The Agricultural Act of 2014
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An overview of selected 2014 Farm Bill program changes.
$489B mandatory expenses estimated FY14-18, authorizes $956B FY2014-2013. 357 pages as GPO printed. This is only mandatory funding, not that subject to annual appropriations. When Congress decides to cut conservation spending mid-Farm Bill, it does. When it decides to increase appropriations for conservation, then more funds become available.

Funding critical to farmers shifts from Commodities to Crop Insurance
Projected expense based upon USDA May 2013 Ag Outlook, which means almost certainly that crop prices will be lower, and support payments higher during 2014-18, so the Title 1 expenses for the AA will be higher than predicted.
Title I - Commodities

- **Repeals:**
  - Direct Payments (DP)
  - Counter-Cyclical Payments (CCPs)
  - Average Crop Revenue Election (ACRE)
  - Supplemental Revenue Assistance Payments (SURE)

- **Creates 2 new price/income support programs for “covered commodities”:** Price Loss Coverage (PLC) and Agriculture Revenue Coverage (ARC). 1-time opportunity to reallocate base acres, update payment yield (PLC only), and select price-based PLC or revenue-based ARC payments.

- New limits on payment benefits, revised eligibility rules, and revised means test.
“Covered commodity” means wheat, oats, and barley (including wheat, oats, and barley used for haying and grazing), corn, grain sorghum, long grain rice, medium grain rice, pulse crops, soybeans, other oil seeds, and peanuts.

Cotton is no longer a “covered commodity”

“Farm base acres” includes base acreage of covered commodities plus “generic base acres” (old cotton base acres).

“Covered commodity” means wheat, oats, and barley (including wheat, oats, and barley used for haying and grazing), corn, grain sorghum, long grain rice, medium grain rice, pulse crops, soybeans, other oil seeds, and peanuts.
Owners of the farm will have the opportunity to reallocate base acres, but cannot exceed current base acres.

Cotton is no longer a “covered commodity”. Cannot reallocate cotton base or use it as part of payment acres except in any year that a covered commodity is planted on generic base acres.

Base acres for payment reduced if fruits & vegetables planted acres exceeds 15% of base acre ARC/county or 35% for ARC/farm.
The owner makes the decision whether or not to update payment yield.
These choices to be made in 2014 for covered commodities, cotton is not eligible for ARC or PLC.

One-time 2014 enrollment choice of 2014-2018 Options

Agriculture Risk Coverage (ARC)
1a) County coverage, or
1b) Individual (farm) coverage

2) Price Loss Coverage (PLC)

All producers (owner, operator, landlord, tenant, or sharecropper) must agree on choice. Must sign up in 2014 (probably summer) or no 2014 payments. Failure to enroll in 2014 defaults farm to PLC for 2015-2018

No reduction to payment acres for cover crops or double-cropping on base acres
Jonathan Coppess, FarmDoc Daily, February 6, 2014

Both programs assume that farmer has protected themself with crop or revenue insurance.

General:
ARC/county, PLC, ARC/farm

➢ “ARC provides assistance in the deductible range of crop insurance utilizing indications of actual losses (county-wide or multiple-commodity {farm} revenue movements from a recent average) and an emphasis on multi-year price risk.”

➢ “PLC is traditional income support policy utilizing price floors for commodities to help with market uncertainties such as sustained low prices.”
Agriculture Revenue Coverage (ARC) / county

- Covered Commodity-by-commodity election, may choose ARC/county for some crops and PLC for others
- Payments made if, for the covered commodity:
  Actual County Revenue < County Revenue Loss Trigger
- Actual County Revenue = NASS per planted acre county yield *
  (higher of: national average market year price or national average loan rate)
- Country Revenue Loss Trigger = 86% of Benchmark County Revenue
- Benchmark County Revenue = 5-year Olympic average county yield
  (except yields < 70% county T yield replaced with 70% T yield) * 5-year Olympic national average market year price (except prices below Reference Price replaced with Reference Price)
Payment Rate is lesser of:
   a) (Country Revenue Loss Coverage Trigger – Actual County Revenue), or
   b) 10% of benchmark county revenue

Payment Acres = 85% * a) Old FB Base Acres or b) Updated Base Acres, + (in both cases) Cotton Base Acres planted to covered commodity

Payment = Payment Rate * Payment Acres

ARC/county covers losses between 76 and 86% of the county benchmark revenue. Lost revenue below 76% of benchmark revenue can be covered with Multiple Peril Crop Insurance.
Price Loss Coverage (PLC)

- Commodity-by-commodity election, may choose PLC for some crops and ARC/county for others
- PLC payments triggered if for the covered commodity: Effective Price < Reference Price

- Effective Price = Higher of:
  a) National average market year price
  b) National average loan rate

- Reference Price = established for 2014-2018 in FB
Target prices were changed during course of 2008 Farm Bill
The 2014 reference prices are far, far below the record prices achieved in the past few years. But it appears that prices will fall for these basic commodities in 2014 and beyond. The current 2014 crop year forecast (Feb 2014) is now:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2008 FB Target Price ($/bu)</th>
<th>2014 FB Reference Price ($/bu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$2.63</td>
<td>$3.70</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$5.80</td>
<td>$8.40</td>
</tr>
<tr>
<td>Wheat</td>
<td>$3.92</td>
<td>$5.50</td>
</tr>
<tr>
<td>Barley</td>
<td>$2.24</td>
<td>$4.95</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>$2.57</td>
<td>$3.95</td>
</tr>
<tr>
<td>Peanuts</td>
<td>$495/ton</td>
<td>$535/ton</td>
</tr>
</tbody>
</table>

Corn $3.90
Soy $9.65
Wheat $5.39
Cotton $0.68
PLC

- **Payment Rate** = Reference Price – Effective Price
- **Payment Yield** = 2008 FB payment yields or 2014 FB Updated Yields
- **Payment Acres** = 85% *
  (either Old FB Base Acres or Updated Base Acres) + (in both cases) Cotton Base Acres planted to covered commodity
- **Payment** = Payment Rate * Payment Yield * Payment Acres
ARC payment made if:

Actual Farm Revenue < Benchmark Farm Revenue

Actual Farm Revenue = Sum over all covered commodities
(Total production covered commodity * higher of: National Average Marketing Year Price or National Average Loan Rate)
Divided by Sum all planted acres covered commodities

Benchmark Farm Revenue = Sum over all covered commodities
1) Olympic Average of Covered Crop Revenues
   For each covered commodity: (Last 5 years farm yield per planted acre (except replace any yield <70% of T yield with 70%*T yield) * Last 5 years National Average Marketing Year Price (except replace prices < Reference Price with Reference Price))
2) Revenue per Covered Crop Acre
   Multiply revenue in 1) by proportion of covered crop planted acres times total covered crop acres

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**ARC/farm**

- **Payment acres** ARC/farm = 65% of:
  a) old base acres, or
  b) updated base acres, + (in either case) cotton base acres
  planted to covered crops

- **Payment Rate** is lesser of:
  a) (Farm Revenue Loss Coverage Guarantee – Actual Farm Revenue), or
  b) 10% of benchmark farm revenue

- **Payment** =
  Payment Rate * Payment Acres

- ARC covers losses between 76 and 86% of benchmark farm revenue, losses below 76% covered with Multiple Peril Crop Insurance. All covered crop revenues on farm unit are combined, no PLC, Supplemental Coverage Option (SCO) or ARC/county on any crop.
Fruits & Vegetables Restrictions

- With ARC – County and PLC
  - fruits and vegetables can be planted on up to 15% of a farm’s base acres without reduction in payment acres
- With ARC – Farm
  - fruits and vegetables can be planted on up to 35% of a farm’s base acres without reduction in payment acres
Payment Limitations

- No payments to farms with sum of covered commodity acres < 10 acres unless socially disadvantaged or limited resource
- Single payment cap for all commodity programs set at $125,000/person ($250,000 for married couples). This is a departure from the 2008 farm bill that provided a payment cap for each commodity program
- Under the 2008 farm bill, Marketing Loan Gains (MLGs) and Loan Deficiency Payments (LDPs) were unlimited. Now payments received under the newly created PLC and ARC programs as well as LDPs and MLGs must fit under the new cap
Payment Limitations

- No person/entity is eligible to receive any commodity (including MLGs and LDPs), conservation program (beginning 2015), crop insurance benefits, or non-insured disaster benefits if their average Adjusted Gross Income over previous 3 tax years exceeds $950,000

- Limits payments to those “actively engaged” in farming; definition left to USDA
Cotton

- Repealed:
  - Direct Payments (DP)
  - Counter-Cyclical Payments (CCPs)
  - Average Crop Revenue Election (ACRE)
- Because of the WTO dispute with Brazil, cotton is no longer a “covered” commodity.
- Cotton base acres planted to cotton cannot be enrolled in PLC, ARC, or SCO; but are eligible for STAX insurance.
- In any year, cotton base acres can be planted to a covered crop and the “temporary base” can be enrolled in either ARC or PLC for the covered crop.
GRIP = Group Risk Income Protection Plan and associated Harvest Revenue Option Enhancement

**Group Risk Income Protection (GRIP)** is designed as a risk management tool to insure against widespread loss of revenue from the insured crop in a county. GRIP policies use a county revenue index as the basis for determining a loss by using the estimated county yield for the insured crop, as determined by National Agricultural Statistics Service (NASS), multiplied by the harvest price. If the county revenue falls below the trigger revenue level chosen by the producer, an indemnity is paid. Unlike GRP, it is not necessary to have a decline in yield to be indemnified, as long as the combination of price and yield results in a county revenue that is less than the trigger revenue. Payments are not based on individual producer’s crop yields and revenues. Coverage levels are available for up to 90 percent of the expected county revenue. GRIP involves less paperwork and costs less than plans of insurance against individual loss as described above. Under GRIP, an individual producer’s crop may receive reduced revenue from the insured acreage and not receive a payment under this plan if the county does not suffer a similar level of revenue loss. This insurance is primarily intended for producers whose crop yields typically follow the average county yield and wish to insure that the combination of yield and price result in a particular level of revenue.

**Group Risk Income Protection - Harvest Revenue Option (GRIP-HRO)** is a supplemental endorsement to the GRIP Basic Provisions. The Harvest Revenue Option changes the trigger revenue to be the result of multiplying the expected
county yield by the greater of the expected price or the harvest price and by the producer chosen coverage level percentage. If the county revenue for the insured crop, type, and practice falls below the GRIP-HRO trigger revenue, an indemnity is paid.
Cotton

- STAX will not be available until 2015. If a farm had cotton base acres in 2013, a transition direct payment will be provided in 2014. The “Transition Assistance Rate” is equal to $53.73 per base acre. In 2014, the transition payment amount will be 60% of $53.73 or $32.24 per base acre.

- If STAX is still not available in some counties in 2015, the transition assistance payment will be 36.5% of the Transition Assistance Rate, or $19.61/base acre. Transition assistance counts towards payment limits.
Peanuts

- Beginning in 2015, a new revenue insurance program for peanut producers is authorized.
- Effective price will be the Rotterdam peanut price index adjusted to reflect US farmer stock price
Crop insurance industry claims that 86% of insurable acreage is now covered through the Federal Crop Insurance Program.
Supplemental Coverage Option (SCO)

- Not available until 2015
- Government pays 65% of premium
- Supplemental Coverage Option (SCO) only available for PFC
  Complements individual crop or revenue coverage, part of
  difference between insurance and 86% of normal yield/revenue
- SCO triggered if area yield or revenue losses exceed 14% of
  normal levels. Yield of SCO based on area plans such as
  GRP/GRIP. Price component based like other insurance
  programs, e.g. Insurance price for corn is December futures
  contract price during February.
- Individual coverage may be yield-based (SCO then insures
  yield) or revenue-based (SCO then insures revenue)
- County-level (or larger if limited data) risk policy, purchased
  from crop insurance agency.
The Dairy Forward Pricing Program — allows non-cooperative buyers of milk who are regulated under federal milk marketing orders to offer farmers forward pricing on Class II, III, or IV milk, instead of paying the minimum federal order blend price for pooled milk.

The Dairy Indemnity Program — provides payments to dairy producers in the unlikely event that a public regulatory agency directs them to remove their raw milk from the commercial market because it has been contaminated by pesticides, nuclear radiation or fallout, or toxic substances and chemical residues other than pesticides. Payments are made to manufacturers of dairy products only for products removed from the market because of pesticide contamination.

Certain provisions to augment the development of export markets under the National Dairy Promotion and Research Program.
Dairy

- In 5 percent increments, producers will be able to purchase protection from 25 percent up to 90 percent of their production history.

- In 2014, MPP coverage is limited to the producer’s highest production in 2011-2013, and thereafter will be increased by the national average growth in milk production. Growth beyond the national average growth is not protected by MPP.
Producers may select MPP coverage in 50 cent increments from $4 per cwt. through $8 per cwt. Premiums fixed thru 2018:

<table>
<thead>
<tr>
<th>Margin coverage (per cwt)</th>
<th>Premium up to 4 million pounds (per cwt)</th>
<th>Premium above 4 million (per cwt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4.00</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>$4.50</td>
<td>$0.01</td>
<td>$0.02</td>
</tr>
<tr>
<td>$5.00</td>
<td>$0.03</td>
<td>$0.04</td>
</tr>
<tr>
<td>$5.50</td>
<td>$0.04</td>
<td>$0.10</td>
</tr>
<tr>
<td>$6.00</td>
<td>$0.06</td>
<td>$0.16</td>
</tr>
<tr>
<td>$6.50</td>
<td>$0.09</td>
<td>$0.29</td>
</tr>
<tr>
<td>$7.00</td>
<td>$0.22</td>
<td>$0.83</td>
</tr>
<tr>
<td>$7.50</td>
<td>$0.30</td>
<td>$1.06</td>
</tr>
<tr>
<td>$8.00</td>
<td>$0.48</td>
<td>$1.36</td>
</tr>
</tbody>
</table>

For marketings < 4m lbs, premiums reduced by 25% for 2014 & 2015 except coverage=$8
Conservation compliance prevents farmers who drain wetlands, or those who farm highly erodible lands (HEL) without a conservation plan from receiving subsidized crop insurance premiums. Conservation compliance was previously required for subsidized crop insurance 1985-1996. With the end of direct payments, Claasen estimated that in 2010, 53,000 farms operating 17m acres of cropland would be required to maintain CC for the first time since 1996.

Some agricultural groups argued that unintended consequences of requiring CC with crop insurance could include “the potential loss of financing from our lenders, an undermining of the public/private partnership between the federal government and crop insurance companies, and a potentially unbalanced approach to a new mandate (depending on whether such a program covers only program crop commodities or is also applied to specialty crops).”
Combined funding for Working Lands Programs (EQIP and CSP) will total over 50% of conservation spending during 2014-2018, up from 11% during 1996-2002.

What is not illustrated in this graph is that conservation program spending has increased from about $2.5B in 1996 to nearly $6B in 2012.
Major Conservation Programs (CRP, EQIP, CSP) in Farm Bill 2014

- CSP enrollment cap lowered to 10m acres/year, payment limit of $200K for FY2014-2018
- 60% of EQIP payments must go to practices related to livestock, payment limit of $450K for FY2014-2018
- Reauthorizes Conservation Innovation Grants (CIG) program within EQIP; $25m/year air quality funding cut-out
- Authorizes EQIP funding rising to $1.75B by FY2018
• Includes easement portion of GRP, other portion merged into CRP (2m acres authorized)

• Authorizes ACEP funding of $400m, $425m, $500m and $250m in FY2014-2018. Funding for easement programs (ACEP) falls by more than 55% 2014-2018 compared to funding of predecessor programs
Authorizes RCPP funding of $100m/year for FY2014-2018
WHIP merged into EQIP, with at least 5% of funds set aside for wildlife-related practices.
House created Nutrition title as separate Act from Farm Bill, reduced funding by $39B. 2014 Farm Bill incorporates Nutrition into Farm Bill.
Nutrition (cont.)

- Establishes a 10-state pilot to empower states to engage participating adults in mandatory work programs.
- Prohibits USDA from engaging in SNAP recruitment activities, and advertising SNAP on TV, radio, billboards & through foreign governments.
- Prohibits illegal immigrants, lottery winners, traditional college students, and the deceased from receiving benefits.
- Prohibits SNAP recipients from receiving benefits in multiple states.
Questions?

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