2013 Farm Bill Debate

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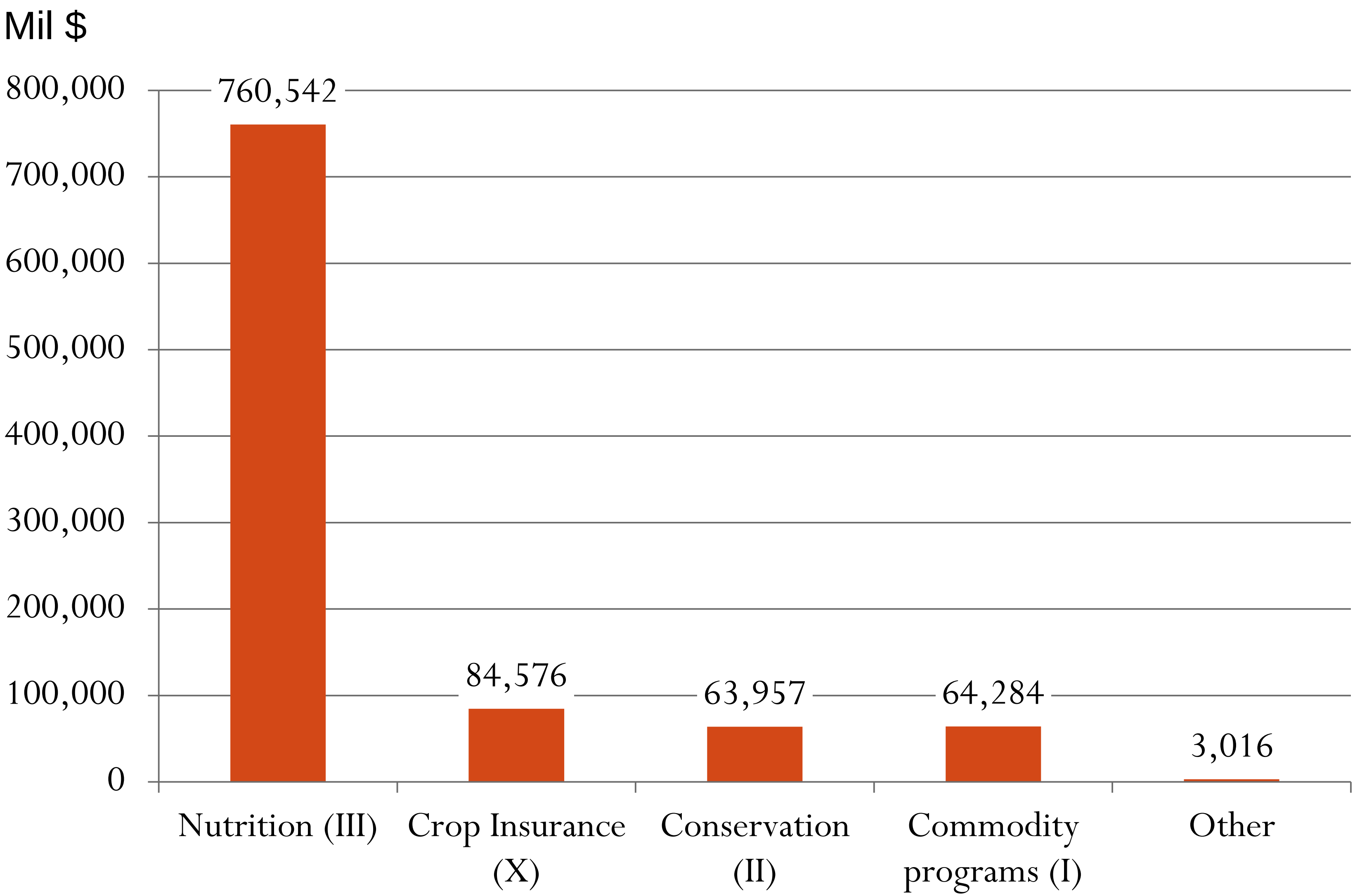
Context for farm bill debate

- Rise in world prices since 2005
  => price-based programs have largely been inconsequential
  => declining support (PSE/AMS)
- Biofuel boom ebbing?
  => corn-based biofuel targets attained by 2015
  => demand constrained by "blend wall"
  => long run determined by energy prices
- Budget pressures => "fiscal cliff"
- Erosion of public support for decoupled payments
- Growth in the federal crop insurance program
- Compliance with WTO panel (Brazil cotton)

Process

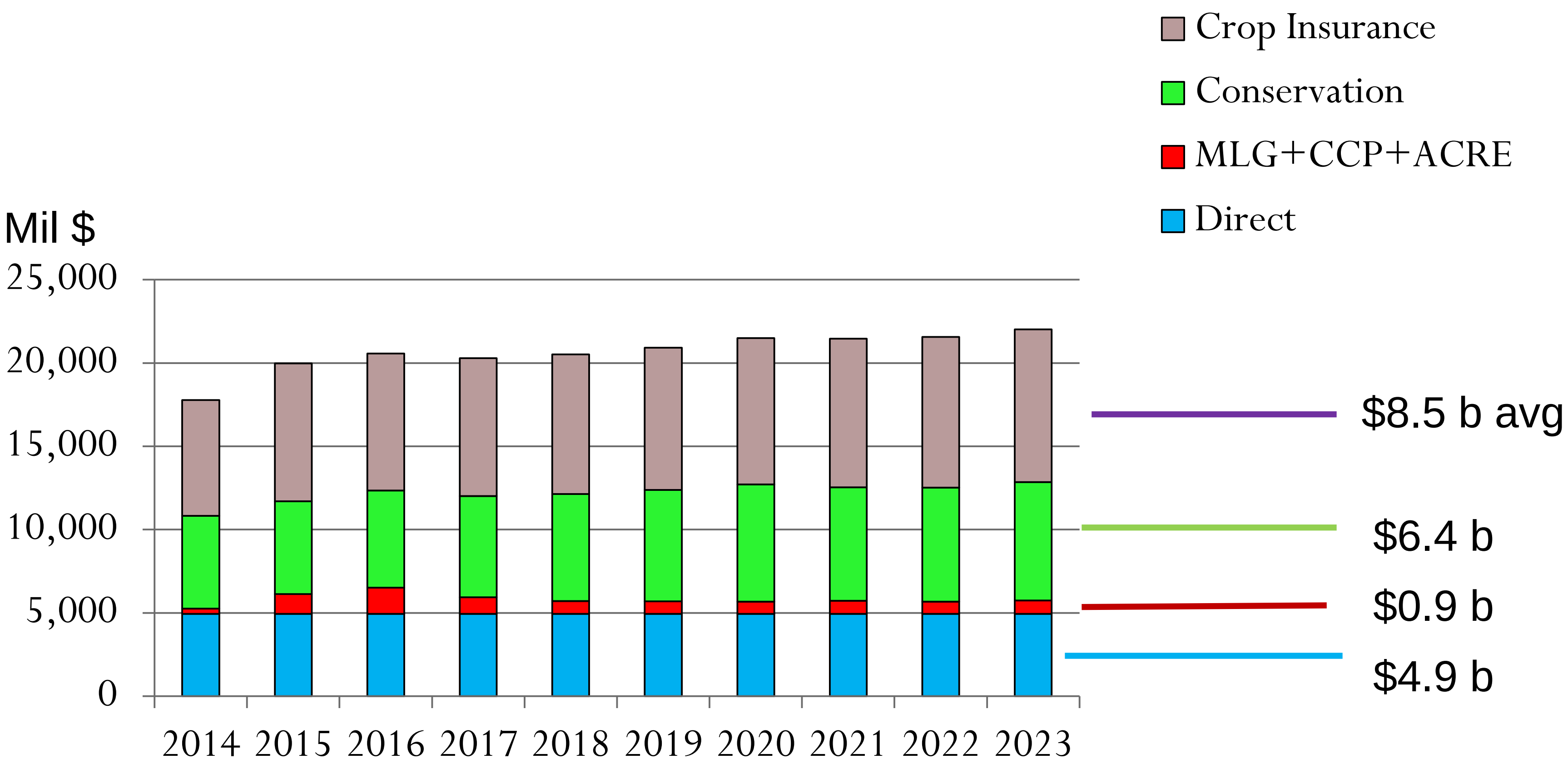
- President’s FY 2014 Budget: $38 billion savings over 10 year
- *Based May 13 CBO scoring*
- Senate: $23 billion savings over 10 years
  - Committee Mark up on May 14
  - Full Senate consideration: later this week or next
- House: $38 billion savings over 10 years
  - Committee Mark up on May 15
  - Full House consideration: June?
- Conference
  - Agreement on budget savings
- Budget
  - CBO baseline--this week
  - CBO cost out of House, Senate and Administration proposals—this week

Baseline: Expected program outlays under the 2008 Farm Bill, FY 2014-23



Source: CBO Baseline—February 2013

Baseline:
Selected programs



Source: CBO Baseline—February 2013

Dissatisfaction with Direct Payments

- Need for payments questioned in times of high prices
- Criticized as not providing adequate protection when prices are low (eg, late 1990s)
- Benefits accrue largely to landowners (and capitalized into rents)
- Wide differences between planted and base acres

But…

- For many producers, DPs are the only payments received over past several years
- Minimally trade distorting; notified as green box
- Tie to conservation compliance

Crop insurance—from failure to foundation of farm safety net

- Failure of Crop Insurance (1981-2000)
  - poor participation (less than 25% participation in 1988)
  - poor actuarial performance
  - failure to forestall ad hoc assistance
- Reforms Acts (1994 and 2000)
  - Increased participation (85% participation)
  - Development of revenue policies
- Largest farm program ($8.5 billion annually; over $17 billion paid out in indemnities for 2012 losses)
- Dominated by row crops (corn, cotton, wheat and soybeans); specialty crops account for about 1/8 of total premiums

Administration proposal
10 year savings: $38 billion

- Eliminate direct payments (- $30 billion)
- Crop insurance
  - Change pricing for CAT coverage (- $0.3 billion)
  - For policies over 50% coverage, reduce premium subsidy by 3 percentage points (- $4.2 billion)
  - Reduce subsidies for revenue products (- $3.2 billion)
  - Cap A&O reimbursements at $0.9 billion, adjusting for inflation (-$2.8 billion)
  - Reduce net underwriting gains to 12 percent return on investment (-$1.2 billion)
  - Expand Livestock Gross Margin insurance for dairy (+ $1 billion)
- Reinstate livestock disaster programs (+$3 billion)
- Consolidate agricultural easement programs (+$2.4 billion)
- Cap CRP (- $2.2 billion)
- Cap CSP (- $2 billion)
- Additional $1.3 billion for renewable energy, organic agriculture, specialty crops and beginning farmers

Source: President's Budget, FY 2014

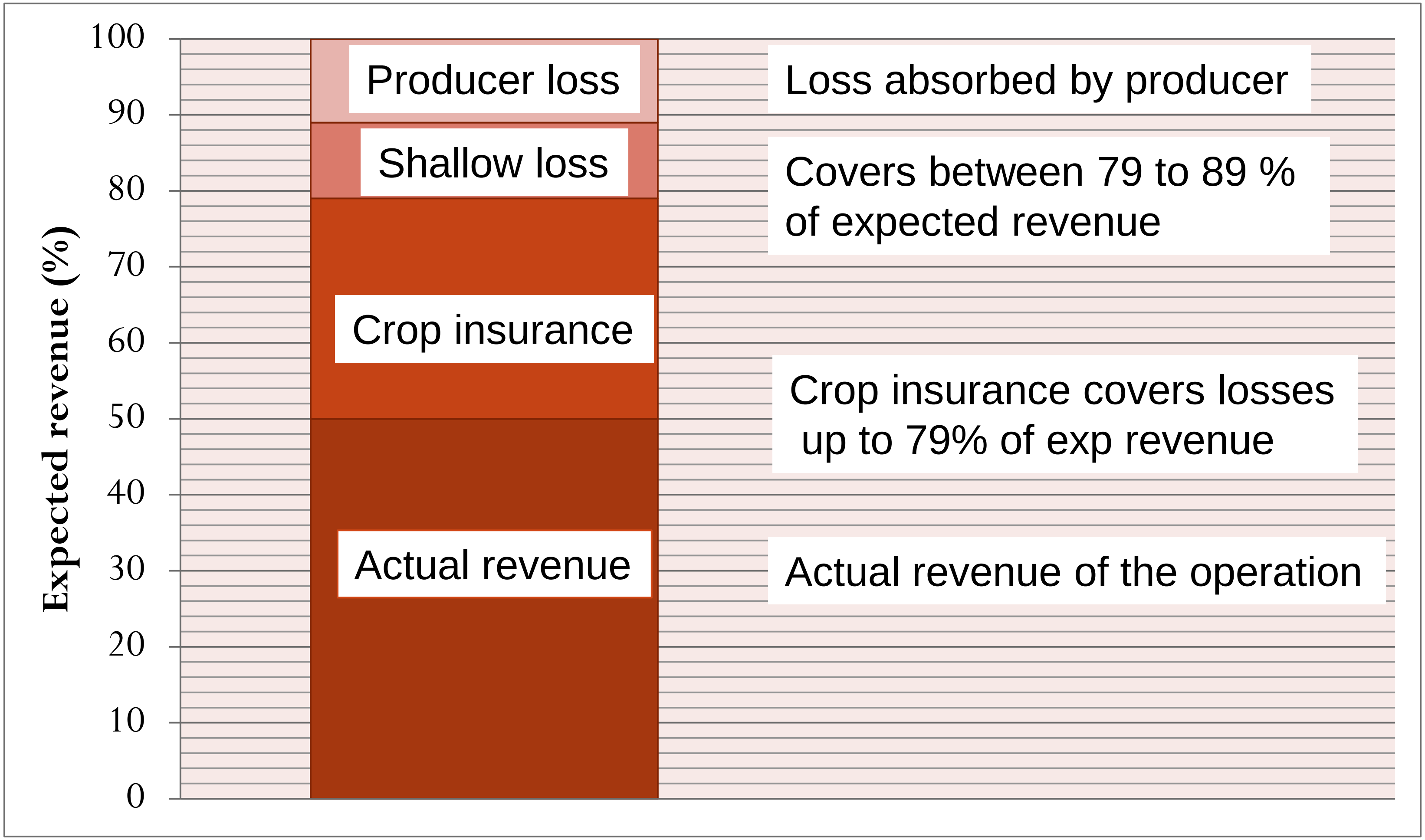
House and Senate bills

- Both would eliminate direct payments, counter-cyclical payments and ACRE program
- Both augment crop insurance program with supplemental "deductible" coverage (SCO)
- Both would replace dairy price supports with margin-based, producer-financed safety net programs (but with supply control features)
- Both implement supplemental crop insurance coverage for cotton (STAX)
- Similar conservation programs

Key differences

- Nutrition programs—House bill would end "broad-based categorical eligibility" to SNAP applicants that receive benefits under certain other programs (TANF, SSI, state assistance programs)
  - Applicants would have to demonstrate eligibility like other applicants
- Commodity programs:
  - Senate would offer choice between new "shallow loss" revenue programs to augment crop insurance coverage and augmented counter-cyclical payments based on base acres
  - House would offer choice between "shallow loss" programs or new price-based loss program similar to CCP program but based on actual plantings and revised target prices

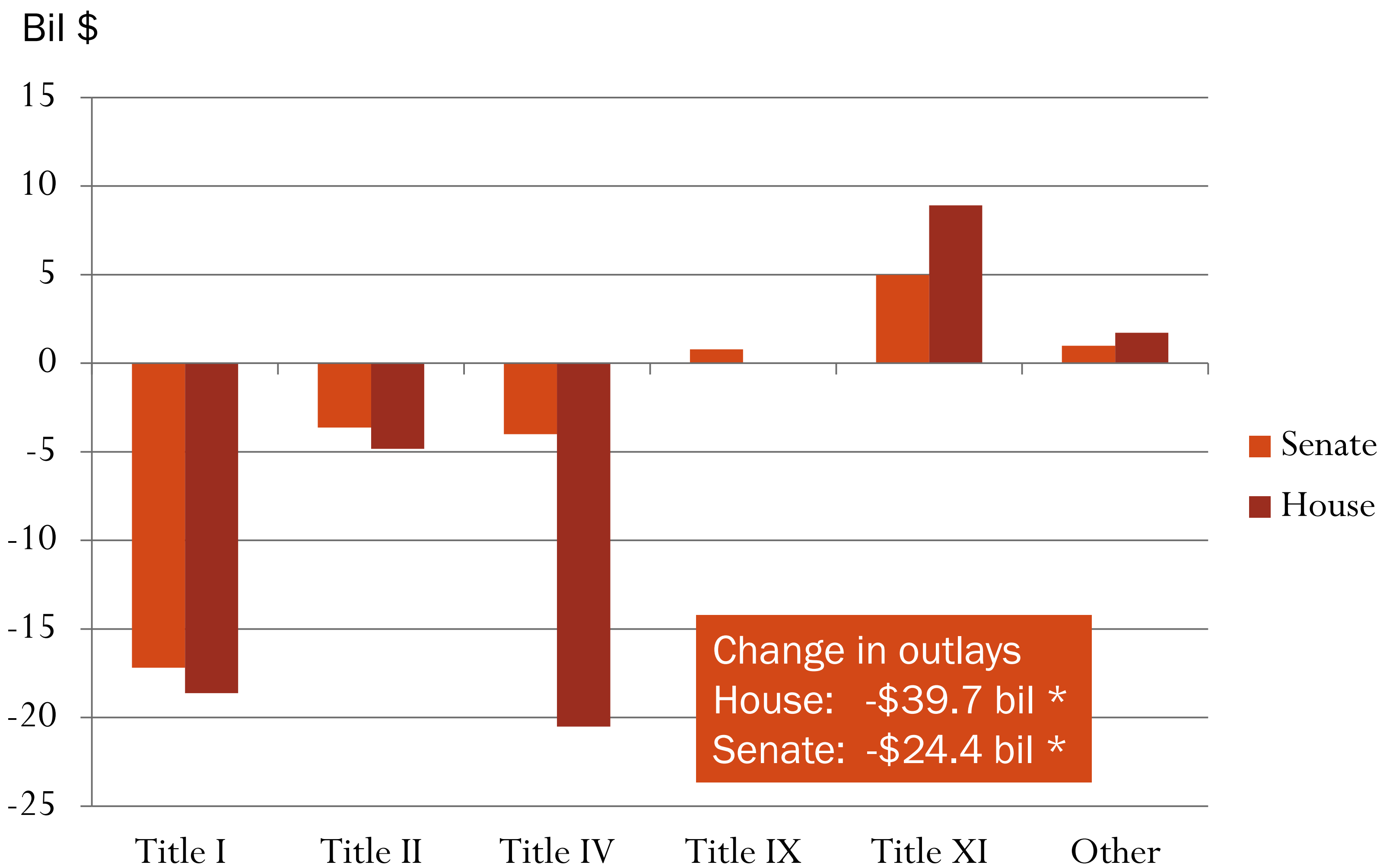
Shallow loss program



House and Senate proposals relative to current law

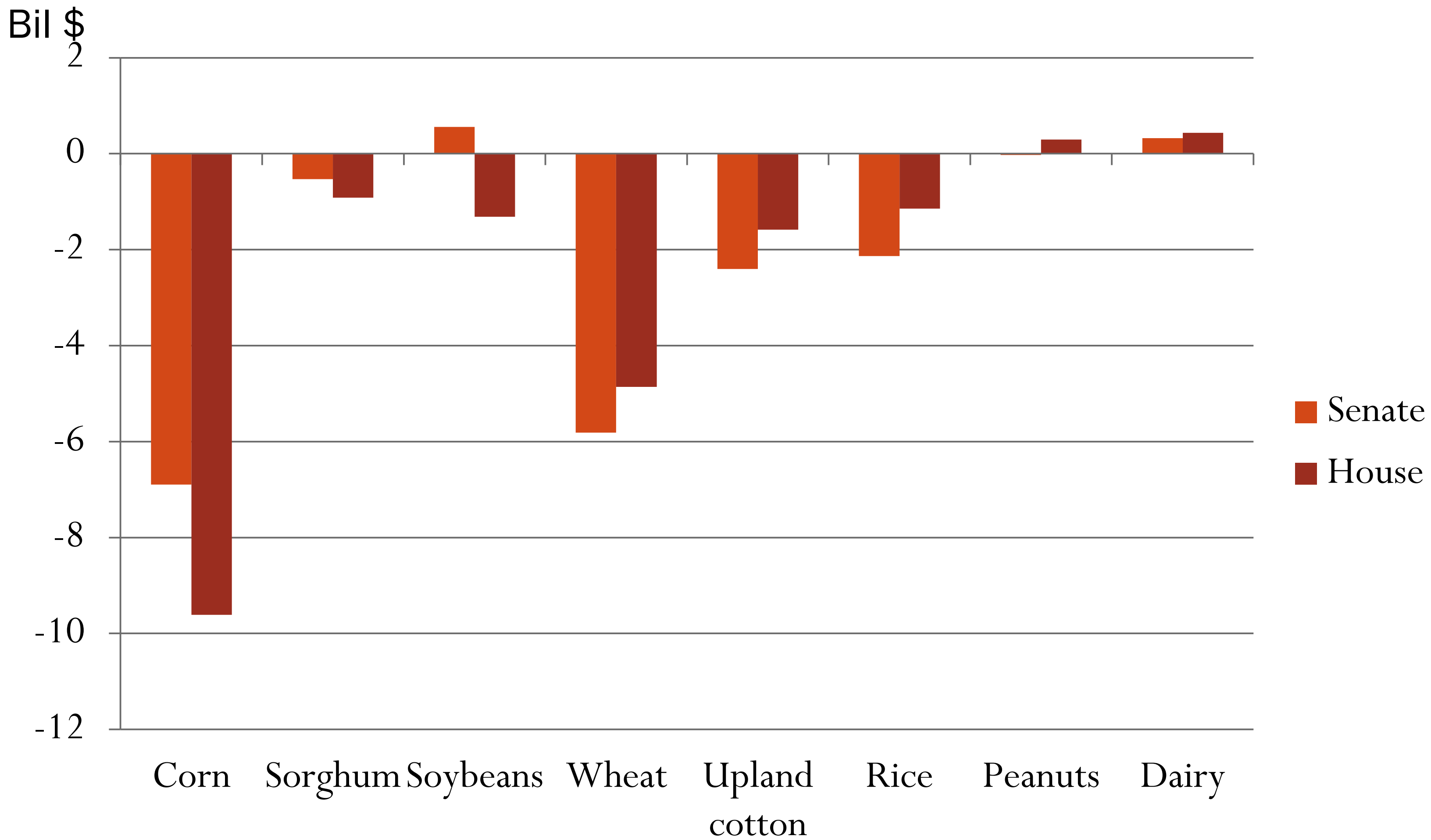
	Current target price	Senate reference price	House reference price
Wheat $/bu)	4.17	4.17	5.50
Corn ($/bu)	2.63	2.63	3.70
Grain sorghum ($/bu)	2.63	2.63	3.95
Barley ($/bu)	2.63	2.63	4.95
Rice ($/cwt)	10.50	13.30	14.00
Soybeans ($/bu)	6.00	6.00	8.40
Peanuts ($/ton)	495.00	523.77	535.00

Estimated effects on program outlays, for selected farm bill titles, FY 2014-23



*Source: CBO, * totals includes repeal of sequester legislation*

Estimated effects on program outlays by commodity, FY 2014-23



Source: CBO; Cotton outlays include estimated payments under STAX; does not include effects of repealing sequester legislation.

But much uncertainty surrounds estimates

- Program choices facing producers are complex:
  - Revenue vs price loss coverage
  - County vs farm level revenue coverage
  - Supplemental crop insurance coverage
- Choice will largely depend on one's expectations of future price levels and how one views crop insurance
- Given current baseline, most analyses suggests a strong preference for price loss coverage even among corn and soybean producers

Implications for WTO classification

Program	Likely classification
Revenue loss program	Product-specific amber
Price loss	Product-specific amber
STAX (Cotton)	Product-specific amber
Supplemental coverage option	Non-product specific amber
Dairy margin protection	Product-specific amber

Conclusions

- Budget pressures will likely result in major shift in policy away from decoupled payments to production based payments
- Much uncertainty in budget estimates because of program complexity. Savings could be far less than anticipated if producers choose price loss coverage over revenue loss plans.
- At current price projections, likely no large shifts in area.
- House and Senate proposals would shift green box spending (direct payments, CRP) into amber box (revenue loss, price loss, SCO). Dairy AMS likely to fall as price support program replaced with margin-based program.
- While budget costs will likely decline, AMS will likely be increase (marginally) compared to current law.