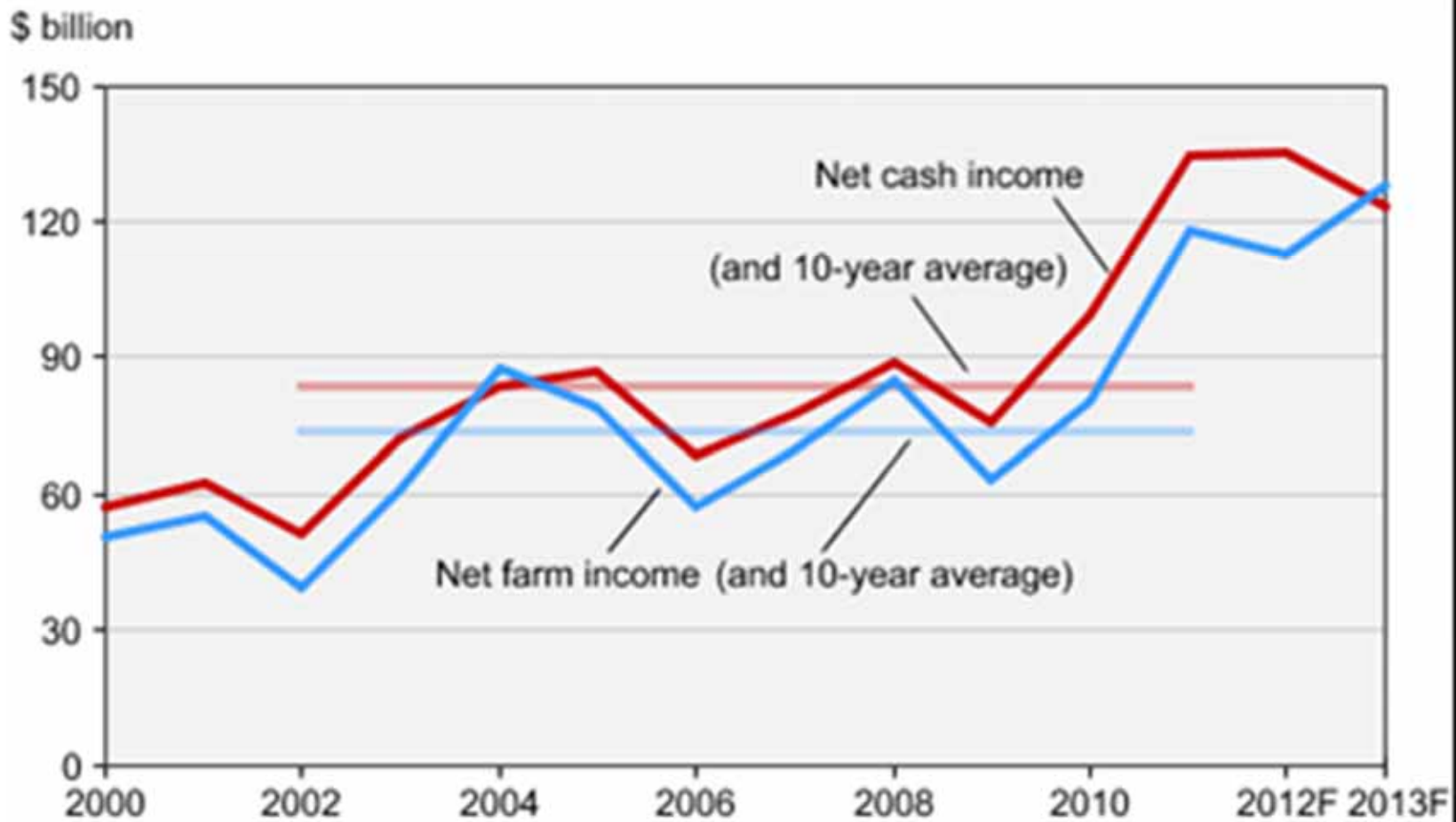
2013 Farm Bill - Where are We?



Program Crop Price Trends



Net farm income and net cash income, 2000-2013F

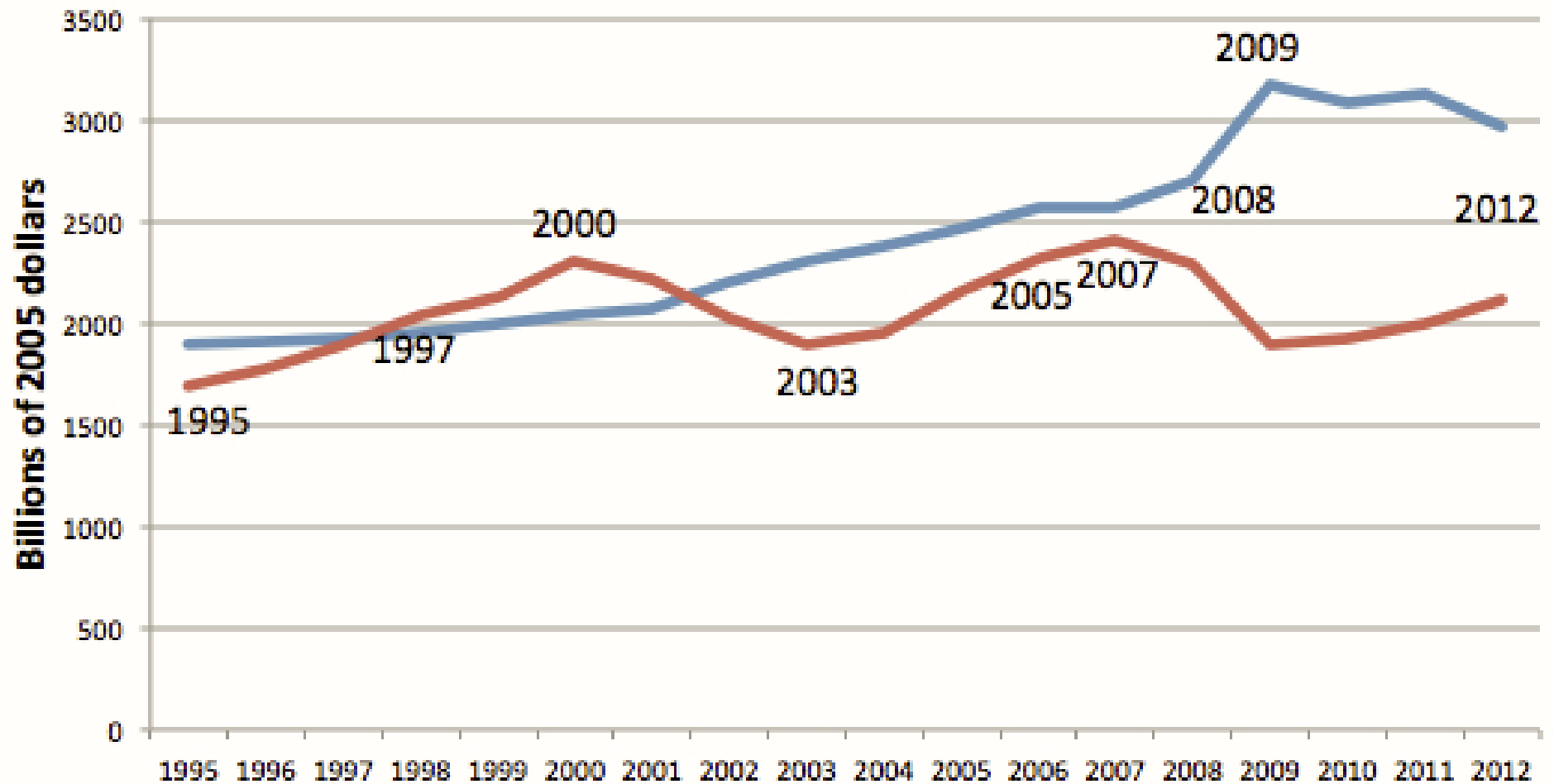


F = Forecast.

Source: Farm Income and Wealth Statistics, Economic Research Service, USDA. Data as of February 11, 2013.



Federal spending and revenue, 1995-2012, in inflation-adjusted dollars



Source: OMB historical tables, CBO. All figures are expressed in 2005 dollars

— Total federal spending — Total federal receipts




Farm Bill Environment

- Agricultural economy has been doing very well
- The rest of the economy has been struggling
- The federal budget situation is not sustainable



New Farm Bill

- 2008 Farm Bill expired September 30, 2012 (provisions on commodities carried into 2013 based on crop marketing seasons)
 - Probably the worse environment to try to write a new farm bill:
 - 2012 Election year
 - Huge budget deficit
 - Record high commodity prices
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Super Committee & Farm Bill Process



- Farm Bill now partisan versus mainly regional differences in the past.
 - Still have regional differences over price loss program.

Pic Source: John Anderson, American Farm Bureau Federation

Importance of Government Payments by Region

- Gov't payment during 2007-09 time period was lowest since 1997
- SE and So. Plains payments have highest share of net cash farm income.

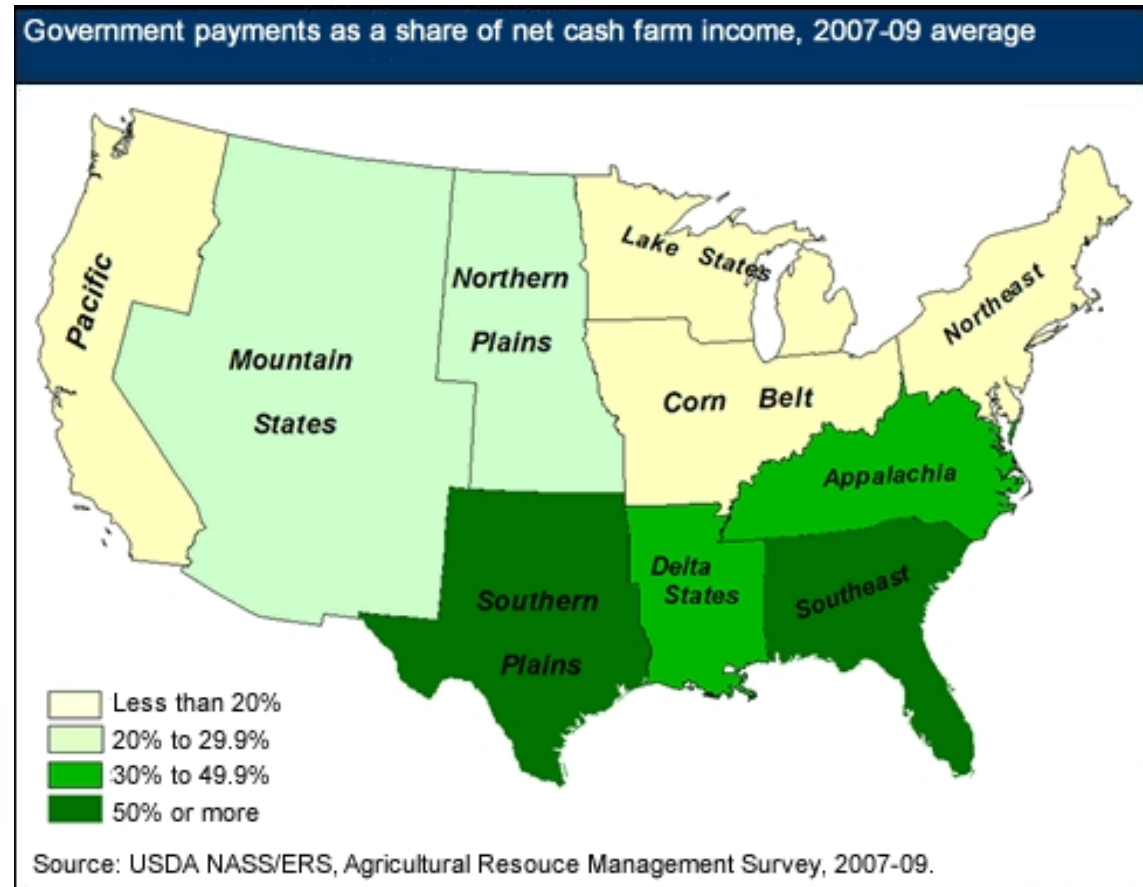
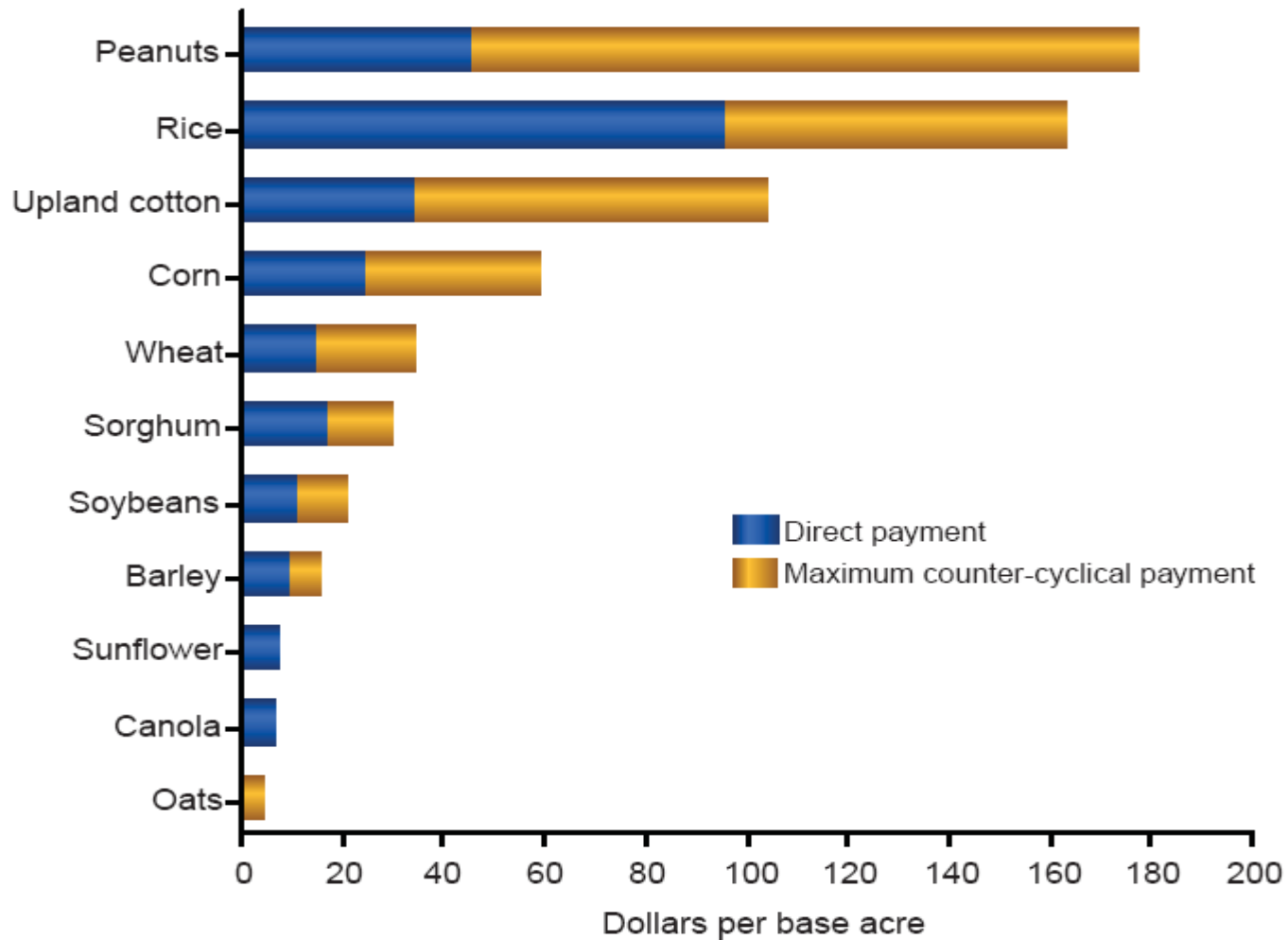


Figure 5

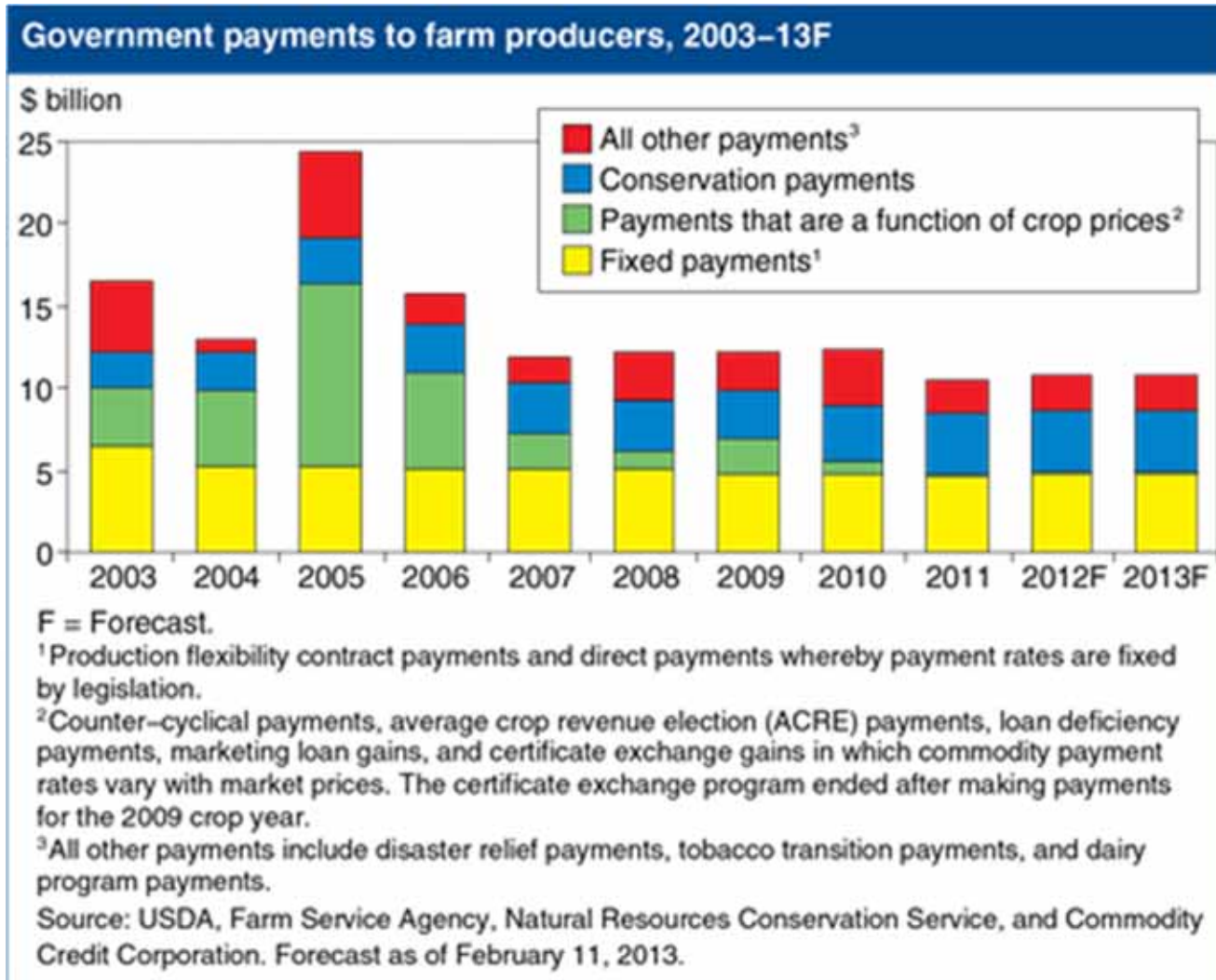
Value per base acre of direct and counter-cyclical payments, 2008 Farm Act¹



¹Assumes national average payment yields for direct and counter-cyclical payments. Maximum counter-cyclical payments assume 2009 target prices.

Source: USDA, Economic Research Service analysis using data from USDA, Farm Service Agency.

Where will cuts come from?



Where are we?


Senate Version of 2013 Farm Bill

- **Agriculture Reform, Food and Jobs Act of 2013** approved by committee on May 14
- Bi-partisan, passed 66-27 vote, but regional differences that were ironed out with change in minority leader.
- Cut of \$23 B including sequestration cuts.
 - \$16 B in Commodities
 - \$5 B in Conservation
 - \$4 B in Nutrition



Where are we?

House Version of 2013 Farm Bill

- **Federal Agriculture Reform and Risk Management (FARRM) Act of 2013** approved in committee May 16
 - Cut of \$40 B including sequestration cuts.
 - \$14 B in Commodities
 - \$6 B in Conservation
 - \$20 B in Nutrition
 - Failed to pass the House floor, 195-234 vote on June 20.
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Where are we?

House Version of 2013 Farm Bill

Federal Agriculture Reform and Risk Management (FARRM) Act of 2013

- H.R. 2642 passed on July 11, 216-208 vote, all 196 Democrats voted against.
- No Nutrition title.
- Replaces permanent farm bill law for farm support programs with the 2013 House farm support programs.
- Scored by CBO to reduce deficit by \$12.9 B over 10 yrs.

Where were we?

2008 FCEA	Senate S. 954 Agriculture Reform, Food and Jobs Act of 2013 (ARFJ)	House H.R. 1947 Federal Agriculture Reform and Risk Management Act of 2013 (FARRM)
Direct Payment	Repealed	Repealed
ACRE	Shallow Loss program - Agricultural Risk Coverage (ARC), Farmers chooses between individual farm level or county level. Paid if the 12 month marketing year price is below reference price on 85% of base. STAX for cotton.	Shallow Loss program - Revenue Loss Coverage (RLC), based on county-wide losses. Payment if actual county revenue is less than the county revenue loss coverage trigger and paid on planted acres. STAX for cotton.
Counter-Cyclical Payment (CCP)	Adverse Market Payments (AMP), Basically CCP repackaged. Payments on 85% of base	Price Loss Coverage (PLC), based on planted acres. Payments if Effective Price is less than Reference Price and paid on planted acres.
Marketing Loan	ML same as 2008 Farm Bill	ML same as 2008 Farm Bill

Where were we?

2008 FCEA	Senate S. 954 ARFJ	House H.R. 1947 FARRM
Crop Insurance	Supplemental coverage, STAX - GRIP policy for cotton, Revenue Insurance for Peanuts by 2014 crop, Enterprise Units	Crop Insurance
Sugar Quota	Quota	Quota
Dairy Product Price Support Program (DPPSP) and Milk Income Loss Contract (MILC)	Dairy Production Protection Program (DPMPP) and Dairy Market Stabilization Program (DMSP) Extends Dairy Forward Pricing Program, Dairy Indemnity Program, Dairy Promotion and Research Program.	Repeal of DPPSP, MILC, and Dairy Export Incentive Program. Dairy Producer Margin Insurance Program (DPMIP) created. Extends Dairy Forward Pricing Program, Dairy Indemnity Program, Dairy Promotion and Research Program.
Supplemental Ag Disaster Assistance LIP, LFP, ELAP, TAP, SURE	LIP, LFP, ELAP, TAP	LIP, LFP, ELAP, TAP
Conservation CRP, EQIP, CSP, CIG, WHIP, WRP, GRP, etc...	23 programs to 11	23 programs to 13

Basically 3 Programs

(Farmers choose in which program to participate on a crop-by-crop basis)


- STAX for cotton only
- Reference or Target Price program favored by rice, peanuts, and maybe wheat.
 - Senate Adverse Market Payments (ARM)
 - House Price Loss Coverage (PLC)
- Shallow Loss program – favored by corn and soybeans.
 - Senate Agricultural Risk Coverage (ARC)
 - House Revenue Loss Coverage (RLC)

Eligibility Requirements

- Active Farmers
 - Person or legal entity (definition is tightened).
 - Adjusted Gross Income (AGI)
 - House: \$950,000 3-yr average.
 - Senate: \$750,000 3-yr average.
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Payment Limits

- House: \$125,000 Total
 - \$75,000 marketing loan gains/deficiency payments.
 - \$50,000 PLC and RLC per entity.
 - Spousal rule allows double the limit.
 - Senate:
 - \$75,000 marketing loan gains/deficiency payments.
 - \$50,000 ARC and ARM per entity.
 - Peanuts retains separate payment limit in both versions.
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Farm Bill Questions

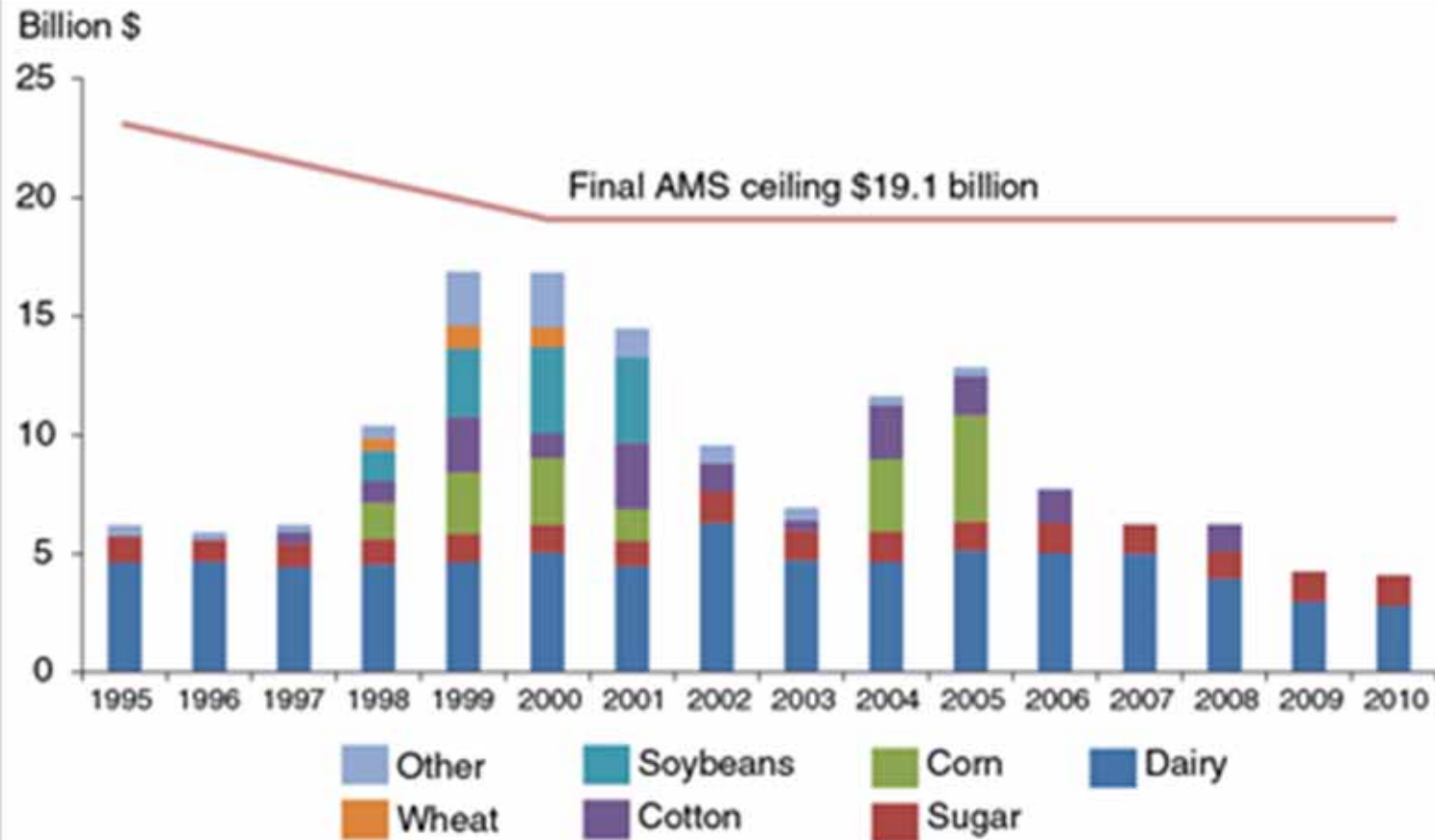
- What do we need?
 - A reliable safety net.
- What do we need to avoid?
 - Producing for the program, not the market.
 - Breaking the budget.
 - WTO complications.

Loan Rate & Reference Prices Relevance

	Loan Rates	Target Price	2013 Farm Bill Reference Price		Outlook
Crops	2010-12	2010-12	2014 House	2014 Senate	2013/14
Corn (\$/bu)	1.95	2.63	3.70	3.08	4.40 - 5.20
Sorghum (\$/bu)	1.95	2.63	3.95	2.94	4.00 - 4.80
Wheat (\$/bu)	2.94	4.17	5.50	3.69	6.45 - 7.75
Upland Cotton (\$/lb)	0.52	0.7125	n/a	n/a	0.70 - 0.90
Peanuts (\$/ton)	355	496	535	523.77	450 – 550
Soybeans (\$/bu)	5.00	6.00	8.40	6.44	9.75 – 11.75
LG Rice (\$/cwt)	6.50	10.50	14.00	13.00	14.90 - 15.90
Barley (\$/bu)	1.95	2.63	4.95	2.84	5.35 - 6.35
Oats (\$/bu)	1.39	1.79	2.40	1.62	2.80 – 3.40

WTO Trade Compliance

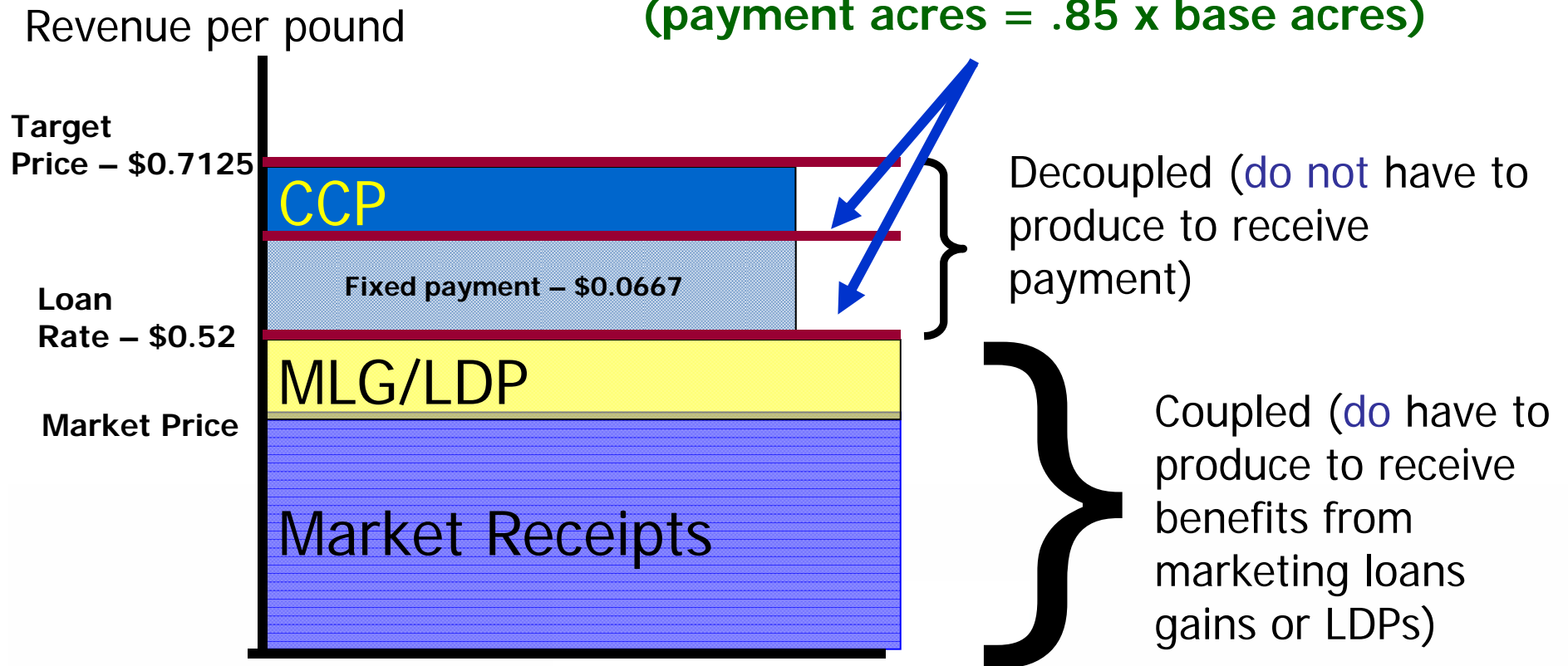
U.S. commodity support notified to the World Trade Organization



AMS = aggregate measurement of support, commonly called the "amber box" in reference to the WTO.
Source: USDA, Economic Research Service using data from U.S. domestic support notifications to the WTO.

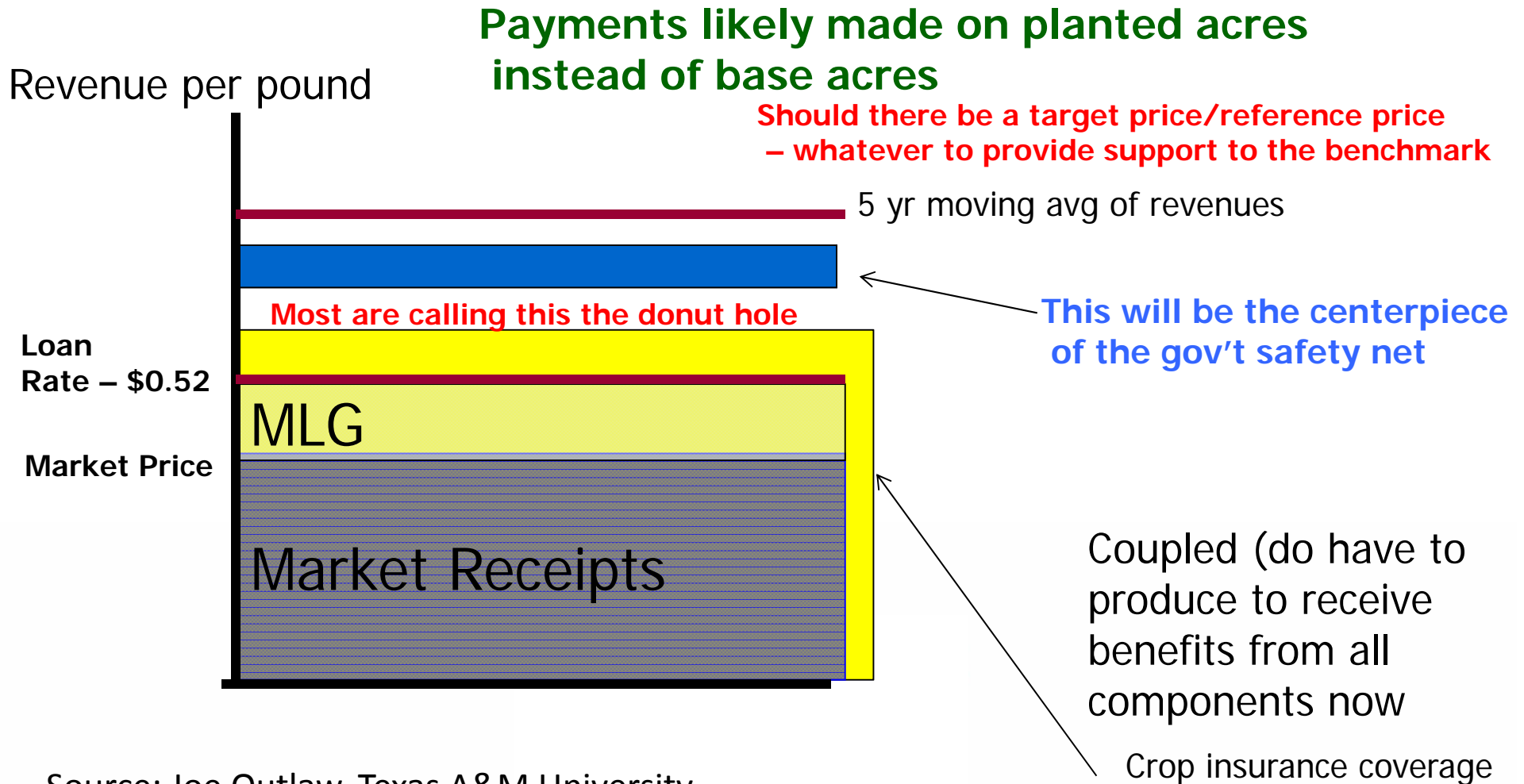
Distribution of Current Government Support Example: Cotton

Reflects payments not on full production
(payment acres = .85 x base acres)



Source: Joe Outlaw, Texas A&M University

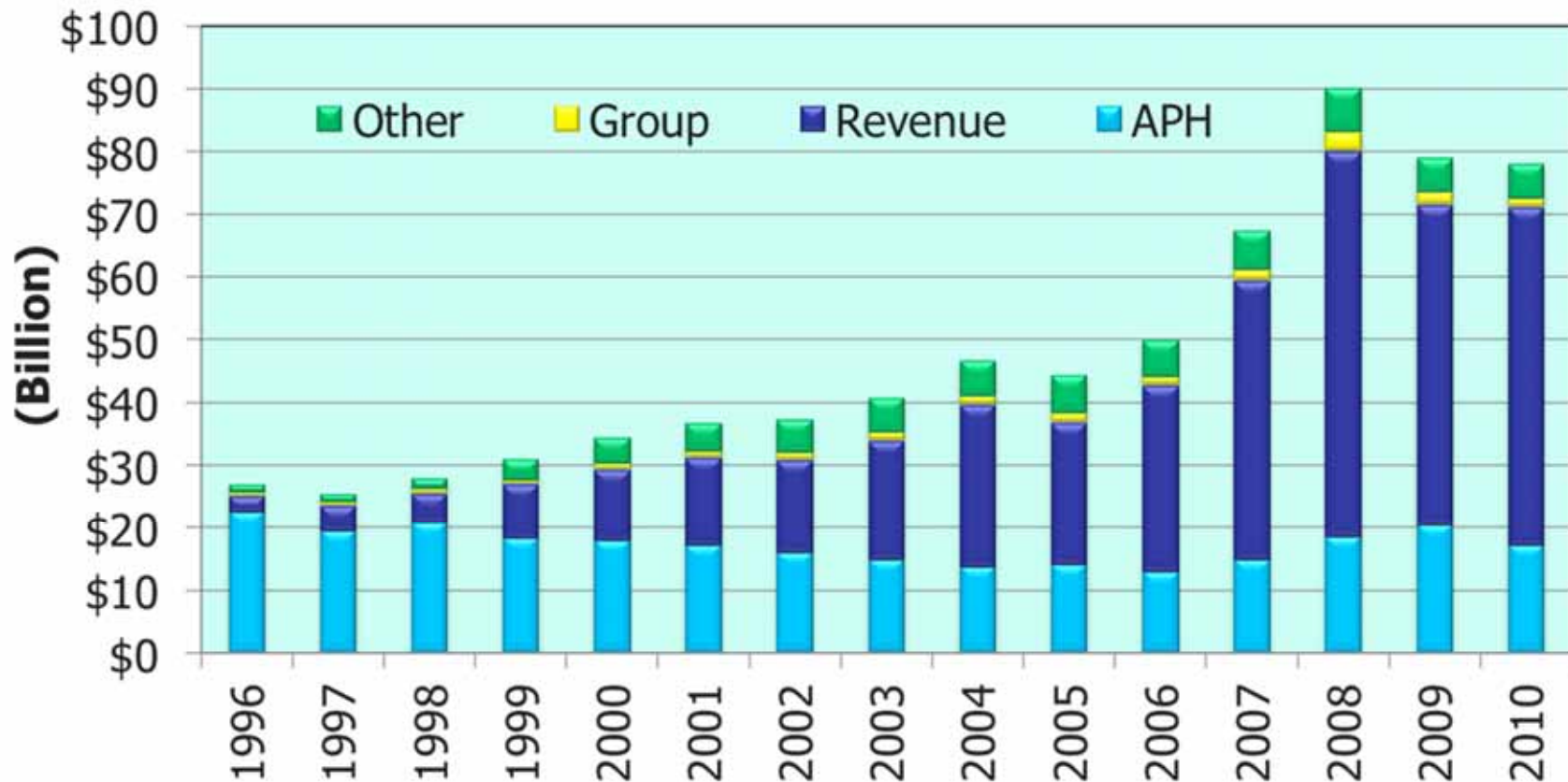
Distribution of Shallow Loss/Gap Revenue Coverage Example: Cotton



Source: Joe Outlaw, Texas A&M University

Program Participation

Liability by Plan Type



Source: Kent Lanclos, USDA-RMA, presented at the 2011 AAEA Annual Meetings, Pittsburg, PA, July 26, 2011.

Issues to Consider

- Shallow losses only
 - ✧ Will pay more frequently but not very large amounts
 - ✧ Most have a 5 yr moving Olympic average benchmark
 - ✓ Hidden deductible (doesn't consider past government payments in benchmark)
- Very different levels of buy-up coverage levels by crop and region will create a coverage gap for some crops and areas
- Most paying on planted acres – will be much more coupled than current program
 - ✓ This will result in a Baseline spending shift away from wheat, rice and cotton

SNAP

- “...even if its authorization expires, Congress can continue the Supplemental Nutrition Assistance Program (SNAP - previously called the Food Stamp program), by appropriating money for it. Thus, both history and the current situation suggest it is possible to write a farm bill without a food assistance title, although farm bills since the 1970s have included food assistance. Hence, from the perspective of process, like any difference between House and Senate bills, a Conference Committee will be impaneled to try to bridge the difference.”

Carl Zulauf (Ohio State University) and Gary Schnitkey (University of Illinois) “2013 Farm Bill Update - July 2013” *farmdoc DAILY*, July 17, 2013.

Where Do We Go From Here?

- Possible Conference Committee in September
 - Extension expires September 30, 2013.
 - End of year before end of 113th Congress?
 - Another extension?
 - Finally pass new 5 year Farm Bill.
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Thank You

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