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2012 Farm Bill
Proposed Alternative Programs

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This PowerPoint presentation discusses the proposed alternative programs under the Senate and House Committee on Agriculture versions of the 2012 Farm Bill. This work was done by Eric J. Wailes, K. Bradley Watkins, and Vuko Karov from the Department of Agricultural Economics & Agribusiness at the University of Arkansas, Fayetteville.

2012 Farm Bill

- 2008 Farm Bill expired
- Senate: **<u>Agriculture Reform, Food, and Jobs Act of 2012</u>** (S. 3240)
- House Committee on Agriculture: **<u>Federal Agriculture Reform and Risk Management (FARRM) Act of 2012</u>** (H.R. 6083)
- No 2012 Farm Bill before the election
- No Farm Bill in Lame Duck Session

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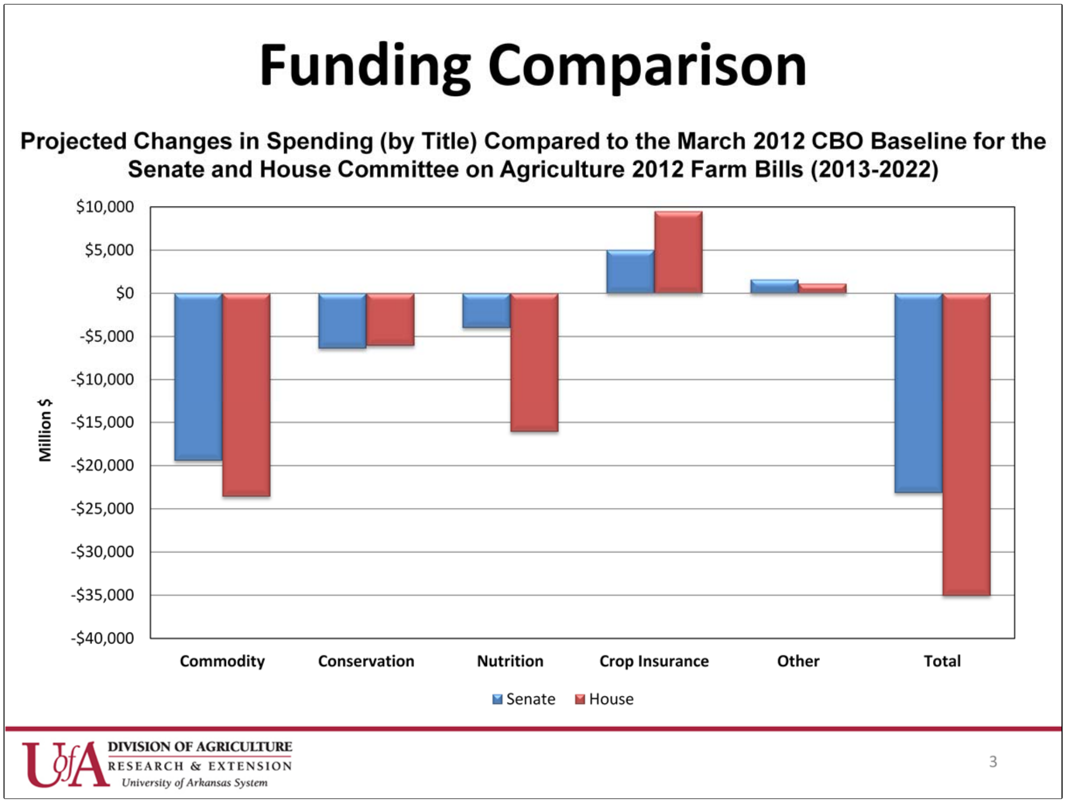
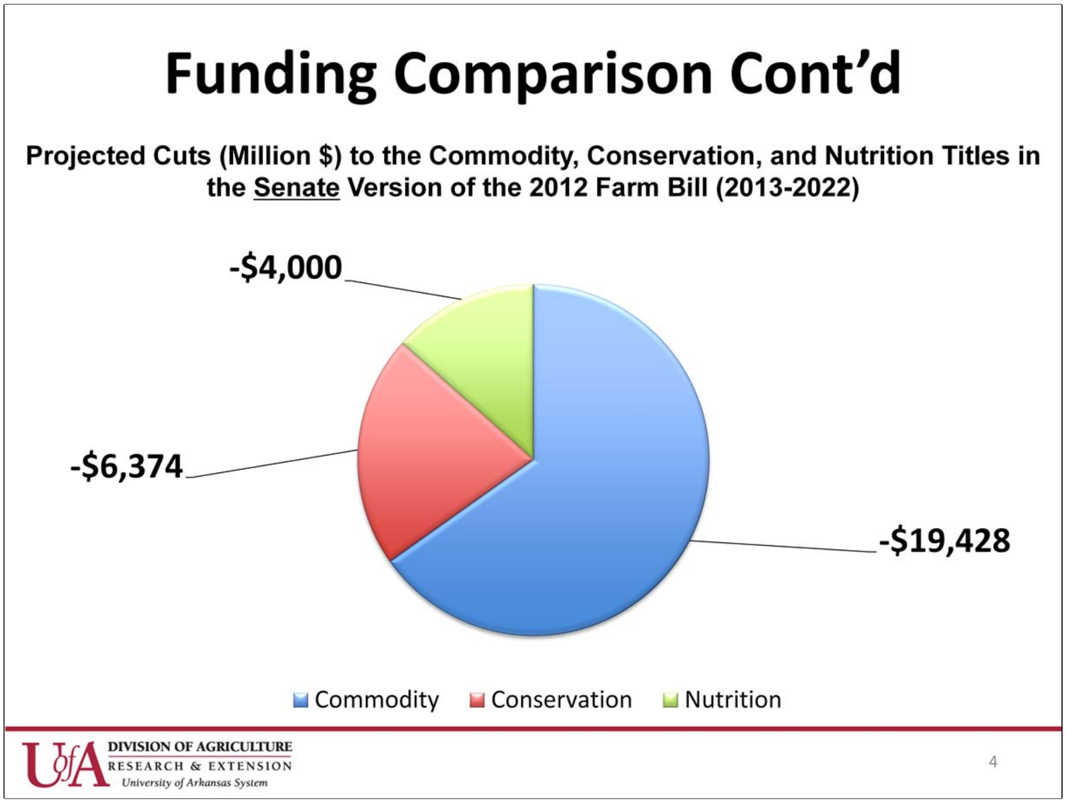
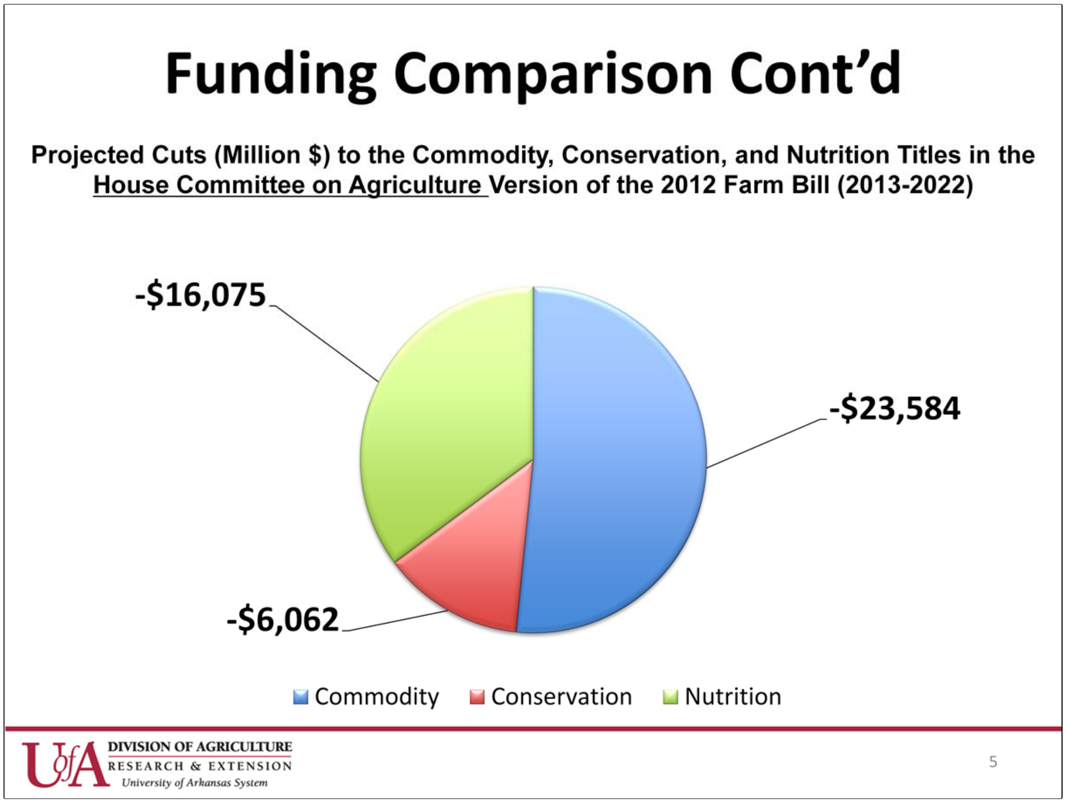
The 2008 Farm Bill expired on September 30, 2012. On June 21, 2012 the Senate passed the Agriculture Reform, Food, and Jobs Act of 2012 (S. 3240) with a vote of 64-35. On July 12, 2012 the House Committee on Agriculture passed the Federal Agriculture Reform and Risk Management (FARRM) Act of 2012 (H.R. 6083) with a vote of 35-11. However, this version of the bill did not get any time on the House floor before the congressional recess in August. It was not discussed in the House in the month of September as well. As a result, there was no 2012 Farm Bill before the November 2012 elections or Lame Duck Session.



This graph illustrates the projected changes in spending (by title) compared to the March 2012 baseline for the Senate and House committee on Agriculture 2012 Farm Bills for the ten-year period 2013-2022 (in millions of U.S. dollars). The 2012 March baseline was determined by the Congressional Budget Office (CBO). Overall, the House version of the bill cuts nearly $35 billion while the Senate version cuts relatively less, nearly $23 billion. The most apparent difference between the two bills is the nutrition title spending since the House bill cuts nearly $12 billion more than the Senate bill. The House bill also cuts commodity title spending by approximately $4 billion more than the Senate bill. The House version of the bill, however, projects relatively greater spending on the crop insurance title as compared to the Senate bill. Finally, projected spending under both bills is similar for the conservation title and all other titles not specifically listed on the graph.



This pie chart shows the projected spending cuts (in millions of U.S. dollars) to the Commodity, Conservation, and Nutrition Titles in the Senate version of the 2012 Farm Bill during the ten-year period 2013-2022 compared to the March 2012 CBO baseline. The Senate version of the bill cuts nearly $20 billion in commodity spending, $4 billion in nutrition spending, and $6.4 billion in conservation spending during this period.



This pie chart shows the projected spending cuts (in millions of U.S. dollars) to the Commodity, Conservation, and Nutrition Titles in the House Committee on Agriculture version of the 2012 Farm Bill during the ten-year period 2013-2022 compared to the March 2012 CBO baseline. The House version of the bill cuts $23.6 billion in commodity spending, nearly $16 billion in nutrition spending, and approximately $6 billion in conservation spending during this period.

Funding Comparison Cont'd

Projected Spending (Million $), by Crop under the March 2012 CBO Baseline and the Senate and House Committee on Agriculture 2012 Farm Bills (2013-2022)

Crop	March 2012 CBO Baseline	Senate Bill	Percent Change	House Bill	Percent Change
Corn	$ 22,179	$ 16,639	-25	$ 11,148	-50
Soybeans	$ 7,618	$ 9,133	20	$ 6,109	-20
Wheat	$ 11,131	$ 4,403	-60	$ 5,683	-49
Cotton	$ 6,843	$ 3,990	-42	$ 4,666	-32
Rice	$ 4,336	$ 1,282	-70	$ 3,261	-25
Peanuts	$ 1,013	$ 590	-42	$ 1,200	18
Sorghum	$ 2,038	$ 1,553	-24	$ 1,017	-50
Barley	$ 852	$ 214	-75	$ 714	-16

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This table shows projected spending (in millions of U.S. dollars) by crop under the March 2012 CBO baseline and the Senate and House Committee on Agriculture 2012 Farm Bills during the ten-year period 2013-2022. Relative to the March 2012 CBO baseline, the Senate bill cuts 75% of the barley spending, 70% of the rice spending, 60% of the wheat spending, as well as 42% of both the cotton and peanut spending. However, it only cuts about 25% of the corn and sorghum spending while increases soybean spending by 20%. The House bill, on the other hand, treats southern crops more favorably. Relative to the March 2012 baseline, it cuts nearly 50% of the wheat, corn and sorghum spending. It also cuts barley and soybeans spending by 16% and 20%, respectively. It also cuts cotton and rice spending by 32% and 25%, respectively. Finally, it increases peanuts spending by 18%. Under both versions of the bill, corn leads all crops in projected spending while soybeans are a distant second. Please note that under the March 2012 CBO baseline, corn again ranked first among all crops, but was followed by wheat while soybeans and cotton ranked third and fourth, respectively. Under the 2012 March CBO baseline, the difference in projected spending between wheat and soybeans was nearly $3.5 billion.

S. 3240 Safety Net Programs

NEW & RETAINED PROGRAMS

- **Title I: Commodities**
  1. Agriculture Risk Coverage (ARC)
  2. Loan-Deficiency Payments (LDPs)
- **Title XI: Crop Insurance**
  1. Supplemental Coverage Option (SCO)
  2. Stacked Income Protection Plan for Producers of Upland Cotton (STAX)

ELIMINATES

1. Direct Payments (DPs)
2. Counter-Cyclical Payments (CCPs)
3. Average Crop Revenue Election (ACRE)

SOUTHERN OPPOSITION

- Southern state Senators viewed the bill as unfair to southern commodities relative to mid-west commodities and voted against it

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This slide discusses the safety net programs of the Senate version of the 2012 Farm Bill. Under Title I (Commodities), the Senate bill adds the novel Agriculture Risk Coverage (ARC) program and retains the Loan-Deficiency Payments (LDPs) program of the 2008 Farm Bill. However, it eliminates Direct Payments (DPs), Counter-Cyclical Payments (CCPs) and the Average Crop Revenue Election (ACRE) program. Under Title XI (Crop Insurance), it adds the Supplemental Coverage Option (SCO) program and the Stacked Income Protection Plan for Producers of Upland Cotton (STAX). The Senate bill was opposed by Senators from southern states who viewed the bill as unfair to southern commodities relative to mid-west commodities and voted against it.

H.R. 6083 Safety Net Programs

NEW & RETAINED PROGRAMS

- **Title I: Commodities**
  1. Price Loss Coverage (PLC)
  2. Revenue Loss Coverage (RLC)
  3. Loan-Deficiency Payments (LDPs)

- **Title XI: Crop Insurance**
  1. Supplemental Coverage Option (SCO)
  2. Stacked Income Protection Plan for Producers of Upland Cotton (STAX)

ELIMINATES

1. Direct Payments (DPs)
2. Counter-Cyclical Payments (CCPs)
3. Average Crop Revenue Election (ACRE)

SOUTHERN SUPPORT

- Treated southern commodities more equitably relatively to the Senate version of the bill

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This slide discusses the safety net programs of the House Committee on Agriculture version of the 2012 Farm Bill. Under Title I, this bill also eliminates DPs, CCPs and the ACRE program. It also retains the LDPs program of the 2008 Farm Bill. In addition, it adds the novel Price Loss Coverage (PLC) and Revenue Loss Coverage (RLC) programs. Under Title XI, as in the Senate bill, it adds the SCO and STAX programs. Overall, this bill treated southern commodities more equitably as compared to the Senate version of the bill.

Safety Net Programs Comparison

- **Similarities:**
  - Eliminate same Title I programs
  - Retain LDPs in Title I
  - Add same Title XI programs
  - “Shallow revenue” loss approach
- **Differences:**
  - Senate Bill - ARC uses a flex price: support changes with market prices: interestingly, as price declines, safety net support declines
  - House Bill - PLC or RLC uses a fixed price: support remains tied to a “reference price”

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Major similarities among the two bills include eliminating the same Title I safety net programs of the 2008 Farm Bill: DPs, CCPs and the ACRE program. Under the same title, both bills retain LDPs. In addition, both bills add the same Title XI programs (STAX and SCO) with some program design differences. Finally, both bills rely on the new philosophical approach of providing coverage for shallow revenue losses. However, the ARC program of the Senate bill uses a flex price in which case support changes with market prices-as price declines, safety net support declines. On the other hand, the PLC and RLC programs of the House bill use a fixed price where support remains tied to a “reference price.”

Key Differences Summary

Provision	ARC (Individual)	ARC (County)	PLC	RLC
Revenue Guarantee	Starts at 89% of 5-year Olympic Average	Starts at 89% of 5-year Olympic Average	N/A	Starts at 85% of 5-year Olympic Average
Payment acres	65% of planted	80% of planted	85% of planted	85% of planted
Payment band	10% (89% -79%)	10% (89% -79%)	N/A	10% (85% -75%)
Reference Price	Only for rice and peanuts	Only for rice and peanuts	For all commodities	For all commodities
Yield update	N/A	N/A	Yes	N/A
Options	Can opt out for SCO with coverage up to 90%, otherwise max SCO 79%	Can opt out for SCO with coverage up to 90%, otherwise max SCO 79%	Can add SCO coverage up to 90%	Can opt out for SCO coverage
Pay Limit	$50,000/person	$50,000/person	$125,000/person	$125,000/person
AGI Limit	$750,000	$750,000	$950,000	$950,000

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This table illustrates the main differences (by provision) in the proposed Title I programs under the Senate and House Committee on Agriculture versions of the 2012 Farm Bill. The revenue guarantee for the ARC program under both coverage options (RLC program) starts at 89% (85%) of 5-year Olympic Average. ARC (individual coverage) payments are received on 65% of the planted acres, and ARC (county coverage) payments are received on 80% of the planted acres. PLC and RLC indemnity payments are received on 85% of planted acres. The payment band is equal for the ARC and RLC programs, 10%. The ARC program relies on reference prices for rice and peanuts only while the PLC and RLC programs include reference prices for all commodities. Only the PLC program includes a yield update option. ARC participants (both individual and county) can opt out for SCO participation with coverage of up to 90%. Otherwise, maximum coverage under the SCO program for these participants is 79%. PLC participants can add SCO coverage of up to 90%, while RLC participants can also opt-out for SCO coverage. The payment limit for the ARC program for both coverage options is $50,000/person while for the PLC and RLC programs it is $125,000/person. The adjusted gross income (AGI) limit for the ARC program (again under both coverage options) is $750,000 while for the PLC and RLC programs it is $950,000.

2012 Farm Bill Variables

Crop	Unit	2012 FB Loan Rate	2012 FB Reference Price	2012 CY Target Price
Long-Grain Rice	$/cwt	6.50	14.00	10.50
Medium-Grain Rice	$/cwt	6.50	14.00	10.50
Soybeans	$/bu	5.00	8.40	6.00
Wheat	$/bu	2.94	5.50	4.17
Corn	$/bu	1.95	3.70	2.63
Upland Cotton	$/lbs	1/	2/	0.7125

1/ The cotton loan rate is based on a 2-year simple average of the adjusted world cotton price for the immediately preceding years, and must fall in the range of $0.47-$0.52/lbs.
2/ For the STAX program, the House bill establishes a $0.6861/lbs reference price for upland cotton.

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This table illustrates 2012 Farm Bill proposed loan rates and reference prices. It also shows 2008 Farm Bill target prices (under the CCPs program) for the 2012 crop year specifically to enable comparison with the proposed reference prices in the 2012 Farm Bill. The loan rates are as follows: $6.50/cwt for rice, $5.00/bu for soybeans, $2.94/bu for wheat, and $1.95/bu for corn. The cotton loan rate is based on a two-year simple average of the adjusted world cotton price for the immediately preceding years and must fall in the range of $0.47-$0.52/lbs. The reference prices are as follows: $14.00/cwt for rice, $8.40/bu for soybeans, $5.50/bu for wheat, and $3.70/bu for corn. Finally, under the STAX program, the House bill establishes a $0.6861/lbs reference price for upland cotton.

PLC Program Overview

- Similar to the CCPs program
- Payment is received if: EFFECTIVE PRICE<REFERENCE PRICE
- The EFFECTIVE PRICE is the higher of the NATIONAL LOAN RATE and the 5-MONTH AVERAGE MID-SEASON PRICE
- PAYMENT RATE=REFERENCE PRICE-EFFECTIVE PRICE

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Slides 12-27 can be read directly from the PowerPoint slides.

PLC Program Overview Cont'd

- The PAYMENT AMOUNT is the product of the PAYMENT RATE, the PAYMENT YIELD, and the PAYMENT ACRES
- PAYMENT YIELD is established under the CCP Program of the 2002 and 2008 Farm Bills
- PAYMENT ACRES=85% of the total planted acres (total farm PAYMENT ACRES cannot exceed total farm BASE ACRES including cotton BASE ACRES) and 30% of the approved total acres prevented from being planted

PLC Program Overview Cont'd

- Producers can update the PAYMENT YIELD for a crop to 90% of the five year (2008-2012) planted acres average excluding years in which the planted acreage was zero

- For any of the five years 2008-2012, a plug of 75% of the average county yield can replace the yield on the farm if it is lower than this value

- Payment limit=$125,000/person ($250,000/household) and AGI limit=$950,000

RLC Program Overview

- Similar to the ARC program
- Payment limit=$125,000/person ($250,000/household) and AGI limit=$950,000
- Payment is received if the ACTUAL COUNTY REVENUE is lower than the COUNTY REVENUE LOSS COVERAGE TRIGGER
- ACTUAL COUNTY REVENUE is equal to the product of the ACTUAL COUNTY YIELD and the higher of the MID-SEASON PRICE and the NATIONAL AVERAGE LOAN RATE
- COUNTY REVENUE LOSS COVERAGE TRIGGER is equal to 85% of the BENCHMARK COUNTY REVENUE

RLC Program Overview Cont'd

- The BENCHMARK COUNTY REVENUE is equal to the product of the 5-year Olympic average of the AVERAGE HISTORICAL COUNTY YIELDS and the 5-year Olympic average of the AVERAGE NATIONAL MARKETING YEAR AVERAGE PRICE, where:
  - the AVERAGE NATIONAL MARKETING YEAR AVERAGE PRICE for any of the 5 years cannot be lower than the REFERENCE PRICE
  - the AVERAGE HISTORICAL COUNTY YIELD for any of the 5 years cannot be lower than 70% of the TRANSITIONAL YIELD

RLC Program Overview Cont'd

- The PAYMENT RATE is the lower of:

  a) the difference between the COUNTY REVENUE LOSS COVERAGE TRIGGER and the ACTUAL COUNTY REVENUE

  b) 10% of the BENCHMARK COUNTY REVENUE
- The PAYMENT AMMOUNT is equal to the product of the PAYMENT RATE and the PAYMENT ACRES
- PAYMENT ACRES=85% of the total planted acres (total farm PAYMENT ACRES cannot exceed total farm BASE ACRES including cotton BASE ACRES) and 30% of the approved total acres prevented from being planted (same rule as in the PLC program)

ARC Program Overview

- In 2013 producers make a one-time irrevocable decision to receive:
  - a) an individual coverage
  - b) a county coverage
- ARC payments are received if: the actual crop revenue for the crop year for the covered commodity is less than the agriculture risk coverage guarantee for the crop year for the covered commodity.
- The AGRICULTURE RISK COVERAGE GUARANTEE for a crop year for a covered commodity shall equal 89 percent of the benchmark revenue.

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ARC Program Overview Cont'd

- The ACTUAL CROP REVENUE for a crop year of a covered commodity is equal to the product of:
  - (A)(i) in the case of individual coverage, the actual average individual yield for the covered commodity, as determined by the Secretary; or (ii) in the case of county coverage, the actual average yield for the county for the covered commodity, as determined by the Secretary; and
  - (B) the higher of: (i) the midseason price; or (ii) if applicable, the national marketing assistance loan rate for the covered commodity.

ARC Program Overview Cont'd

- The BENCHMARK REVENUE is the product of:
  - (I)(aa) in the case of individual coverage, the average individual yield, for the most recent 5 crop years, excluding each of the crop years with the highest and lowest yields; or (bb) in the case of county coverage, the average county yield for the most recent 5 crop years, excluding each of the crop years with the highest and lowest yields; and
  - (II) the average national marketing year average price for the most recent 5 crop years, excluding each of the crop years with the highest and lowest prices.
    - Includes a minimum price benchmark for long and medium-grain rice of \$13.00/cwt for any of these five years (as well as \$530/ton for peanuts)

ARC Program Overview Cont'd

- Separate actual crop revenue and agriculture risk coverage guarantee for irrigated and non-irrigated covered commodities are calculated in the program
- The PAYMENT RATE is equal to the lesser of:
  - (A) the amount that (i) the agriculture risk coverage guarantee for the covered commodity; exceeds (ii) the actual crop revenue for the crop year of the covered commodity; or
  - (B) 10 percent of the benchmark revenue for the crop year of the covered commodity.
- The PAYMENT AMMOUNT is the product of:
  - (A) the payment rate ; and

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ARC Program Overview Cont'd

- (B)(i) in the case of individual coverage the sum of: (I) 65 percent of the planted eligible acres of the covered commodity; and (II) 45 percent of the eligible acres that were prevented from being planted to the covered commodity; or

  (ii) in the case of county coverage: (I) 80 percent of the planted eligible acres of the covered commodity; and (II) 45 percent of the eligible acres that were prevented from being planted to the covered commodity.
- When calculating the benchmark revenue under an individual coverage, the average individual yield for any of the 5 most recent years (starting in 2013) cannot be lower than 70% of the TRANSITIONAL YIELD
- Payment limit=$50,000/person ($100,000/household)

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S. 3240: Supplemental Coverage Option (SCO)

- Optional, area (county)-level yield or revenue policy under Title XI
- Farmers pay a premium to participate (subsidized at 70%)
- No program payment limits
- Designed to cover a portion of deductible under the producer's individual crop insurance policy
  - Crop insurance coverage under individual policies range from 50% to 85% in 5% point increments
- SCO coverage level:
  - 79% (21% deductible) for ARC participants
  - 90% (10% deductible) for non-ARC participants

S. 3240: Supplemental Coverage Option (SCO) Cont'd

- Cover a portion of the farmer's deductible, when losses exceeds 10% of the SCO guarantee (area-wide revenue falls below 90% of expected level)
- Coverage stops (indemnity payments reach a maximum level) when the area-wide average yield or revenue (as share of expected value) falls to the coverage level of the producer's individual policy

S. 3240: Stacked Income Protection Plan (STAX)

- A "Shallow Revenue Loss" program under Title XI
- Available for upland cotton **only**
- Developed to address a WTO dispute settlement (with Brazil)
- A modified version of GRIP (a crop insurance program)
- Available at the area (county)-level **only**
- Covers shallow revenue losses from 10% to 30%
  - Therefore, expected county revenue guarantee varies from 70% to 90%
- The Protection Factor (based on GRIP) can vary from 80-120%
- Farmers pay a premium (subsidized at 80%) to participate
- STAX participants cannot participate in SCO
- No program payment limits

S. 3240: Stacked Income Protection Plan (STAX) Cont'd

- Can be purchased alone
- Can be purchased in addition to any other individual area policy
- Participants receive indemnity payments in cases of losses in area-wide revenue of" greater than 10% of the expected revenue but not more than the deductible level in the underlying policy (i.e., 25%)
  - or not more than 30% if there is no underlying crop insurance policy
- Maximum indemnity=20% of area-wide reference income
  - Area-wide reference income=product of the higher of the projected and harvest futures market cotton price and the expected crop yield
- Indemnity payments received for STAX and other policies cannot overlap

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H.R. 6083: STAX

- Similar to STAX program in S. 3240
- Minor program modifications
- A minimum price mechanism ($0.6861/lbs) to calculate insurance guarantee if it is higher than the expected market price
  - FCIC reinsures 100% of the liability associated with this provision

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