2012 US farm bill

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Every five or six years, the United States enacts comprehensive legislation on farm policies. The most recent legislation, the Food, Conservation and Energy Act of 2008 (known as the 2008 US farm bill), covers the period 2008 to 2012.

Government support to agriculture in the US farm bill is concentrated on dairy and sugar and a group of field crops termed farm program crops (see box). Farm program crops harvested in 2012 and marketed in 2013 are covered under existing legislation. The remainder of US agriculture, primarily the major meat and horticultural industries, receives relatively little support. In addition to commodity programs, farm bills cover a range of other ‘titles’ or activities including conservation, trade, nutrition, credit, rural development, research, forestry, energy, horticulture and crop insurance. Total farm bill expenditure for the 2008 to 2012 fiscal years has been estimated at US$401 billion. Nutrition programs account for 78 per cent of this total (Monke & Johnson 2010).

This note provides an overview of key elements of existing US policies for farm program crops and the status of the 2012 US farm bill. It also makes an initial assessment of the House and Senate versions of the proposed risk management provisions for program crops.

**Overview of existing US policies for farm program crops**

Support to producers of farm program crops has mainly taken the form of government payments. The three main forms of government payments for program crops are loan rate support, direct payments and countercyclical payments. The 2008 farm bill introduced two new support programs, the average crop revenue election program and the supplemental revenue assistance payments program. Farmers also have access to subsidised crop insurance. The main features of these programs are summarised below and in the box at the end of this article, while a discussion of existing commodity programs can be found in Roberts et al. (2008).

**Loan rate support**

Support payments for program crops are provided when market prices fall below the ‘loan rate’. Loan rates are administratively set prices for each program crop. A range of payments have been introduced to cover the gap when the market price falls below the loan rate. These include loan deficiency payments and marketing loans.
Direct payments
Fixed payments are made for historic production of wheat, corn, barley, grain sorghum, oats, upland cotton, long and medium-grain rice, soybeans, other oilseeds and peanuts. Producers enrol annually in the program to receive payments based on payment rates per unit (bushel, pound or hundredweight depending on the commodity) specified in legislation and their historic program payment acres and payment yields.

Countercyclical payments
Countercyclical payments are available to producers with historic program payment acres and yields of wheat, corn, barley, grain sorghum, oats, upland cotton, long and medium-grain rice, soybeans, other oilseeds, peanuts, and pulse crops (dry peas, lentils, small and large chickpeas). Payments are made whenever the current effective commodity price is less than the target price. The effective price is calculated by adding the direct payment rate for the commodity and the higher of the national average farm price for the marketing year and the loan rate for the commodity. The target price is a price per unit (bushel, pound or ton depending on the commodity) set in the 2002 and 2008 farm bills used for calculating countercyclical payments for covered (program) commodities.

Average crop revenue election program
The average crop revenue election (ACRE) program is an optional revenue-based program introduced in the 2008 farm bill. It replaces countercyclical payments for those producers who elected to participate in ACRE. Producers who elected to participate in ACRE continue to receive reduced direct payments and are eligible for reduced loan deficiency payments.

Supplemental revenue assistance payments program
The supplemental revenue assistance payments program was introduced in the 2008 farm bill to consolidate previously ad hoc disaster assistance. Payments are made to eligible producers on farms in disaster classified counties that incurred crop production or crop quality losses or both during the crop year.

Crop insurance
Crop insurance protects farmers from crop losses due to natural hazards. It is a subsidised federal insurance program administered by the US Department of Agriculture’s Risk Management Agency and is available to most farmers. Federal crop insurance is sold and serviced through private insurance companies. The federal government subsidises a portion of the premium, as well as some administrative and operating expenses of private companies. The Federal Crop Insurance Corporation reinsures companies by absorbing program losses when indemnities exceed total premiums (Womach 2005). Various types of yield and revenue insurance products are available for major crops. Hail and fire insurance are offered through private companies without federal subsidies (Economic Research Service 2012).

The 2012 farm bill: progress in Congress
Two proposed versions of the 2012 US farm bill are before Congress; one proposed by the US Senate Committee on Agriculture, Nutrition and Forestry, and one proposed by the US House Committee on Agriculture.
The US Senate passed its version of the farm bill (the Agricultural Reform, Food and Jobs Act 2012) on 21 June 2012. While the US House Agriculture Committee passed its version of the farm bill (the Federal Agriculture Reform and Risk Management Act 2012) on 12 July 2012, debate on this bill has not yet been scheduled in the US House of Representatives.

Once the House of Representatives passes its version of the farm bill, the differences between the Senate and House versions will need to be resolved by a conference committee, and a single bill passed by both the House and the Senate. The 2008 farm bill could be extended beyond 2012, if agreement on a new bill is delayed.

**Risk management provisions for program crops**

The House and Senate versions of the 2012 farm bill have a number of similarities. Both contain provisions to replace a number of existing farm programs with alternative risk management provisions. For example, both repeal direct payments, countercyclical payments, the ACRE program and the Supplemental Revenue Assistance Payments program. In addition, both retain marketing loans for farm program crops.

The aim of the risk management provisions for program crops in the bills is to reduce the income risk associated with growing a commodity in order to increase average expected income over the life of the farm bill. While both bills include risk management programs based on farm revenue, the House bill also contains a risk management program based on price. For the revenue-based programs, the main difference between the bills comes in defining payment trigger levels and payment rates for farmers. Differences in these provisions would have implications for the frequency and size of payments to farmers. The risk management provisions for program crops are in addition to provisions on crop insurance.

**Senate bill**

**Agriculture Risk Coverage program**

Under the Senate bill farmers would have access to a single, risk-based coverage called the Agriculture Risk Coverage (ARC) program (US Senate Committee on Agriculture, Nutrition and Forestry 2012). Commodities covered by this provision include wheat, corn, grain sorghum, barley, oats, long and medium-grain rice, pulse crops, soybeans, other oilseeds and peanuts. Farmers would be able to make a one-time choice between coverage at the individual farm level or at the county level.

Payments to farmers would be made when a producer’s actual crop revenue for a covered commodity in a given year is less than the level determined by the agriculture risk coverage guarantee. The agriculture risk coverage guarantee is defined as 89 per cent of the benchmark revenue. In turn, benchmark revenue is defined as the five-year Olympic average of yields (either individual or county) multiplied by the five-year Olympic average of national average prices. The Olympic average is based on the previous five years after dropping the highest and lowest values.

The payment rate (per acre) is the difference between the agriculture risk coverage guarantee and the actual crop revenue. The payment rate is not to exceed 10 per cent of the benchmark revenue for the crop year for the covered commodity.
The actual payment amount differs depending on whether coverage is at the individual farm level or at the county level. For coverage at the individual farm level, the payment amount is equal to the payment rate multiplied by the sum of 65 per cent of planted eligible acres of the covered commodity and 45 per cent of eligible acres that were prevented from being planted to the covered commodity (see ‘Prevented planting acreage’ in box). For county coverage, the payment amount is equal to the payment rate multiplied by the sum of 80 per cent of planted eligible acres and 45 per cent of eligible acres that were prevented from being planted to the covered commodity.

**House bill**

Under the House version of the 2012 farm bill, farmers would have access to two risk-based coverage programs: the Price Loss Coverage (PLC) program and the Revenue Loss Coverage (RLC) program (House Committee on Agriculture 2012). Commodities covered under these programs are wheat, corn, grain sorghum, barley, oats, long and medium-grain rice, pulse crops, soybeans, other oilseeds and peanuts. Farmers would have to make a one-time choice between the two programs. If no choice were made, the farmer would be covered by the PLC program.

**Price Loss Coverage program**

The PLC program is a risk management tool designed to address multi-year price declines. Under the PLC program, a payment to farmers would be made when the effective price of a covered commodity for the crop year is less than the reference price for that commodity in that crop year. In this program, the effective price is the higher of the mid-season price (that is, the national average market price for the first five months of the marketing year) and the loan rate. The reference price operates in a similar way to the target price that has operated under the 2002 and 2008 farm bills. However, the reference prices set in the House bill are higher than previous target prices. For example, the proposed reference price for wheat is US$5.50 per bushel, while the target price for the 2010 to 2012 marketing years was set at US$4.17 per bushel.

The payment rate per unit (bushel, pound or hundredweight depending on the commodity) for the farmer is the difference between the reference price and the effective price. The total payment is determined by multiplying the payment rate by the payment yield and by the payment acres (85 per cent of total planted acres and 30 per cent of prevented planted acres). For the purposes of this program, payment yield is defined as the payment yield established for countercyclical payments under the 2002 farm bill (see box).

**Revenue Loss Coverage program**

The RLC program is a risk management tool used to address revenue losses. Under the RLC program, a payment to farmers would be made when the actual county revenue for a crop is less than the county revenue loss trigger. Actual county revenue is determined using the average county yield for a crop multiplied by the higher of the mid-season price and the national average loan rate. The county revenue loss trigger is 85 per cent of the benchmark county revenue. In this program, benchmark county revenue is calculated by multiplying the Olympic average of the county yield and the higher of the national marketing year price and the reference price.

The payment rate (per acre) is the lesser of the difference between the county revenue loss trigger and the actual county revenue; or 10 per cent of the benchmark revenue. The total payment is determined by multiplying the payment rate by the payment acres (as per the PLC program).
Analysis

Preliminary analysis for wheat, based on national average price data (US Department of Agriculture 2012) and county yield data (National Agricultural Statistics Service 2012) from 1997 to 2011, has been conducted to examine whether payments would have been triggered had the Senate and House programs been in place since 2002. The analysis included 394 counties across the top 10 wheat producing states of Kansas, North Dakota, Montana, Washington, Idaho, South Dakota, Colorado, Oregon, Minnesota and Oklahoma.

Senate ARC program

The analysis indicates that the ARC program payments for wheat would have been triggered to varying extents, across the counties considered, in every year between 2002 and 2011. For example, most ARC program payments would have been triggered in 2002, 2005 and 2006. It is also estimated that, for the counties considered, the ARC program would have resulted in an average payment rate for wheat of US$9.33 per acre had it been in place since 2002.

Initial analysis indicates that average payment rates for wheat under the ARC program (at least for the counties considered) could be less than under existing direct and countercyclical payments. Given countercyclical payments have been negligible for wheat since their introduction in 2002, direct payments account for most government payments to farmers for wheat. The ARC program average payment rate of US$9.33 for the counties considered compares with an average direct payment rate of US$17.90 per base acre of wheat (calculated as the direct payment rate of US$0.52 per bushel multiplied by the national average direct payment yield of 34.5 bushels per acre).

Two factors appear to be important in limiting the frequency and size of ARC program payments. Payments are not triggered until the actual revenue per acre falls to 89 per cent of the benchmark revenue. This would limit the frequency of payments. Payment rates cannot exceed 10 per cent of the benchmark revenue. This would limit the size of the payments in years when ARC program payments are triggered. For example, had the ARC program been in place since 2002, this provision would have reduced payment rates in 59 per cent of counties where payments were triggered and the average reduction in the payment rate would have been US$17.39 per acre. In the absence of this provision, payment rates per acre in a number of counties would have exceeded the average direct payment rate.

House RLC and PLC programs

Based on the reference price, loan rates and national average marketing year prices, the House PLC program payments for wheat would have been triggered in 2002, 2003, 2004, 2005, 2006 and 2009. For the years in which payments would have been triggered, the payment rate would have varied between US$0.63 per bushel and US$2.11 per bushel.

The analysis indicates that, across the counties considered, RLC program payments for wheat would have been triggered to varying extents every year from 2002 to 2011. However, most program payments would have been triggered between 2002 and 2006. Payments would have been triggered in relatively few counties from 2007 to 2011. It is estimated that the RLC program would have resulted in an average payment rate for wheat of US$22.37 per acre if the RLC program had been in place since 2002 compared with US$9.33 per acre payment in the Senate ARC program.
Payments may be triggered by price or by yields. As a result, higher yields in years of low prices may prevent the program being triggered and vice versa.

Similar to the Senate ARC program, two factors appear to be important in limiting the frequency and size of RLC program payments. Payments would not be triggered until the actual revenue per acre fell to 85 per cent of the benchmark revenue. This would limit the frequency of payments. Payment rates could not exceed 10 per cent of the benchmark revenue. This would limit the size of the payments in years when RLC program payments were triggered. For example, had the RLC program been in place since 2002, this provision would have reduced payment rates in 81 per cent of counties where payments were triggered and the average reduction in the payment rate would have been US$40.65 per acre. In the absence of this provision, payment rates per acre in a number of counties would have exceeded the average direct payment rate.

Comparison of Senate ARC and House RLC programs

The Senate’s ARC program and the House’s RLC program are both revenue based. As such, most program payments would have been triggered for both programs between 2002 and 2006 for wheat. However, the RLC program average payment rate (US$22.37 per acre) would have been higher than the ARC program payment rate (US$9.33 per acre) and would have been triggered more frequently across the same counties. The main reason for these differences is the relatively high reference price in the proposed House farm bill compared with the historical national average price for those years.

For years where the Olympic average price is less than the proposed reference price in the House bill, the frequency and rate of payment for the RLC program is likely to be higher than that of the Senate’s ARC program. The higher payment rate is due to the use of a reference price in the House’s RLC program. The RLC program price for the benchmark revenue is determined using the higher of the reference price and the Olympic average price, whereas the ARC program only uses the Olympic average. Based on the historical analysis, the Olympic average price for wheat would have been less than the proposed reference price in all years from 2002 to 2010. As such, ARC program payments for wheat would have been smaller than the RLC program payments in these years.
For years where the Olympic average price is greater than the reference price, the number of counties where the ARC and RLC payments would have been triggered is likely to be similar. Any difference between the ARC and RLC program payment rates would occur as a result of the way the payment trigger is defined in each program. For example, in the ARC program the payment trigger is defined as 89 per cent of the benchmark revenue, whereas in the RLC program it is defined as 85 per cent of the benchmark revenue. This difference means payments may be triggered slightly more frequently in the ARC program than in the RLC program. Also, in counties where the 10 per cent benchmark revenue figure is not used to determine the payment rate, the ARC program payment rate would be marginally higher than the RLC program payment rate for the same counties. Based on the historical analysis, 2011 is the only year in which the Olympic average price for wheat would have been greater than the proposed reference price. As such, this is the only year in the 2002 to 2011 analysis period in which the ARC program payments for wheat would have been greater than the RLC program payments.

Potential future distribution of payments

Using actual national average prices and US Department of Agriculture price projections through to 2013, it is possible to determine the potential future distribution of payments between the proposed ARC and RLC programs. For example, in 2012 the Olympic average price for wheat (US$6.32) will be greater than the reference price (US$5.50). Likewise, in 2013 the lowest possible Olympic average price for wheat (US$5.78) will be greater than the reference price.

Using US Department of Agriculture price projections for 2012, the lowest Olympic average price for wheat (US$5.59) in 2014 will still be greater than the reference price. As such, it is expected that between 2012 and 2014 the ARC program payments for wheat would be triggered in a similar number of counties as the RLC program payments. However, the difference in the revenue trigger between the two programs may mean the frequency and size of payments for wheat may be marginally higher for the ARC program than for the RLC program in these years.
WTO issues

Both the Senate ARC program and the House RLC program are based on actual yields and areas planted (and areas prevented from being planted). As such, payments under these programs have the potential to provide an incentive to plant the covered commodity. This is in contrast to the direct payments and countercyclical payments that were introduced in the 2002 farm bill. These payments were based on fixed program yields and areas and therefore provided little incentive for farmers to increase the planting of the covered commodity.

As payments under the proposed Senate ARC and House RLC programs are related to current prices and areas planted, it is likely that those payments would not qualify for WTO ‘green box’ exemptions based on having minimal trade-distorting effects or effects on production. Furthermore, as there are no ‘production limiting arrangements’ in place, the payments would not qualify for existing WTO ‘blue box’ exemptions. As such, it is expected that these payments would be reported to the WTO as production distorting (amber box).

Key terms

Base acreage: A farm’s historic crop-specific acreage of wheat, feed grains, upland cotton, rice, oilseeds, pulse crops, or peanuts eligible to participate in commodity programs (Economic Research Service 2012).

Commodity Credit Corporation: A federally owned and operated corporation within the US Department of Agriculture created to stabilise, support, and protect farm income and prices through loans, purchases, payments and other operations (Economic Research Service 2012).

Loan deficiency payment: A provision that gives the Secretary of Agriculture discretion to provide direct payments for loan commodities to producers who agree not to obtain a commodity loan on their production for a particular crop year. Loan deficiency payments are available for all loan commodities except extra-long staple cotton. The loan deficiency payment provision is applicable only if a marketing loan repayment provision has been implemented (that is, if the market price of a commodity is below the commodity loan rate). The intent of the loan deficiency payment provision (as well as the marketing loan repayment provision) is to minimise government accumulation and storage of stocks (Economic Research Service 2012).

Loan rate: The price per unit (pound, bushel, bale or hundredweight) at which the Commodity Credit Corporation provides commodity-secured loans to farmers for a specified period (Economic Research Service 2012).

Marketing loan program: Provisions that allow producers to repay nonrecourse commodity loans at less than the announced loan rate whenever the world price or loan repayment rate for the commodity is less than the loan rate. Marketing loan provisions are aimed at reducing government costs of stock accumulation. Marketing loan provisions are implemented for feed grains, wheat, rice, upland cotton, all oilseeds, peanuts, small and large chickpeas, lentils, dry beans, wool, mohair and honey (Economic Research Service 2012).
Key terms continued

**Nonrecourse loan program:** Program providing commodity secured loan funds to producers for a specified time (typically nine months), after which producers may either repay the loan and accrued interest or transfer ownership of the commodity amount pledged as collateral to the Commodity Credit Corporation as full settlement of the loan. These loans are available on a crop-year basis for wheat, feed grains, cotton, peanuts, rice, oilseeds, pulse crops, wool, mohair and honey. Sugar processors are also eligible for nonrecourse loans. Participants in commodity loan programs receive loan funds based on the commodity specific, per-unit loan rate specified in legislation. The loans are called nonrecourse because, at the producer’s option, the Commodity Credit Corporation has no recourse but to accept the commodity as full settlement of the loan (Economic Research Service 2012).

**Payment acres:** Equal to 85 per cent of the base acres for calculating direct and countercyclical payments. The 2008 farm bill set payment acres at 83.3 per cent of base acres for the 2009 to 2011 crop years.

**Payment yield (also called program yield):** A farm’s historic yield (per acre) for a specific commodity, determined by a procedure outlined in farm legislation and used in calculating direct payments and countercyclical payments (Economic Research Service 2012). The 2002 farm bill contained provisions for updating the payment yield for countercyclical payments but not for direct payments. Therefore, the payment yields for these programs can be different.

**Prevented planting acreage:** Land on which a farmer intended to plant a program crop or insurable crop but was unable to do so because of drought, flood or other natural disaster or condition (Womach 2005).

**Program crops:** Under the 2002 and 2008 farm bills, program crops (or covered commodities) include wheat, corn, barley, grain sorghum, oats, upland cotton, long and medium-grain rice, oilseeds, and pulse crops (small and large chickpeas, dry beans and lentils). Programs for peanuts are separate in each bill but are similar to those for covered commodities (Economic Research Service 2012).
References


US Senate Committee on Agriculture, Nutrition and Forestry 2012, Legislative Text: S. 3240 Agriculture Reform, Food and Jobs Act (Committee passed), ag.senate.gov/download/?id=ced10412-bf5e-46a8-bdef-e2594584ac9b (pdf 1.74mb).