

The Farm Bill: What is the Current Status?

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January 10, 2008

Goal Today

- What is the Farm Bill's current status?
 - Current legislative state of farm bill
- What's new for corn and soybeans?
- Review changes in crop insurance program

Current Farm Bill Status

- Administration's/USDA Farm Bill released in early 2007
- House passed the "Food, Nutrition, and Bioenergy Act of 2007" in July 2007
- Senate passed the "The Food and Energy Security Act of 2007" in December 2007

What's next?

- Congress reconvenes January 21, 2008
- Conference committee will begin meeting to settle the differences
- We will get a farm bill through Congress probably this spring
- Will the president sign it or veto it?
 - Administration advisors note "hidden tax increases" to create budget offsets and "gimmicks" to hide true cost

Where do the House and Senate agree?

- Keep direct payments, countercyclical payments and loan deficiency payments
- Create option to receive revenue-based payments
- Lower adjusted gross income eligibility caps
- Increased support and research for horticultural/specialty crops and organic ag
- Increase funding for conservation programs
- Increase funding for crop-based biofuels

Income Support Programs

- Both bills continue the three income support programs from 2002 Farm Bill:
 - Loan deficiency payments (LDP)
 - Counter cyclical payments (CCP)
 - Direct payments (DP)
- Administration/USDA farm bill also supported these programs

Small Changes

- LDP's: Increased loan rates for wheat, barley, oats, minor oilseeds
 - Wheat: \$2.75 to \$2.94
 - Oats: \$1.33 to \$1.39
- CCP's: Increased target prices for wheat, barley, oats, soybeans, and other oil seeds, decreased for cotton
 - Soybeans: \$5.80 to \$6.00
 - Wheat: \$3.92 to \$4.20
 - Oats: \$1.44 to \$1.83
- Direct Payments: same as 2002 Farm Bill

Planting Flexibility

- As before, Base Acres for Direct Payments and CCP's cannot be planted to trees, perennial plants, fruits, vegetables
- Important in WI, as it limits new grain farmers from planting processing vegetables
 - Some exceptions: double cropping, previous history
- Processors have trouble getting farmers for processing vegetable contracts
- Planting flexibility on base acres loosening
 - Pilot in IN: plant processing tomatoes on up to 10,000 base acres annually
 - Senate's revenue support program allows processing crops on 10,000 base acres in WI and more states

Payment Limits

- Current Farm Bill
 - \$360,000 max with 3-entity rule and spouse
 - < \$2.5 million AGI, unless > 75% farming
- Both drop 3 entity rule, must be “natural person”
- House
 - \$250,000 max with spouse only
 - < \$1 million AGI, \$500,000 if < 67% farming
- Senate
 - \$200,000 max with spouse only
 - < \$1 million AGI for 2009, unless > 67% farming
 - < \$750,000 AGI after 2009, unless > 67% farming

Conservation Programs

- Both House and Senate maintain or increase funding for existing conservation program
- Little change: CRP, WRP, GRP, WHIP
- Disagree on which to flat fund and which to increase
- Big differences for Environmental Quality Incentives Program (EQIP) and Conservation Security Program (CSP)
 - House adds \$1.9 billion to EQIP, Senate flat funds
 - Senate adds \$2 billion to CSP, House flat funds
- Compromise likely, with mix of the two

Bioenergy/Biofuels

- Both continue almost all energy programs and increase funding for most of them
- Both require federal agencies to continue to purchase bio-based energy products
- Both continue grants program to finance cost of developing and constructing biorefineries and biofuels production plants
 - House mandates \$800 million, Senate \$300 million
- Bioenergy Program (producer subsidies):
Currently \$150 million, Senate mandates \$245 million, House \$1.4 billion

Horticultural/Specialty Crops

- Increase state Block Grants about \$145 million
 - Allows states to fund marketing, research, education, pest/disease management, etc.
- \$30-35 million increase to expand/promote farmers markets
- Increase fruits, vegetables, and nuts bought for nutrition programs \$200-\$225 million annually
- Quadruples cost sharing funding for farms transitioning or adopting organic practices

Summary So Far

- Same direct payments, CCP's and LDP's
- Lower payment limits and lower AGI eligibility requirements
- More money for specialty crops & organic agriculture
- Increase funding for biofuels and current conservation programs

Pause for Questions

- These all represent modifications of existing programs and policies
- We haven't discussed new directions
- Any Questions?

New Directions

- Both House and Senate create alternatives for price support programs as a new “safety net”
- House: Revenue-Based Counter Cyclical Payments
 - In lieu of CCP's, keeps LDP's and Direct Payments
- Senate: Average Crop Revenue Payments
 - In lieu of CCP's, LDP's and Direct Payments
- Both are voluntary but irrevocable choices
 - House: one-time sign-up
 - Senate: annual sign-up (but irrevocable)

House's Revenue-Based Counter Cyclical Payments

- National target revenue specified for each program crop
- If actual national revenue for a crop is less than this target revenue, farmer per-acre support payments equal the difference
- Example: National Target revenue for Corn is \$344.12/ac. If actual national revenue is \$300, farmers receive \$44.12/ac
- Creates a revenue floor at the national level

House's Revenue-Based Counter Cyclical Payments

- National Target Revenues
 - Corn = \$344.12 Soybeans = \$231.87
 - Wheat = \$149.92 Oats = \$92.10
- Actual National Revenue
 - National average yield
 - Maximum of (a) national average market price received by producers during the 12-month marketing year and (b) the loan rate

Historical Yields, Prices and Revenues and Revenue-Based Counter-Cyclical Payments for CORN

Year	Yield	Price	Actual Revenue	Target Revenue	Payment
2002	129.3	2.32	299.98	344.12	44.14
2003	142.2	2.42	344.12	344.12	0.00
2004	160.4	2.06	330.42	344.12	13.70
2005	148.0	2.00	296.00	344.12	48.12
2006	149.1	3.04	453.26	344.12	0.00
2007	153.0	???	> 344.12	344.12	0.00

Historical Yields, Prices and Revenues and Revenue-Based Counter-Cyclical Payments for SOYBEANS

Year	Yield	Price	Actual Revenue	Target Revenue	Payment
2002	38.0	5.53	210.14	231.87	21.73
2003	33.9	7.34	248.83	231.87	0.00
2004	42.2	5.74	242.23	231.87	0.00
2005	43.0	5.66	243.38	231.87	0.00
2006	42.7	6.43	274.56	231.87	0.00
2007	41.3	???	> 231.87	231.87	0.00

Summary

- Corn: Low yield in 2002, low prices in 2004 and 2005 would have triggered payments
- Soybeans: Low yield and low prices in 2002 would have triggered payments
- Given current futures prices, only low national yields would triggered payments, which would drive prices higher, making payments unlikely
- Payments based on national prices and yields
- No formal process for updating target revenues

Senate's Average Crop Revenue Payments

- Structured similar to GRIP crop insurance
 - GRIP: if county revenue less than the chosen revenue guarantee, farmer receives indemnity
- If actual state revenue is less than state revenue guarantee, farmer payment equals the difference
- Creates a revenue floor at the state level, with the guarantee updated each year

Senate's Average Crop Revenue Payments

- Guarantee = 90% of expected state yield per planted acre x pre-planting crop price
- Expected state yield: linear trend of yield per planted acre for NASS data 1980-2006
- Pre-planting crop price: average of pre-planting prices for crop revenue insurance policies for current and past two years
 - Basically 3-year moving average of APH price
- Guarantee updated annually based on technology trends and market conditions

Senate's Average Crop Revenue Payments

- Actual Yield: USDA-NASS state yield per planted acre
- Harvest Price: Same as used for crop revenue insurance policies
 - Average CBOT settle prices for month previous to harvest month futures contract
 - November average of December corn
 - October average of November soybeans
- Actual state revenues: multiply these two

Historical Yields, Prices and Revenues and Average Crop Revenue Payments for CORN

Year	Expected Yield	Pre-Plant Price	Revenue Guarantee	Actual Yield	Actual Price	Actual Revenue	Payment
2002	103.6	2.43	226.59	107.3	2.52	270.30	0.00
2003	104.9	2.40	226.56	98.0	2.26	221.57	4.99
2004	106.2	2.52	240.80	98.2	2.05	201.36	39.44
2005	107.5	2.52	243.71	112.9	2.02	228.15	15.56
2006	108.7	2.58	252.49	109.7	3.03	332.39	0.00
2007	110.0	2.99	296.07	144.1	3.58	408.39	0.00

Historical Yields, Prices and Revenues and Average Crop Revenue Payments for SOYBEANS

Year	Expected Yield	Pre-Plant Price	Revenue Guarantee	Actual Yield	Actual Price	Actual Revenue	Payment
2002	39.7	4.83	172.56	43.4	5.45	236.69	0.00
2003	40.1	4.81	173.58	27.2	7.32	199.00	0.00
2004	40.5	5.49	200.11	33.4	5.26	175.80	24.31
2005	40.9	5.84	214.97	43.2	5.75	248.29	0.00
2006	41.3	6.14	228.23	43.7	5.93	259.34	0.00
2007	41.7	6.60	247.71	38.7	9.75	275.24	0.00

Summary

- Corn: Unexpected low harvest prices with average or below trend yields in 2003-2005 would have triggered payments
- Soybeans: only in 2004 did below trend yields occur with unexpected low harvest prices, which would have triggered payments

Comparing the Two Programs

Three major differences between them

- 1) House and Senate's Safety Nets provide different types of protection
- 2) Basis Risk for House's program
- 3) Momentum Effect for Senate's program

Comparing Safety Nets

- House program: Absolute Revenue Floor unaffected by markets and tech. trends
 - When revenue is low, receive payments
 - Protects vs. low revenue as govt. defines it
- Senate program: Relative Revenue Floor responding to markets and tech. trends
 - When revenue lower than expected by tech. trends and futures prices, receive payments
 - Protects vs. unexpectedly low revenue

Comparing Safety Nets

- Senate: Farmers plant knowing payments will come only if revenues lower than expected
- If expected revenue high at planting
 - House: Farmers plant knowing payments are unlikely
 - Senate: Payments more likely to come
- If expected revenue low at planting
 - House: Farmers plant, knowing payments will come if low revenues occur as expected
 - Senate: Payments less likely, since low revenue already expected

Basis Risk Differences

- House uses National Revenue
- Senate uses State Revenue
- Farm revenue tracks state revenue closer than national revenue
- More “basis risk” with House program
- More likely receive payments when needed with Senate program

Momentum Effect

- Senate uses three-year moving average of expected pre-planting prices, so slow to respond to rapidly changing markets
- High pre-plant futures prices for 2-3 years and then a sharp drop
 - Senate revenue guarantee will remain high, though expected revenue at planting is low
- Low pre-plant futures prices for 2-3 years and then a sharp increase
 - Senate revenue guarantee will remain low, though expected revenue at planting is high

Summary

- House: “Revenue-Based Counter Cyclical Payments” and Senate: “Average Crop Revenue Payments”
- Historical Analysis of 2002-2007
 - Both averaged about same (House higher)
- Absolute vs. Relative revenue floor
- Basis Risk and Momentum Effects

Quick Highlights: Changes in Federal Crop Insurance Program

- Farm Bill: Both use crop insurance to save money in order to pay for other programs
 - Cut A&O subsidy by 2-3 percentage points
 - Changes re-insurance requirements
 - Double cost of CAT policies
 - Creates almost \$1 billion in savings
- USDA's Farm Bill had Supplemental Deductible Coverage and House Ag committee had Supplemental GRP: maybe revive to counter a presidential veto?

Crop Insurance Changes Coming

- Combo Policy: Released in 2009
 - One basic policy with multiple options
 - Combines APH, CRC/RA, GRP, GRIP
 - No longer sell APH, CRC, RA, GRP, GRIP, IP
 - Will mean RA-like policy for WI (finally)
- AGR-Lite and AGR combined into AGRI
 - Whole farm revenue insurance that can combine with crop-specific policies
 - Released in 2010

Crop Insurance Changes Coming

- Biotech Yield Endorsement
 - Approved Sept 12, 2007
 - If plant triple stack (Bt CB, Bt RW, RR) on at least 75% of corn, premium reduction for APH/CRC/RA (up to 23% decrease)
 - Piloted in IA, MN, IL, and IN starting in 2008
 - Expect expansion if proves popular

Questions?

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