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2014 US farm bill

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On 7 February 2014 the US Agricultural Act of 2014 (2014 farm bill) came into force. The US farm bill is the legislative basis for management of federal agricultural support, including agricultural producer support programmes, the food stamp programme and the administration of crop insurance. A new farm bill is passed every five to six years. This note provides a brief summary of key changes from the 2008 farm bill.

Key changes in the 2014 farm bill

The 2014 farm bill contains 12 titles, which cover different policy areas. The first title covers support for producers of programme crops: wheat, oats, barley, corn, grain sorghum, long and medium grain rice, pulse crops, peanuts, soybeans and some other oilseeds. In contrast to the 2008 farm bill, upland cotton is no longer a programme crop and is excluded from programme crop payments, while peanuts are now formally included as a programme crop. Other titles in the farm bill cover support for the horticulture, livestock and dairy industries, as well as agricultural research, trade assistance, natural disaster assistance, regulation of crop insurance and payments of insurance premium subsidies.

Programme crop payments

An important change in the 2014 farm bill is the repeal of major agricultural subsidies for producers of programme crops, including direct payments, counter-cyclical payments, the Average Crop Revenue Election programme and the Supplemental Revenue Assistance Payments programme. These programmes have been replaced by the Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC) programmes. These new programmes are projected to reduce spending on direct agricultural support for crop producers by US$18.9 billion over the next 10 years, from US$58.5 billion to US$39.6 billion (CBO 2014). No changes were made to the marketing assistance loan programme or the sugar support policy.

The PLC and ARC programmes are mutually exclusive. In the 2014 crop year, producers must elect to participate in either PLC or ARC for the life of the bill. If no decision is taken, no payments are made in 2014 and PLC becomes the default programme from 2015 onward.

PLC is similar to the repealed counter-cyclical programme in that payments are made to producers if the national annual average price of their commodity at harvest is below the reference price fixed by the United States Department of Agriculture (USDA). The new reference prices are considerably higher than counter-cyclical target prices under the 2008 farm bill (Coppess & Paulson 2014). The PLC payment is equal to the gap between the reference and market price (or marketing assistance loan rate, if higher), multiplied by payment acres and the payment yield.

Under ARC, producers receive payments when their per acre crop revenue drops below the guaranteed revenue benchmark. The per acre payment under ARC is the shortfall of a producer's actual revenue compared with the revenue benchmark, up to a maximum of 10 per cent of the total revenue guarantee. ARC allows either an individual farm or a countywide revenue benchmark to be used. This choice alters the final payment, as payment acres are 65 per cent of base acres under individual farm coverage and 85 per cent under the countywide programme.

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Dairy industry support

The Dairy Product Price Support Program—a largely inactive programme under the 2008 farm bill that set a minimum milk price—has been repealed, as has the Dairy Export Incentive Program. These programmes have been replaced by the Dairy Product Donation Program (DPDP). The voluntary Milk Income Loss Contract (MILC) programme, which provided payments to dairy producers in times of low milk prices, will be replaced by the Margin Protection Program for Dairy Producers (MPP) on 1 September 2014. All other existing dairy programmes are retained.

Under MILC, payments were made to producers when the milk price went below a fixed benchmark. Feed costs were not taken into consideration for MILC programme payments. In contrast, MPP is a form of margin protection insurance. Payments are triggered when the gap between input costs (measured as a weighted average cost of feed components) and the milk price is less than the coverage level for two or more consecutive months. MPP coverage level is chosen by the producer and is available when producers' margins fall between a minimum of US$4 and US$8 per hundred pounds of milk. Producers only pay a premium for coverage higher than the minimum US$4 per hundred pounds of milk. Additionally, premiums charged to small producers—those with annual milk production below 4 million pounds—are lower (ERS 2014a).

Disaster assistance

The 2014 farm bill retains four disaster assistance programmes from the 2008 farm bill, under the Supplemental Agricultural Disaster Assistance programme. These programmes cover producers of livestock, orchard products, honey bees and farm-raised fish because these producers are unable to access other types of loss protection. Under the 2008 farm bill, these programmes expired on 30 September 2011. The 2014 farm bill provides retroactive payments of up to 75 per cent on losses stemming from natural disasters that occurred between 30 September 2011 and the signing of this farm bill. These programmes are now authorised for the life of the 2014 farm bill, which prevents them from expiring before the end of the bill period.

In the 2008 farm bill, producers were mandated to either purchase crop insurance or pay into the Noninsured Crop Disaster Assistance Program to be eligible for disaster assistance payments. This requirement has been lifted in the 2014 farm bill (FAS 2014).

Crop insurance

The 2014 farm bill expands crop insurance premium subsidies for yield insurance, crop revenue insurance and whole farm revenue insurance. The bill introduces subsidised crop insurance products to peanuts and organic farmers. It also prioritises research into providing insurance products to other industries, such as pig and poultry producers. In addition to the existing suite of insurance policies available as part of the 2014 farm bill, two new insurance policies were introduced: the Supplemental Coverage Option (SCO) and the Stacked Income Protection Plan (STAX).

Under the 2014 farm bill, government expenditure on crop insurance is forecast to grow by US$5.7 billion compared with the 2008 farm bill baseline, totalling US$84.1 billion over the next 10 years (CBO 2014). This is largely the result of inclusion of SCO and STAX policies (CBO 2014).

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From 2015 SCO will be a revenue or yield loss protection policy available only to producers enrolled in PLC. Unlike standard crop insurance, SCO provides coverage based on countywide revenue or expected yield rather than on-farm revenue or expected yield. SCO is supplemental to the producer's existing insurance policy offered under the farm bill's crop insurance programme for yield or revenue protection. SCO provides protection up to a maximum of 86 per cent of a producer's expected yield or revenue. The subsidy rate for SCO premiums is 65 per cent.

As upland cotton is no longer a programme crop, upland cotton producers are excluded from ARC and PLC and consequently SCO. Instead, upland cotton producers are eligible for the STAX programme. This revenue loss protection policy is only available to upland cotton growers. It provides a chosen level of coverage from 10 per cent to 30 per cent of expected county revenue. Like SCO, STAX can be used to supplement a producer's existing revenue protection insurance policy but can also be used as a stand-alone policy. The subsidy rate for STAX premiums is 80 per cent. As STAX is not available until 2015, upland cotton producers are eligible for transition payments in lieu of programme crop payments for the 2014 crop year.

Access to subsidised crop insurance is dependent on participation in the conservation compliance provision, whereby producers must fulfil certain conservation objectives on their land. These objectives focus on wetland preservation and protecting highly erodible land from degradation. Conservation compliance was restored in the 2014 farm bill, having last been in force in 1996.

Budgetary implications

The agricultural policies of the 2014 farm bill (which exclude the nutrition title) are projected to reduce spending on agricultural programmes by 2 per cent, compared with the budget baseline that assumes continuation of 2008 farm bill policies. That is equivalent to a decrease of US$2 billion, from US$100 billion to US$98 billion, over the five-year life of the bill (CBO 2014). These reductions are the result of changes to programme crop payments, which are projected to decrease by US$6.3 billion relative to the 2008 farm bill spending baseline. Spending on all other titles is projected to increase, with the cost of crop insurance projected to rise by US$1.8 billion.

Despite these projections, budget savings over the life of the farm bill may not be realised if the 2008 farm bill is any example. Actual spending on agricultural programmes under the previous farm bill was 5 per cent higher over the life of the bill than originally projected, at US$103 billion (Monke 2013). That increase was the result of higher than projected costs for the subsidised crop insurance programme, which more than offset the reduction in programme crop payments (Monke 2013).

Glossary

Agricultural Risk Coverage (ARC): Revenue guarantee programme created in the 2014 farm bill. Payments to producers of programme crops are triggered if the actual revenue for a farm or county is recorded below a fixed benchmark. Actual revenue is equal to the marketing year average price multiplied by the recorded yield. The ARC payment is equal to the gap between the reference price and actual revenue, to a maximum of 10 per cent, multiplied by payment acres. Payment acres are 65 per cent for countywide ARC and 85 per cent for farm level ARC (Coppess & Paulson 2014).

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Base acres: A farm's historic crop-specific acreage of programme crops. Base acreage refers to cropland on a farm, not specific parcels of land. The 2014 farm bill allows producers a one-time option to reallocate the base acres on their property to the average crop planting areas in 2009–12, but producers cannot increase their total base acres (ERS 2014b).

Crop year: Also known as marketing year; refers to the 12-month period from when a crop is usually first harvested. All harvest for that crop in that period is considered to be in the same crop year. For example, the 2014 US wheat crop year is from 1 June 2014 to 30 May 2015. The total harvested during this time is then considered the 2014 crop (ERS 2014b).

Guaranteed revenue benchmark: Guaranteed minimum revenue under the ARC programme, calculated as 86 per cent of average five-year revenue excluding the highest and lowest values (Coppess & Paulson 2014).

Payment acres: Acres used to calculate payments for the price loss coverage (PLC) and ARC programmes. Under the 2014 farm bill, payment acres are 85 per cent of a producer's base acres, unless the producer selects individual farm coverage, in which case payment acres are 65 per cent of the producer's base acres (Coppess & Paulson 2014).

Payment yield: Used in calculating PLC payments. Under PLC, to calculate payment yield, the producer can choose to keep the existing expected yield from the counter-cyclical payments programme. Alternatively, the producer can choose the option where the yield is to equal 90 per cent of the 2008–12 county average yield for the commodity (Coppess & Paulson 2014).

Price loss coverage (PLC): Price risk coverage programme created in the 2014 farm bill. Payments to producers are triggered if the marketing year average price of a programme crop is below a fixed benchmark. The PLC payment is equal to the gap between the reference price and average market price multiplied by the payment yield and payment acres (Coppess & Paulson 2014).

Programme crops: Crops for which federal agricultural support, including ARC and PLC, is available to producers (ERS 2014b).

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