



The U.S. 2014 Agricultural Act: Reaffirming Countercyclical Support

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21st Century Agricultural Policies:

The 2013 EU CAP and 2014 US Farm Bill

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(See also Synopsis/Narrative to accompany the PowerPoint)

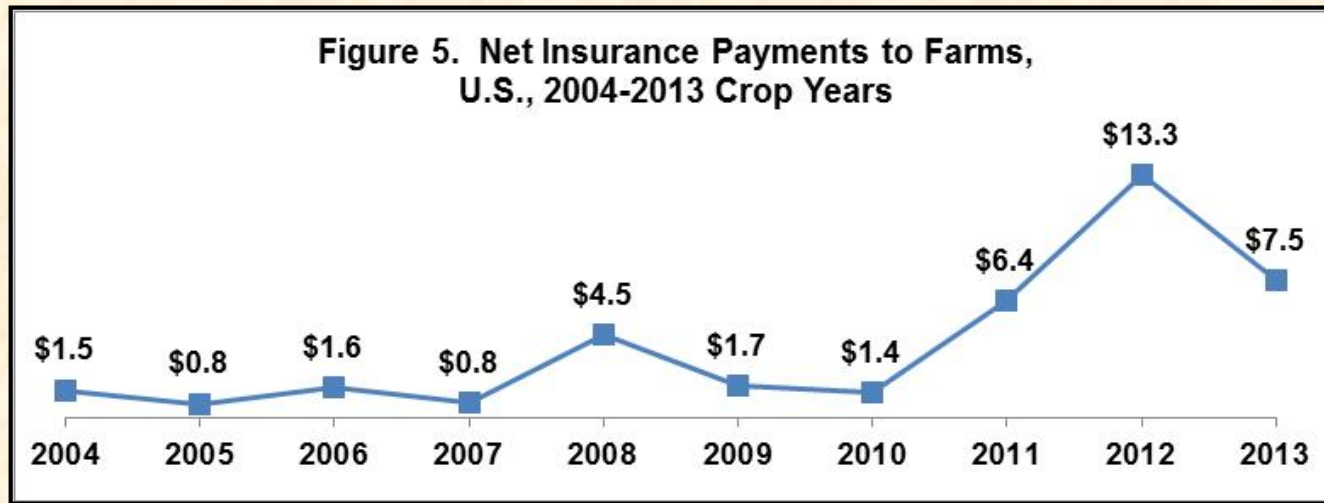
The 2014 Farm Bill – Introduction

- **A long, contentious debate resulted ultimately in The Agricultural Act of 2014 signed into law February 7. Debate was framed by**
 - **Recessionary macroeconomic conditions and intense partisan contestation over entitlements and fiscal policy**
 - **High but volatile farm commodity prices and revenue during 2008-2013**
 - **Projected 10-year expenditures under this Act exceed \$950 billion, over three-fourths for nutrition assistance programs**
 - **Two main objectives of our presentation are**
 - **A brief synopsis of the bill's major agricultural support provisions**
 - **Some analysis of possible costs of the 2014 farm programs**
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2014 Shift Back toward Historic Countercyclical Policy

- The farm “safety net” that emerged is complex (a plethora of support program choices for farmers), but its core policy changes can be abstracted to a limited set of basic points
 1. Fixed direct payments of about \$5 billion annually eliminated
 2. Protection against low prices or declining revenue is enhanced
 - Crop Insurance (Title XI) and Commodity Programs (Title I) have emerged as the twin pillars of the farm safety net
 - Debate centered on farmers’ calls for protection against “shallow losses” and strengthened protection against multi-year low prices or revenue
 - Traditional “Loan Rates” retained as protection against very low prices
 - By CBO estimates at the time, about 80% of the savings from farm program elimination was retained in projected costs of the new programs
 - 2014 now looks like a potentially costly year

Crop Insurance



- **2014 Farm Bill**
 - **Strengthens and expands existing crop insurance programs (including a new margin insurance program covering revenue less production costs authorized for rice in 2015)**
 - **Gives permanent authorization to disaster assistance programs (for livestock and other products)**
- **In our estimation, U.S. crop insurance is over-subsidized even if a systemic risk rationale for public intervention is accepted**

Shallow Losses

1. Supplemental (insurance) Coverage Option (SCO)

- Complements individual farm yield or revenue insurance
- Covers losses (at county level) from 14% to underlying individual farm level of other insurance coverage
- Applies to current production
- 65% subsidy of actuarially fair premium

2. Agriculture Risk Coverage (ARC)

- Crop revenue based commodity program
- Revenue benchmark is 5-year Olympic average of national crop year prices (with fixed minimum levels) and county yields (or farm yields, with acreage penalty)
- Revenue benchmark generally moves over time
- Applies to a fixed acreage base (regardless of crop actually grown)
- Covers revenue decline only from 14% to 24% of benchmark
- Acreage enrolled in ARC not eligible for SCO

Multi -Year Losses

1. Agriculture Risk Coverage (ARC)

- As described above

2. Price Loss Coverage (PLC)

- Crop price based commodity program
 - Fixed “References Prices” substantially higher than in 2008 farm bill (e.g. for corn \$3.70/bu., 41% increase; rice \$14.00/cwt, 33% increase)
 - Applies to fixed acreage base and fixed “program yield,” regardless of crop grown
 - Covers difference of Reference Price and market price or Loan Rate
 - Acres enrolled in PLC eligible for SCO
- **Farmers will make their enrollment decision for 2014-2018 in late 2014 / early 2015**
- Also have options to update ARC/PLC base acreage and PLC program yields

Conservation

- **Conservation remains a focus despite high agricultural prices**
 - **Long-term Conservation Reserve Program land retirement continued with 24 million acres maximum**
 - **Working Lands Conservation Stewardship program restricted**
 - **Agricultural Conservation Easement budget increased**
 - **Various programs consolidated into Regional Conservation Partnership Program**
 - **Conservation compliance made an eligibility criteria for crop insurance premium subsidies**
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WTO Issues

Cotton

- **Significant change in program design**
 - **Loan rate retained**
 - **Other traditional commodity programs replaced by the Stacked Income Protection Plan (STAX) – a county-based revenue insurance program similar to SCO**
 - **Individual farm crop insurance program continues**
- **Intended to bring U.S. into compliance with WTO rulings**
 - **But CBO still projects 10-year cost of \$3.3 billion**

Dairy

- **Traditional support replaced with Margin Protection Program (insurance for revenue vs. cost)**
 - **Eliminates Dairy Market Price Support as notified to WTO; new expenditures will be product-specific AMS support**

WTO Issues

- **There is little WTO discipline on the 2014 farm bill**
 - **High U.S. Current Total AMS limit (\$19.1 billion)**
 - **Likely Notification of SCO, PLC and ARC expenditures as Non-Product-Specific (NPS) Support**
 - **NPS not counted against U.S. WTO support limit unless summed expenditures exceed 5% (*de minimis*) of total value of U.S. agricultural production**
- **Low prices will renew scrutiny in the WTO of U.S. programs**
 - **With higher PLC Reference Prices, the NPS *de minimis* threshold could be exceeded in a general low price scenario. PLC payments would be \$30 billion if all crop prices fall to the loan rates.**
- **Enactment of 2014 farm bill complicates any renewed effort to strengthen international disciplines on production and trade distorting support**

Potential Cost of ARC vs. PLC – Corn 2014

Payment Acres	71.7 Million
PLC Target Price	\$3.70 / bu.
PLC Price Payment Range	\$1.95 / bu. to \$3.70 / bu.
PLC U.S. Yield Component	131 bu. / acre
Range of PLC Total Payment	\$0 to \$16.4 billion
PLC payment per \$0.10 below \$3.70	\$0.9 billion
ARC U.S. Yield Component	150 bu. / acre
ARC Price Component	\$5.32 / bu.
ARC Revenue Benchmark	\$798 / acre
ARC Payment Range	\$603 / acre to \$683 / acre
Range of ARC Total Payment	\$0 to \$5.7 billion

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<u>2014 SCENARIOS</u>	Yield (plant)	Price	ARC Revenue	ARC Payments*	PLC Payments*
USDA long term projection	162	\$3.65	\$591	\$5.7 billion	\$0.5 billion
Zulauf–Orden: current market	164	\$3.80	\$623	\$4.3 billion	\$0
Zulauf–Orden: high yield/low price	175	\$3.00	\$525	\$5.7 billion	\$6.6 billion

* Assuming 100% participation

As of July 16, 2014, ARC looks costly for 2014

PLC cost may be low but potentially more than ARC

Potential Cost of ARC and PLC - 2018

2014-2018 SCENARIOS (each year)	ARC Price Component	ARC Revenue Benchmark	ARC Payment Range	ARC Revenue	ARC Payment	PLC Payment
164 / \$3.80	\$3.80	\$623	\$474-\$536	\$623	\$0	\$0
175 / \$3.00	\$3.70*	\$648	\$492-\$557	\$525	\$2.3 billion	\$6.6 billion

* ARC has a minimum price component of \$3.70, the PLC reference price

General Cost and Risk Assistance Trade-Offs

- ▶ ARC but not PLC can make payments at prices above the reference price.
- ▶ ARC's payment cap is smaller than PLC's payment cap.
- ▶ ARC payments will move with the market subject to the constraint on lower cost that results from its price floor at the reference price.
- ▶ High yields – low prices will lead to high payments by ARC and PLC , but especially PLC if this scenario persists. SCO also will have costs.

Which policy design distorts markets and trade the most?

CONCLUSIONS

The 2014 farm bill is important because:

- **It is non-trivial to complete a farm bill in the current political environment, confirming the continued power of the farm lobby and farm bill coalition**
- **U.S. support has 2 pillars: crop insurance and commodity programs. We are rediscovering the latter as low prices emerge for 2014.**
- **The U.S. chose environment goods (vs. food or fuel) by continuing the Conservation Reserve Program and extending conservation compliance to insurance**
- **This bill leave open questions of shallow and multi-year loss program design**
 - **Sign up, size of payments over the next five years and how much payments prove to overlap across these programs will affect future demands of farm groups and farm policy critics and resulting congressional decisions**
- **While U.S. farm bill overall runs contrary to WTO support disciplines, in a first, the Brazil-U.S. cotton case materially affected the U.S. farm safety net**
- **With low prices, large PLC payments could result in a WTO challenge**

Selected References

Example of source information on *Agricultural Act of 2014*

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Earlier work by authors

Zulauf, C. and D. Orden. 2012. “US Farm Policy and Risk Assistance: The Competing Senate and House Agriculture Committee Bills of July 2012,” ICTSD, Geneva, Switzerland, Issue Paper No. 44, September

Future work of authors

Paper being prepared for “The 2014 Farm Bill: An Economic Post Mortem,” AAEA Invited Paper Session (V. Smith, organizer), 2015 , ASSA Annual Meetings, January