FARM BILL SUPPORT PROGRAMS: A FARMER PERSPECTIVE – PART 2

AAE 320
Paul D. Mitchell
Agricultural and Applied Economics
Learning Goals

• To understand how these three commodity support programs operate at the individual farm level
  • Price Loss Coverage (PLC)
  • Agricultural Risk Coverage (ARC)
  • Marketing Assistance Loans (MAL)

Part 2 (separate slides)
• Market Facilitation Program (MFP)
• Dairy Margin Coverage (DMC)
• Coronavirus Food Assistance Program (CFAP, CFAP2)
Market Facilitation Program (MFP)
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- In 2018, trade wars led to tariffs on US ag exports and large price declines for several ag commodities
  - Already low prices and low farm income before trade war
- Administration created the Market Facilitation Program
  - Outside of Farm Bill and usual legislative process
- Rules were developed and payments announced for 2018
- MFP payments announced in 2019, developed different rules
- MFP is broader than just payments to farmers:
  - Food Purchase & Distribution Program: buy surplus of affected commodities
  - Trade Promotion Program: restore lost markets, develop new export markets
Form of Direct Farm Payments

- Conservation
- Fixed direct
- ARC
- PLC
- '18 MFP
- '19 MFP
- Other
- Supp. & ad hoc disaster

$ billions


MFP 2018 Covered Commodities

• MFP provides payments to eligible producers of:

• Non-Specialty Crops: alfalfa hay, barley, canola, corn, crambe, dried beans, dry peas, extra-long staple cotton, flaxseed, lentils, long grain and medium grain rice, millet, mustard seed, oats, peanuts, rapeseed, rye, safflower, sesame seed, small and large chickpeas, sorghum, soybeans, sunflower seed, temperate japonica rice, triticale, upland cotton, and wheat

• Specialty Crops: almonds, cranberries, cultivated ginseng, fresh grapes, fresh sweet cherries, hazelnuts, macadamia nuts, pecans, pistachios, and walnuts

• Livestock: dairy and hogs
MFP Eligibility

• Produce one or more of these commodities, and must either:
  • 1) Have an average AGI for tax years 2015-2017 < $900,000 OR
  • 2) Derive at least 75% of AGI from farming or ranching

• Producers also must:
  • Comply with the provisions of the “Highly Erodible Land and Wetland Conservation” regulations, often called Conservation Compliance provisions
  • Have a farm serial number with USDA's Farm Service Agency

• Notice: did not need base acres
MFP Payments

• 2018: MFP payments based on farmer’s production of affected commodities:
  • Soybeans = $1.62/bu, Wheat = $0.14/bu, Corn = $0.01/bu
  • Dairy = $0.12/cwt

• 2019: MFP payments based on total acres of affected commodities a farmer planted, each county had a different rate
  • Acres instead of production (was it decoupled?)

• Specialty crops were also paid on per acre basis
  • Cranberry and Ginseng the major WI crops
2018 MFP payments exceeded $200 Million in WI: Soybeans $166 Million, Dairy $28 Million, Corn $5 Million

https://www.fb.org/market-intel/mapping-8.5-billion-in-trade-assistance
MFP Payment Rates for 2019

MFP County Payments

2019 MFP Payment Rates in WI

https://renk.aae.wisc.edu/2019/08/05/market-facilitation-program-what-it-means-for-wisconsin-producers/
Market Facilitation Program (MFP)

- MFP a temporary (ad hoc) program outside of the Farm Bill to give farmers a major influx of money when needed
  - FSA quickly created program in 2018, then changed rules for 2019
- Key is temporary: the budgetary authority used is almost consumed ($30 Billion) and trade war is hopefully ending
  - With pandemic, Congress increased it again for CFAP, CFAP2
- Example of a new program, another acronym, and new set of rules to learn, all part of being a farmer
Dairy Margin Coverage (DMC)
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• 2018 Farm Bill: new dairy program: Dairy Margin Coverage (DMC)
  • Replaced unpopular Dairy Margin Protection Program (MPP) from the 2014 Farm Bill, which replaced Milk Income Loss Coverage (MILC)
  • DMC like MPP, but with tweaked parameters and a new name
• Makes payments when the difference between the USDA’s average national All-Milk price and a program-defined fixed feed ration valued at U.S. average prices falls below producer chosen Income Over Feed Costs (IOFC)
  • Margin used to pay fixed costs, overhead, management
Dairy Margin Coverage (DMC)

• Margin Guarantee (Coverage Level Threshold)
  • $4.00/cwt to $9.50/cwt in 50¢ increments

• Payment Rate (Coverage Percentage)
  • 25% to 95% in 5% increments

• Payment rate for each $ the Actual Margin < Guarantee

• Voluntary program with annual coverage decisions
  • Enroll until 2023 for 25% premium discount

• Farmer gets $4/cwt margin for free, pay for higher margin, with higher premium for production over 5 million pounds
Actual and Forecast Dairy Margin

Historic middle third of margin values from Jan, 2010 to present.

DMC Margin

Upper decile boundary

Lower decile boundary

Get updated margin projections
https://dairymarkets.org/Tools/MILC-MPP.html

DMaP
Dairy Markets and Policy

Updated 11/16/20
Get updated margin projections
https://dairymarkets.org/Tools/MILC-MPP.html

Probability of DMC Net Benefit* for 2021

Updated 11/16/20
DMC Premium Costs ($/cwt)

- 5 million pounds at 27,000 pounds per cow per year = 185 cows
- $9.50 margin, 5 million pounds and $0.15/cwt = $2,500
- Cost for production above 5 million pounds rises quickly after the $5.50 margin

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<th>Tier 2 Premium per cwt, all years for covered production history over 5 mil lbs.</th>
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Dairy Margin Coverage (DMC) Resources

- USDA FSA page: https://www.fsa.usda.gov/programs-and-services/dairy-margin-coverage-program/index
- Program on Dairy Markets and Policy has tons of dairy information, including DMC and DMC decision tools https://dairymarkets.org/
- 2020 Video by Mark Stephenson, Director the UW Center for Dairy Profitability https://dairymarkets.org/dmc.mp4
Coronavirus Food Assistance Program (CFAP)
Coronavirus Food Assistance Program (CFAP) part of the CARES Act that passed March 27, 2020

Coronavirus crisis puts hog farmers in uncharted territory: Killing their healthy livestock

“‘It’s an absolute last resort that is probably the hardest decision farmers will make in their farming careers,” the head of a pork producers association said of euthanizing herds.
Coronavirus Food Assistance Program (CFAP)

- USDA partnered with local distributors to buy and distribute food boxes (like a federally sponsored food bank)
- Direct support to farmers: crop and livestock
- For farmers, CFAP sign up ran May 26, 2020 to Sept 11, 2020
- Farmers certified their 2019 production inventory as of Jan 15, received payments for crops that suffered > 5% price decline
  - Crops: Corn $0.335/bu, Soybeans $0.475/bu, Oats $0.16/bu, many more
  - Convert silage inventory to grain equivalents
  - Dairy $4.71/cwt for milk production Q1 2020, $1.47/cwt for Q2 2020
  - Cattle: payments varied with live weight, but as high as $250/head
$9.9 Billion in Coronavirus Food Assistance Program
Direct Payments
As of September 13, 2020, Million Dollars

Source: USDA, Farm Bureau Compilations
CFAP2: An Additional $14 Billion

- CFAP2 passed Sep 17, 2020
- Enrollment Sep 21 to Dec 11, 2020
- Eligible crops/livestock: “If you grow it, likely can get a payment for it!”
- Row crops 2020 production x payment rate
  - Corn $0.232/bu, Soybean $0.3132/bu, Wheat $0.3942/bu
- Flat rate row crops or acreage-based crops paid $15/ac: Alfalfa
- Dairy: $2.16/cwt Apr 1 to Dec 31 milk production (dairy goats too!)
- Beef: Max inventory Apr 16 to Aug 31, 2020 @ $55/head
  - Most other livestock per head as well
- Specialty Crops: payments based on 2019 sales: 10.6% to 8.8%
Federal Support for Agriculture in 2020

$37.2 Billion in 2020 as of Sep 2, 2020 for MFP, ARC/PLC, DMC, CFAP, not including PPP, EIDL, PUA

Added $14 Billion on Sep 18, 2020 for CFAP2, so now $51.2 Billion
Summary

• Provided a quick overview of MFP, DMC, CFAP and CFAP2