



Farm Safety Net Proposals for the 2012 Farm Bill

Dennis A. Shields

Specialist in Agricultural Policy

Randy Schnepf

Specialist in Agricultural Policy

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Summary

Ongoing budget deliberations by the Joint Select Committee on Deficit Reduction have generated concerns that a farm bill to reauthorize farm programs expiring in 2012 may be written by budget negotiators rather than by the respective House and Senate Agriculture Committees. Various federal budget proposals have emerged that recommend lower federal spending including cuts to agriculture programs ranging from \$10 billion to \$40 billion over 10 years.

In response, Members of Congress, the Administration, and a number of farm groups have put forward proposals to reduce government expenditures on farm subsidies and revise farm programs. Many of these farm program proposals were unveiled in September 2011 as the Joint Select Committee on Deficit Reduction began its deliberations on government-wide budget cuts. The proposals discussed here might be a starting point for developing the next installment of farm programs when the 2008 farm bill expires in 2012. Other ideas have also been proposed but are not discussed here because of duplication or due to insufficient information at time of publication.

Many proposed cuts and policy changes have been directed at commodity programs and crop insurance because these programs account for the bulk of agricultural funding (excluding conservation and nutrition programs, which are also considered part of the agricultural budget). Commodity programs, crop insurance, and the recently expired farm disaster programs comprise the so-called “farm safety net”—the federal government’s suite of programs designed to support farm income and help farmers manage risks associated with variability in crop yields and prices. To generate budget savings and provide funding for proposed changes to the farm safety net, nearly all of the proposals either reduce or eliminate direct and counter-cyclical payments. Most proposals either leave the marketing loan program unchanged or retain it with modest modifications; however, it would be eliminated under two proposals.

To facilitate comparisons, the various proposals are loosely grouped into four categories: (1) minor policy changes, (2) revised revenue programs, (3) enhanced crop insurance, and (4) other. Proposals offering the least amount of policy change include those by the Administration and by the American Farm Bureau, both of which would essentially extend farm programs at reduced funding levels. In contrast, three proposals—the Aggregate Risk and Revenue Management (ARRM) Act of 2011 (S. 1626), and separate proposals by Senator Conrad and the American Soybean Association—would cut direct and other commodity payments and create a new crop revenue program by borrowing concepts from current programs.

Three proposals—one by the National Cotton Council, one by Representative Neugebauer, and another by a private crop insurance company—focus on modifications to crop insurance programs. The National Farmers Union proposes to replace existing farm programs with a combination of farmer-owned-reserves, increased loan rates, and set asides. A proposed new dairy program—the Dairy Security Act—would provide a voluntary margin insurance program and market stabilization activities in place of current dairy programs. Finally, the proposed REFRESH Act (Senator Lugar) would eliminate most commodity programs (including the sugar program), and incorporate ARRM, the Dairy Security Act, and expanded whole-farm revenue insurance in their place.

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Introduction

Most of the provisions of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246; the 2008 farm bill) do not expire until the end of FY2012. However, on-going budget deliberations by the Joint Select Committee on Deficit Reduction¹ have generated concerns that a new farm bill may be “written” or severely constrained from a budgetary perspective by budget negotiators rather than by the respective House and Senate Agriculture Committees. This concern is further heightened by various federal budget proposals—that have emerged since late 2010—that recommend lower government-wide spending including cuts to agriculture programs ranging from \$10 billion to \$40 billion over 10 years.

Many proposed cuts and policy changes have been directed at commodity programs and crop insurance because these programs account for the bulk of agricultural funding (excluding conservation and nutrition programs, which are also considered part of the agriculture budget). Commodity programs, crop insurance, and the recently expired farm disaster programs comprise the so-called “farm safety net”—the federal government’s suite of programs designed to support farm income and help farmers manage risks associated with variability in crop yields and prices. As a result, Members of Congress and several prominent commodity and agricultural interest groups have released their own proposals for U.S. farm policy in general, and Title I commodity programs in particular, with an eye towards influencing the Joint Select Committee’s recommendation to reduce overall government spending and apportion the share that the agriculture baseline will contribute to deficit reduction.

This report describes current farm safety net programs and reviews proposals for policy change and budget savings. The proposals range from simply extending current farm programs at reduced funding levels to program elimination and wholesale replacement.

Farm Safety Net Programs²

The U.S. Department of Agriculture and the broader farming community often refer to the farm safety net as:

1. commodity programs under Title I of the 2008 farm bill,
2. federal crop insurance (permanently authorized) under the Federal Crop Insurance Act of 1980, and
3. disaster assistance programs under Title XII of the 2008 farm bill.

¹ See CRS Report R42013, *The Budget Control Act of 2011: Effects on Spending Levels and the Budget Deficit*.

² See CRS Report R41317, *Farm Safety Net Programs: Issues for the Next Farm Bill*. While many critics of farm subsidies take issue with what does and does not constitute a safety net and whether current farm programs actually perform as such, the term safety net is used here for all farm commodity and risk management programs as a catchall descriptor rather than an assessment of the merits. Several current farm programs contain elements of a safety net and are intended to protect farmers against risks or ensure a minimum level of economic well-being. For example, crop farmers and landowners receive counter-cyclical payments when the crop price or revenue declines below a certain level. In contrast, “direct payments” deliver nearly \$5 billion every year to owners of agricultural base acres irrespective of the level of farm prices or production.

Each of these three components is covered in the sections below and summarized in **Table 1**. The Congressional Budget Office (CBO) projects the total cost of farm safety net programs in FY2011 at \$13 billion (\$5.6 billion for commodity programs, \$5.5 billion for crop insurance, and \$1.9 billion for disaster assistance).³

Commodity Programs

The mandatory commodity provisions of Title I of the 2008 farm bill provide support for 26 farm commodities. Producers of program commodities (food grains, feed grains, oilseeds, upland cotton, peanuts, and pulse crops) are eligible for a variety of payments.⁴ Types of payments include “direct,” “counter-cyclical” or “Average Crop Revenue Election (ACRE),” and “marketing loan benefits” as described in **Table 1**. Producers of other so-called “loan commodities” (including extra long staple, or ELS cotton, wool, mohair, and honey) are eligible only for nonrecourse marketing assistance loans and marketing loan benefits. In the 2008 farm bill, benefits for producers of dry peas, lentils, and chickpeas, were expanded to include counter-cyclical payments (but not fixed “direct” payments).

Current farm bill law also mandates that raw cane and refined beet sugar prices be supported through a combination of limits on domestic output that can be sold, nonrecourse loans for domestic sugar, and quotas that limit imports. Dairy product prices are supported by guaranteed government purchases of nonfat dry milk, cheese, and butter at set prices, and quotas that limit imports. Additionally for dairy, Milk Income Loss Contract (MILC) payments are made directly to farmers when farm-level milk prices fall below specified levels.

In contrast to producers of traditional farm bill commodities, producers of specialty crops (e.g., fruits, vegetables, horticulture crops) and livestock generally have received little or no direct government support through commodity programs. Instead, these farms may manage risks through business diversification, purchase of federal crop insurance, and participation in federal disaster assistance programs.

Crop Insurance

The federal crop insurance program provides risk management tools to address losses in revenue (accounting for about 75% of total policy premiums) or crop yield (25%). Federally-subsidized policies protect producers against losses during a particular season, with price guarantee levels established immediately prior to the planting season. This is in contrast to commodity programs, where protection levels are specified in statute (e.g., counter-cyclical payments) or use average farm prices from previous years (e.g., ACRE).

Federal crop insurance has grown in importance as a farm risk management tool since the early 1990s due, in large part, to federal subsidy intervention.⁵ The federal government pays about

³ CBO Budget Projections, March 2011.

⁴ Food grains include wheat and rice, and feed grains include corn, sorghum, barley, and oats. Oilseeds include soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed. Pulse crops include dry peas, lentils, small chickpeas, and large chickpeas. Commodity programs are financed through USDA’s Commodity Credit Corporation (CCC). See CRS Report RL34594, *Farm Commodity Programs in the 2008 Farm Bill*.

⁵ Insurance policies are serviced through approved private insurance companies. Independent insurance agents are paid sales commissions by the companies. The insurance companies’ losses are reinsured by USDA, and their administrative (continued...)

60%, on average, of the farmer's crop insurance premium. Thus, as participation in crop insurance programs has grown over time, so too has the absolute level of federal premium subsidies. CBO projects that the current crop insurance program would cost, on average, \$7.7 billion per year (**Table 1**) through 2021.⁶

Crop insurance has perhaps the widest commodity and regional coverage of any agricultural program. In 2010, crop insurance policies covered 256 million acres or approximately 74% of acres planted. Major crops are covered in most counties where they are grown. Policies for less-widely produced crops are available in primary growing areas. In total, policies are available for more than 100 crops, including coverage on fruit trees, nursery crops, pasture, rangeland, and forage.

Disaster Assistance

In an attempt to avoid ad hoc disaster programs that had become almost routine, and to cover additional commodities, the 2008 farm bill included authorization and funding for five new disaster programs. However, these programs were authorized only for losses for disaster events that occur on or before September 30, 2011, and not through the entire life of the 2008 farm bill (which generally ends on September 30, 2012). As a result of this early expiration, funding for these programs is not included in future baseline estimates.

The largest of the disaster programs is the Supplemental Revenue Assistance Payments Program (SURE), which is designed to compensate eligible producers for a portion of crop losses not eligible for an indemnity payment under the crop insurance program. The program departs from both traditional disaster assistance and crop yield insurance by calculating and reimbursing losses using total crop revenue for the entire farm (i.e., summing revenue from all crops for an individual farmer). The whole-farm feature and the use of 12-month season-average prices—while perhaps fiscally responsible—have made SURE complicated, data dependent, and slow to respond to disasters.

The 2008 farm bill also authorized three new livestock assistance programs and a tree assistance program. The Livestock Indemnity Program (LIP) compensates ranchers for livestock mortality caused by a disaster. The Livestock Forage Disaster Program (LFP) assists ranchers who graze livestock on drought-affected pastureland or grazing land. The Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP) compensates producers for disaster losses not covered under other disaster programs. Finally, the Tree Assistance Program (TAP) assists growers with the cost of replanting trees or nursery stock following a natural disaster.

(...continued)

and operating costs are reimbursed by the government. Separately, the Noninsured Crop Disaster Assistance Program (NAP) attempts to fill in the gaps in catastrophic coverage in counties where crop insurance policies are not offered. The program is administered by the USDA's Risk Management Agency (RMA) and financed through USDA's Federal Crop Insurance Corporation (FCIC).

⁶ CBO Budget Projections, March 2011.

Table I. Farm Safety Net Programs
(authorized under the 2008 Farm Bill and other legislation)

Program Instrument	Commodity Coverage	Program description and outlays (\$15.2 billion/yr.)
Commodity Programs		Projected average outlays FY2012-21: (\$5.7 billion/yr.)
1. Direct payments (DP)	Wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, sunflower, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed, and peanuts.	Fixed annual payment based on land's production history. Income transfer; not tied to current market prices or yields. (\$4.9 billion/yr.)
2. Counter-cyclical payments (CCP)	Above crops plus pulse crops (dry peas, lentils, small chickpeas, and large chickpeas).	Variable annual payment—varies inversely with market price relative to “target price” in statute. Based on historical yield and acreage, and national season-average farm price of commodity. (\$0.2 billion/yr.)
3. Marketing Assistance Loan benefits (loan deficiency payments, marketing loan gains, and certificate exchanges)	Same crops as those eligible for CCP plus extra long staple cotton, wool, mohair, and honey.	Variable payment—varies inversely with market price relative to “loan rate” in statute. Based on actual production. Farmer chooses timing. Allows loan to be repaid at possibly lower market price, or cash payment. (\$0.1 billion/yr.)
4. Average Crop Revenue Election (ACRE)	Same crops as those eligible for CCP (farmers receive either CCP or ACRE payments, not both)	Variable annual payment—varies inversely with state-level revenue relative to crop benchmarks. Triggered by <u>both</u> low farm and state revenues. (\$0.4 billion/yr.)
5. Non-recourse loans and marketing allotments	Sugar	Price guarantee for refined beet sugar and raw cane sugar; limits on sales of domestically-produced sugar. Import quotas. (\$0, no net cost).
6. Milk Income Loss Program (MILC) and Dairy Product Price Support Program (DPPSP)	Milk (MILC); nonfat dry milk, cheese, and butter (DPPSP)	Variable payment—varies inversely with national farm milk price (MILC); dairy product prices supported at certain minimums (DPPSP). Import quotas. (\$0.1 billion/yr.)
Risk Management		Projected average outlays FY2012-21: (\$7.8 billion/yr.)
7. Crop insurance	More than 100 crops, including major crops, many specialty crops, and some livestock.	Subsidized insurance premiums. Indemnities paid when yield or revenue drops below guarantees established prior to planting. Coverage level selected by producer and based on expected prices, farm yield, farm revenue, and/or area yield. (\$7.7 billion/yr.)
8. Noninsured Crop Disaster Assistance Program (NAP)	Crops not covered by crop insurance	Payments for severe crop yield losses in regions where crop insurance is not available. (\$0.1 billion/yr.)
Disaster Assistance (authority ended 9/30/11)		Average annual losses: (\$1.7 billion/yr.)
9. Supplemental Revenue Assistance Payments Program (SURE)	All crops	Payment based on whole-farm crop revenue shortfall not covered by crop insurance.
10. Four additional disaster programs	Livestock, forages, honey bees, farm-raised fish, fruit tree, vines.	Payment for losses due to adverse weather or other conditions (e.g., wildfire).
11. Ad hoc disaster payments	Policy makers' discretion	Payment and eligibility determined by each disaster bill.

Source: Congressional Research Service. Outlays are based on the March 2011 CBO baseline.

Notes: The term “safety net” is used broadly here and does not assess the merits of the various programs. Not shown is additional support for dairy and sugar producers through import restrictions. Additional disaster programs include Livestock Indemnity Program (LIP); Livestock Forage Disaster Program (LFP); Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP); Tree Assistance Program (TAP).

Policy Issues

The current tight federal budget situation and the general global economic recession since 2008 contrast sharply with the economic success experienced by the U.S. farm sector in recent years.⁷ The U.S. agricultural sector has been thriving financially since the mid-2000s as rising commodity prices and land values have pushed farm incomes to record levels and reduced debt-to-asset ratios to historically low levels. Over the past decade, farm household incomes have surged ahead of average U.S. household incomes. With this economic backdrop, several critical policy issues have emerged in recent years that are likely to play a role in shaping the next U.S. farm bill.⁸ These include the following.

Budget Concerns. The current federal budget situation is likely to limit overall spending on a 2012 farm bill. Deficit reduction, as evidenced by the mandate given to the Joint Select Committee on Deficit Reduction, and the frequency that agriculture is mentioned as a target for cutting government spending is likely to continue.

Effectiveness of the Current Farm Safety Net. From a farmer perspective, commodity programs have generated criticism that they are not well integrated, are too slow to respond to disasters, or do not provide adequate risk protection. In contrast, others have long questioned the need for farm subsidies, contending that government funding could be better spent advancing environmental goals or improving productivity. Others cite economic arguments against the programs—that they distort production, capitalize benefits to the owners of the resources, encourage concentration of production, harm smaller domestic producers and farmers in lower-income foreign nations, and pay benefits when there are no losses or to high-income recipients.

Overlap in Farm Risk Programs. Farm policy observers have identified apparent overlap among farm safety net programs. For example, the ACRE program and crop insurance both address revenue variability. Also, the current farm program mix has several variations of “counter-cyclical-style” payments, including marketing loan benefits, traditional (price) counter-cyclical payments, ACRE (revenue) payments, revenue-type crop insurance, and whole-farm insurance. Some believe that a simplified approach might be more effective and less expensive.

Commodity Coverage Limited to Major Row Crops. The extent of the current commodity coverage is primarily a result of the historical and evolving nature of farm policy. Producers of major commodities have benefited the most from farm programs because farmers and policymakers representing those commodities shaped the programs from their inception. Since then, other commodity advocates have not had the interest or sufficient political power to add their commodities to the mix. Commodity coverage could be increased by adding commodities to the program mix or by developing a whole-farm program.

Farm policy alignment with U.S. trade commitments. As a World Trade Organization (WTO) member, the United States has committed to operate its domestic support programs within the parameters established by the Agreement on Agriculture as part of the Uruguay Round

⁷ See CRS Report R40152, *U.S. Farm Income*.

⁸ These policy issues are discussed in detail in CRS Report R41317, *Farm Safety Net Programs: Issues for the Next Farm Bill*.

Agreement.⁹ The United States also faces pressure to modify certain “trade-distorting” elements of its upland cotton programs due to an unfavorable WTO dispute settlement ruling.¹⁰

Farm Safety Net Proposals

Members of Congress, the Administration, and a number of farm groups have put forward proposals to reduce government expenditures on farm subsidies and revise farm programs. Many of the proposals reflect the goal, at least to some degree, of:

making the farm program safety net more effective, efficient, and defensible by reallocating baseline funding to improve risk management and complement crop insurance. Currently, marketing loan rates and target prices are too low to provide effective price and income support. The ACRE program has too many disincentives to participation. The SURE disaster program has not made timely payments and is expiring, and there is concern about how to protect against shallow losses. Direct Payments are increasingly difficult to defend as farm prices remain at historically high levels.¹¹

Nearly all of the proposals summarized below and listed in **Table 2** either reduce or eliminate direct and counter-cyclical payments to generate savings and provide funding to change the farm safety net so it better addresses farm revenue risk for producers. Most proposals either leave the marketing loan program unchanged or retain it with modest modifications; however, two proposals—the Farm Financial Safety Net (FFSN) and REFRESH Act—would eliminate the marketing loan program.

To facilitate comparisons, the various proposals are loosely grouped into four categories: (1) minor policy changes, (2) revised revenue programs, (3) enhanced crop insurance, and (4) other.

Not all of the proposals specify how much budgetary savings would occur and, even if they do, few have official comparable scores by the Congressional Budget Office (CBO). As a reference point, CBO projects average outlays for safety net programs for FY2012-FY2021 at about \$135 billion over the 10-year period or \$13.5 billion/year, excluding combined outlays of \$3 billion in 2012 and 2013 from disaster programs that expire in 2011. This compares to average farm safety net program outlays of \$15.7 billion/year during FY2003 to FY2010, with a high of \$20.5 billion in FY2006 and a low of \$12.2 billion in FY2008.

⁹ See CRS Report RS20840, *Agriculture in the WTO: Limits on Domestic Support*, and CRS Report RL32916, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture*.

¹⁰ See CRS Report RL32571, *Brazil’s WTO Case Against the U.S. Cotton Program*.

¹¹ From the American Soybean Association, “Risk Management for America’s Farmers and Meeting Agriculture’s Share of Deficit Reduction,” September 29, 2011, <http://www.soygrowers.com/policy/ASA-RMAF.pdf>.

Table 2. Selected Farm Safety Net Proposals

Proposal	Description	Eliminations / Net savings
Group I. Minor Policy Changes		
American Farm Bureau Federation Proposal	No major program changes; continue direct payments, CCP, ACRE, loan program, and crop insurance.	Eliminate SURE; reduce direct payments and ACRE.
Administration: Deficit Reduction Plan	Reauthorize CCP, ACRE, SURE, and the marketing loan program; reduce crop insurance expenditures by reducing producer subsidies and payments to insurance companies for expenses and risk-sharing.	Eliminate direct payments. \$33 billion savings over 10 years (including conservation savings).
Group II. Revised Revenue Programs		
Aggregate Risk and Revenue Management (ARRM) by Senators Brown, Thune, Durbin and Lugar	Crop revenue program—makes payments (by program crop) when two triggers are met: (1) farm revenue is below guarantee level, and (2) crop revenue at the crop reporting district level is below guarantee. Both use historical crop insurance prices.	Eliminate direct payments, CCP, ACRE, and SURE. \$20 billion savings over 10 years.
Rural Economic Farm & Ranch Sustainability and Hunger Act (REFRESH) by Senator Lugar and Rep. Stutzman	Five titles: I-Producer Safety Net (ARRM), II-Cons., III-Nutrition, IV-Energy, and V-Research. Expands whole-farm revenue insurance. Eliminates sugar program. Adds Dairy Security Act. Reduces CRP.	Eliminate direct payments, CCP, ACRE, SURE, and marketing loan. All titles: \$40 billion savings over 10 years.
Crop Revenue Guarantee Program by Senator Conrad	Whole-farm revenue program (for program crops only)—makes payments when total revenue declines below guarantee. Payment is 60% of difference between guarantee and actual revenue. Price guarantee is higher of target price or 5-yr. Olympic farm price. Disaster programs for other commodities.	Reduce direct payments by 50%, eliminate CCP, ACRE, and SURE (for program crops only).
Risk Management for America's Farmers (RMAF) by American Soybean Association	Crop revenue program—makes payments (by program crop) when revenue on farm is below guarantee based on APH or county yields and national farm prices.	Eliminate direct payments, CCP, ACRE, and SURE.
Group III. Enhanced Crop Insurance		
Stacked Income Protection Plan (STAX) by National Cotton Council	STAX is described for cotton producers only. Farmers could buy insurance coverage to protect against shallow losses under an area-wide insurance product with a fixed minimum harvest price; would be in addition to a farmer's individual policy.	Eliminate direct payments, CCP, ACRE, and SURE. Modify marketing loan (2-yr. ave. of Adjusted World Price within 47 to 52 cents/lb. range).
Crop Risk Options Plan (CROP) by Rep. Neugebauer	Enable producers to supplement farm-level with area-wide insurance to cover shallow losses. Change APH yield from 10-year average to 7-year Olympic average.	
Farm Financial Safety Net (FFSN) by private crop insurance company	Crop insurance coverage would include a market-based minimum harvest price (e.g., 5-yr. ave. of crop insurance projected prices times 80%); add 5% coverage (paid by government) to the farmer's purchased coverage for shallow losses.	Eliminate direct payments, CCP, marketing loans, and SURE.
Group IV. Other		
Farmer-Owned Reserves (FOR) by National Farmers Union	FOR, increased loan rates, and acreage set-asides. Payments limited to crops placed under FOR.	Eliminate direct payments and CCP. Modify marketing loan.
Dairy Security Act of 2011 by Rep. Peterson and others	Voluntary margin insurance program and market stabilization (to reduce incentive to produce milk).	Eliminate current dairy programs. \$131 million savings over 10 yrs.

Source: Compiled by CRS from proposal statements, news reports, and other sources.

Group I: Minor Policy Changes

American Farm Bureau Federation's Recommendations

The American Farm Bureau Federation (AFBF) has proposed no major policy changes to the farm safety net, preferring to maintain all existing programs with the exception of SURE.¹² AFBF's view is that the current "multi-legged stool" for commodity programs is the best approach. Moreover, it has concluded, based on its diverse membership, that a combination of direct payments, CCPs, ACRE, the marketing assistance loan program, and crop insurance will provide a better safety net than only relying on one or two of those options. AFBF wants Congress to avoid adopting any safety net program that only works well for one or two commodities, and is willing to make changes in them to fit into the current budget environment. AFBF says the SURE program does not work, and assigns a low priority to any revision of it. As for cutting costs, AFBF proposes that among safety net programs, only direct payments and the ACRE programs should be reduced, and accomplished through lower payment acres.

The Administration's Deficit Reduction Plan

The Administration in September 2011 put forward its Plan for Economic Growth and Deficit Reduction.¹³ Among numerous suggestions for savings across the government, the Administration proposes a net reduction in safety net programs of \$33 billion over 10 years (including \$2 billion in conservation cuts). The plan would continue most farm commodity programs except for direct payments, which would save about \$30 billion. Another \$8 billion in savings would be generated from changes to the crop insurance program, including reduced producer subsidies (by 2 percentage points) and lower payments to insurance companies for administrative expenses and risk-sharing. Importantly, the Administration proposes to reauthorize the suite of disaster programs, including SURE, that expired September 30, 2011, for a cost of roughly \$7 billion over five years.

Group II: Revised Revenue Program

ARRM (Senators Brown, Thune, Durbin and Lugar)

The Aggregate Risk and Revenue Management (ARRM) Act of 2011 (S. 1626) was introduced in September 2011 by Senators Brown, Thune, Durbin, and Lugar.¹⁴ It would eliminate commodity programs (excepting the marketing assistance loan program) and replace them with a revised crop revenue program.¹⁵ Subsequently, in early October, Senator Lugar and Representative Stutzman

¹² AFBF, "Policy Recommendations for the 2012 Farm Bill," as submitted to Congress on September 29, 2011; at <http://www.fb.org/issues/FarmBureauRecommendations110928.pdf>.

¹³ Office Of Management And Budget, "Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction," September 19, 2011, pp. 17-19, and Table S-5, p. 59; at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/jointcommitteereport.pdf>.

¹⁴ "Aggregate Risk and Revenue Management Act of 2011," S. 1626, referred to Senate Agriculture Committee, September 23, 2011; at <http://www.gpo.gov/fdsys/pkg/BILLS-112s1626is/pdf/BILLS-112s1626is.pdf>.

¹⁵ "ARRM: Overview and Background," at http://www.agri-pulse.com/uploaded/ARRM_Background_FINAL.pdf; "ARRM: Program Specifications," at http://www.agri-pulse.com/uploaded/ARRM_Specifications_FINAL.pdf.

introduced S. 1658 and H.R. 3111, the Rural Economic Farm and Ranch Sustainability and Hunger Act (REFRESH), a broad-based farm bill that incorporates ARRM.¹⁶ ARRM is similar in concept to a proposal by the National Corn Growers called Agriculture Disaster Assistance Program (ADAP).

The 2008 farm bill included the Average Crop Revenue Election (ACRE) program to help farmers manage their revenue risks (not just price risk as under other farm programs) and protect against losses from multi-year price declines. ACRE payments for an eligible crop require meeting two separate price triggers: first, state-level revenue must fall below a state-level guarantee, and second, actual crop revenue on the individual farm must fall below the farm-level guarantee. While the revenue aspect has been conceptually attractive for many, some have criticized the current program's use of *state* crop yields to determine guarantee and payment levels. They point out that a crop problem in one part of a state might be offset by better yields in another part, resulting in minimal or no risk protection at a more local level. Another criticism is that, because ACRE payments are determined with season-average prices calculated by USDA at the conclusion of the marketing year, payments arrive at least a year after harvest.

ARRM addresses these issues by using a five-year, Olympic average¹⁷ revenue trigger based on yields in crop reporting districts (CRDs), which are multi-county areas, rather than state-wide yields. This change is designed to shift the program's risk protection closer to the farm. Secondly, the program uses harvest prices from the crop insurance program (which are based on current futures market prices for harvest-time contracts) for calculating actual and guarantee levels of revenue. This would speed up the payment delivery because crop insurance prices are available many months before season-average farm prices can be calculated.

Like ACRE, the program has two triggers: a CRD-level revenue trigger and a farm-level revenue trigger. If both triggers are met, the per-acre payment is the difference between the actual revenue and the CRD revenue guarantee (90% times CRD Revenue), subject to maximum payment (15% of the guarantee). Losses below 75% of the guarantee (i.e., 90% minus 15%) are expected to be covered by crop insurance policies.

Payments would be made on 85% of planted acreage, with an adjustment for farm yields relative to CRD yields. ARRM would also eliminate restrictions on planting fruits and vegetables on program acres.

Under ARRM, several existing programs would be eliminated, including direct payment, counter-cyclical payments, and ACRE payments. The Congressional Budget Office has scored \$20 billion in net savings over 10 years for ARRM (which itself would cost \$28 billion over 10 years).¹⁸

REFRESH (Senator Lugar and Representative Stutzman)

The Rural Economic Farm and Ranch Sustainability and Hunger (REFRESH) Act of 2011 (S. 1658 and H.R. 3111) proposes more comprehensive changes to current U.S. farm policy as it

¹⁶ Office of Senator Richard G. Lugar, "Lugar, Stutzman Target \$40 billion in USDA Cuts to Help Meet Federal Deficit Reduction Goals," press release, October 5, 2011, <http://www.lugar.senate.gov/record.cfm?id=334391&>

¹⁷ Throw out the high and low years, then average the remaining three years of data.

¹⁸ CBO score of ARRM compared to the CBO March 2011 baseline, September 19, 2011.

includes five distinct titles broadly spanning the range of USDA activities. According to the bill summary, the REFRESH act would result in savings of \$40 billion over 10 years.

Title I (Producer Safety Net) would eliminate direct, CCP, and ACRE payments as well as marketing loan benefits, and replace them by incorporating the ARRM proposal (see above), the Dairy Security Act proposal (see below), and expanded whole-farm revenue insurance. In addition, REFRESH's Title I would repeal the U.S. sugar program. According to the bill summary, Title I changes would save \$16 billion over 10 years.

Title II (Conservation) would shift conservation funding away from land set-aside/retirement and towards working lands. Maximum enrollment in the Conservation Reserve Program (CRP) would be lowered from 32 million acres to 24 million acres by 2014, with no penalty for early opt out. Title II would also consolidate various easement programs into a single easement program, and various working lands programs into a single working lands program.

Title III (Nutrition) would close SNAP eligibility loopholes and eliminate apparent overlap to score \$14 billion in savings over 10 years. Title IV (Energy from Rural America) would preserve the Biobased Markets Program, the Biorefinery Assistance Program, the Rural Energy for America Program (REAP), and the Biomass Crop Assistance Program (BCAP); however, for most programs funding emphasis would be shifted away from grants and towards loans and loan guarantees. Title V (Technical Improvements to Research) would move the Biomass Research and Development Initiative (BRDI) from the energy title to the research title. In addition, it would offer new flexibility to federally-funded research institutions to attract private funding in lieu of matching funds for research and extension activities.

Crop Revenue Guarantee Program (Senator Conrad)

Press reports have highlighted a proposal by Senator Conrad called "Crop Revenue Guarantee Program."¹⁹ Patterned after the SURE program, the proposal is designed to protect against declines in whole farm revenue. It would cut direct payments by 50% and eliminate CCP, ACRE, and SURE. It would not require a county to receive a disaster designation to trigger producer eligibility. Also, unlike SURE, payments would not be based on the amount of crop insurance purchased by the producer. However, producers would still be required to purchase at least catastrophic crop insurance (or a policy under the Noninsured Crop Disaster Assistance Program—NAP).

The primary program is limited to current program crops. For other commodities, a new disaster program would be developed for specialty crop production, and the recently expired livestock and fruit tree disaster programs would be re-authorized with slightly lower payment percentages to reduce overall costs.

The Crop Revenue Guarantee Program would provide payments to producers when their whole farm revenue (including net crop insurance indemnities) for all program crops falls below their revenue guarantee level calculated for the entire operation. The farm payment would be 60% of the difference between the guarantee and the actual farm revenue (a maximum per-acre payment applies). Total eligible acres could not exceed historical program crop base acres.

¹⁹ Jim Wiesemeyer, "How SURE Supporters Want to Change the Program Via New Farm Bill," *Pro Farmer*, September 30, 2011.

The guarantee level would be 90% (i.e., a 10% deductible) times the sum of all program crop revenue. Each crop revenue would be the product of the farm-level: 1) planted acreage (subject to a base acre limitation), 2) crop insurance yield (higher of the Actual Production History (APH) or the five-year Olympic average APH), and 3) higher of 2010 target price or five-year Olympic average farm price.

Actual revenue for each crop would be the farm's actual yield times the national farm price calculated by USDA for the first four months of the market season (or the loan rate if it is higher) plus net indemnities. (The national price could be adjusted for quality losses.) This would speed up payments compared to the SURE program, which requires using full marketing-year average prices. Focusing the new revenue program on only program crops would reduce the administrative resources needed to calculate whole farm revenue for crops other than program crops.

RMAF (American Soybean Association)

The American Soybean Association (ASA) has proposed a revenue-based program designed to improve farm risk management as a complement to crop insurance.²⁰ As a replacement for current commodity programs, the Risk Management for America's Farmers (RMAF) program would make payments for each program crop when crop revenue on farm is below a guarantee level that is based on producer's APH or county yields and national farm prices. In other words, there is a single revenue trigger to release payments.

For each program crop, the revenue guarantee would be 90% (95% for irrigated crops) times a producer's revenue benchmark, which is the five-year Olympic average national farm price times the farm yield (higher of the producer's APH yield, the producer five-year Olympic average APH yield, or 80% of county yield). A producer's actual revenue for a commodity is the national average farm price for the first four months of the market year times the farm's actual yield, plus net crop insurance indemnities received. The payment amount would equal 85% of the difference between the producer's revenue guarantee and actual revenue for the commodity. Payments would not be made on losses below 75% of the benchmark (i.e., losses typically covered by crop insurance).

Group III: Enhanced Crop Insurance

Stacked Income Protection Plan or STAX (National Cotton Council)

The National Cotton Council (NCC) recommends that the current U.S. upland cotton programs—including Direct Payments (DP), Counter-Cyclical Payments (CCP), and ACRE—be replaced with an area-wide, revenue-based crop insurance program that would supplement existing crop insurance products.²¹ In addition, and unlike most other proposals, the NCC proposes adjustments to the upland cotton marketing loan program that would make it compatible with World Trade Organization (WTO) domestic support commitments.

²⁰ American Soybean Association, "Risk Management for America's Farmers and Meeting Agriculture's Share of Deficit Reduction," September 29, 2011; at <http://www.soygrowers.com/policy/ASA-RMAF.pdf>.

²¹ "National Cotton Council 2012 Farm Policy Statement," NCC, August 26, 2011; available at <http://www.cotton.org/news/releases/2011/farmstrat.cfm>.

The NCC policy proposal, which is directed exclusively toward U.S. upland cotton programs, appears to respond to two factors. The first factor involves current federal budget issues. The second factor motivating the NCC to propose new cotton policy is trade retaliation authority granted to Brazil against the United States by the WTO in a long-running WTO dispute settlement case (DS267) against specific provisions of the U.S. cotton program.²² Among other things, a WTO dispute settlement panel ruled that U.S. payments to cotton producers under the marketing loan and CCP programs were inconsistent with WTO commitments and should be brought into compliance. To avoid retaliation the United States signed (June 17, 2010) a framework agreement—the *Framework for a Mutually Agreed Solution to the Cotton Dispute in the WTO (WT/DS267)*—with Brazil. As a result, Brazil has suspended trade retaliation pending U.S. compliance with the framework agreement measures. A key aspect of the framework agreement is quarterly discussions on potential limits of trade-distorting U.S. cotton subsidies (recognizing that actual changes will not occur prior to the 2012 farm bill). These U.S. commitments are intended to delay any trade retaliation until after the 2012 farm bill, when potential changes to U.S. domestic cotton subsidies will be evaluated.

The NCC refers to their proposed revenue-based insurance program as the Stacked Income Protection Plan (STAX).²³ It involves using an area-wide revenue product such as a modified Group Risk Income Protection (GRIP) program where losses are determined at the county level rather than the farm level, delivered through crop insurance, to provide protection against shallow losses—e.g., 10% to 20% loss of average revenue—by riding on top of existing crop insurance programs. GRIP is an insurance product designed to protect farms against revenue losses that occur at the county level rather than at the individual farm level.²⁴ Area-wide policies such as GRIP are generally cheaper than farm-level policies since the risk of loss is pooled at a more aggregate level. However, unlike crop insurance, which uses a projected price based on pre-planting time prices for harvest-time futures contracts, the NCC proposal would also include a minimum “fixed reference” price to act as a floor price guarantee when the projected harvest price falls below the fixed reference price.²⁵ Participation in STAX would be voluntary, however, the NCC proposes that producer premiums be offset to the maximum extent possible by using available upland cotton program spending authority under the DP, CCP, and ACRE programs.

With respect to NCC’s proposed marketing loan adjustments, the WTO panel that reviewed the dispute settlement case (DS267) recommended that the U.S. upland cotton marketing loan rate should be more reflective of market conditions. In an attempt to accomplish this, the NCC proposes using a two-year moving average of USDA’s calculated Adjusted World Price (AWP)²⁶ for the most recently completed marketing years to serve as the marketing loan provided that it stays within a tight price band of 47 to 52 cents per pound. If the moving average AWP moves

²² For details of the dispute see CRS Report RL32571, *Brazil’s WTO Case Against the U.S. Cotton Program*.

²³ Forest Laws, “NCC advocates change in course on farm policy direction,” *Delta Farm Press*, September 6, 2011.

²⁴ For more information, see “Group Risk Plan (GRP) and Group Risk Income Protection (GRIP),” William Edwards, Iowa State University, updated February 2011, at <http://www.extension.iastate.edu/agdm/crops/html/a1-58.html>.

²⁵ In the examples presented in their proposal, the NCC used a “fixed reference price” of 65 cents per pound.

²⁶ As part of the upland cotton marketing assistance loan program, USDA calculates and publishes a loan repayment rate, on a weekly basis, known as the adjusted world price. The AWP is the prevailing world price for upland cotton, adjusted to account for U.S. quality and location. Producers who have taken out USDA marketing assistance loans may choose to repay them at either the lesser of the established commodity loan rate for upland cotton, plus interest, or the announced AWP for that week.

below 47 cents/lb., then the proposed marketing loan for upland cotton would be set at 47 cents/lb.²⁷ The current marketing loan rate for upland cotton is set at 52 cents/lb.

According to the WTO retaliation authority granted Brazil under case DS267, and under the terms of the agreement reached between the United States and Brazil, Brazil retains substantial privileges in determining whether any proposed changes to the U.S. cotton program (including the NCC's proposed changes) would bring U.S. cotton programs into compliance with WTO commitments. A key measure will likely be the extent to which the proposed changes bring the U.S. cotton programs into line with market conditions—a key criteria cited by the WTO dispute settlement panel.

CROP (Representative Neugebauer)

Similar to STAX, the Crop Risk Options Plan (CROP) Act (H.R. 3107) would amend the Federal Crop Insurance Act to enable producers to supplement existing insurance coverage on farm-level yield and loss with additional coverage that uses a county-level trigger to insure crops against shallow losses that are not covered by the individual policies (i.e., the deductible portion). The CROP Act would also change the way RMA determines yield histories, moving from a 10-year average to a seven-year Olympic average.

Farm Financial Safety Net (Crop Insurance Company)

A U.S. crop insurance company has proposed the Farm Financial Safety Net (FFSN).²⁸ The proposal would eliminate all government commodity programs (except possibly ACRE) and is designed to turn the federal crop insurance program into a more complete farm safety net, primarily by enhancing revenue insurance and offering revenue products for all commodities where feasible.

Revenue insurance is the most popular form of crop insurance. Under revenue insurance programs, participating producers are assigned a target level of revenue for a particular crop based on market (futures) prices immediately prior to planting season and the producer's yield history. A farmer who opts for revenue insurance receives an indemnity payment when his actual farm revenue (typically crop-specific) falls below a certain percentage of the target level of revenue, regardless of whether the shortfall is caused by low harvest prices or low production levels.²⁹ As such, revenue insurance protects against revenue losses *within* the crop season (i.e., between planting and harvest) and not across seasons. Risk protection across multiple seasons is currently provided by the Counter-Cyclical Program and ACRE programs.

To protect against more than just within-season price declines, the FFSN would introduce a minimum price into the crop insurance program. The minimum price (e.g., 5-yr. ave. of crop insurance projected prices times 80%) would substitute for the projected price in an insurance guarantee when the projected price is below the minimum. The additional cost of this liability

²⁷ According to CRS calculations, during the 15-year period from August 1997 through August 2011, the monthly market price received for upland cotton was below the NCC's proposed marketing loan 38% of the time.

²⁸ Proposal developed by NAU Country Insurance Company.

²⁹ Another major type of crop insurance is the yield-based policy, whereby a producer receives an indemnity if there is a yield loss relative to the farmer's historical yield (actual production history or APH).

would be paid with higher insurance premiums (paid by farmers and the government). Proponents of the proposal suggest that such minimums could replace the need for loan rate (and marketing loan benefits) or counter cyclical payments. They say the impact on premiums would be minimal because potential losses for the government and insurance companies would be kept in check by the possibility that farm revenue may be little changed if higher yields offset lower prices.

The FFSN would also alter how individual farmers' APH yields are determined so that they better reflect expected yields, a change proponents say is needed for crop insurance to become a true safety net. Currently, the APH calculation uses 10 years of historical data, which may include multiple years of poor weather, possibly overstating the likelihood of re-occurrence and depressing protection levels. The new approach would exclude some low-yield years in the calculation when certain conditions are met.

As a replacement for SURE and to address the issue of "shallow losses" (those paid by the producer through the policy deductible), farmers would be given added revenue coverage on each policy that is 5% greater than their purchased coverage. For example, a farmer who purchases 75% coverage (i.e., 25% deductible) and pays the premium rate for 75% coverage level would be given an additional coverage of 5% or 80% total coverage.

In an attempt to make crop insurance more affordable in all areas and for crops where it is not popular, the proposal would limit the farmer-paid premium to only 15% of total dollars of coverage for an enterprise unit (i.e., an insured area covering all land of a single crop farmed by a producer in a specific county). Producer subsidy levels would increase only for those producers affected by the 15% maximum. The proposal would essentially shift the entire farm safety net to the crop insurance program.

Group IV: Other Proposals

Farmer-Owned Reserves (National Farmers Union)

On September 13, 2011, the National Farmers Union (NFU) unveiled a study by the University of Tennessee of an alternative farm policy proposal that would replace the existing farm programs—Direct Payments, Counter-Cyclical Payments, and the marketing loan benefits program—with a combination of farmer-owned-reserves, increased loan rates, and set asides.³⁰ The stated goal of the proposed program is to provide an effective safety net for family farmers, improve the efficiency of existing programs, and reduce overall costs.

In the newly released study, the NFU proposal is analyzed for the major program crops—e.g., corn, soybeans, wheat, rice, barley, sorghum, and oats—over the recent 13-year period of 1998 through 2010. Key elements of the NFU proposal include the following. Direct payments, along with the marketing loan and countercyclical payment programs are eliminated. A farmer-owned reserve (FOR) is established for each of the major program crops. Producers may elect to place their holdings in a crop's FOR whenever the market price falls below the loan rate for that crop.

³⁰ NFU News Release, "NFU Unveils Study to Present Policy Options to Reduce Farm Bill Costs," September 13, 2011, at <http://nfu.org/news/current-news>. Key study findings and URL links to the study are available at <http://www.nfu.org/study>.

Each crop's annual loan rate is pegged to the corn loan rate based on the ratio between corn and other crops, as found in the 1996 Farm Bill, with the two exceptions of grain sorghum, which is increased to the same price as corn, and soybeans which is raised to \$6.32. The corn loan-rate is set as the midpoint between the variable cost of production and full cost of production for the 1998 crop (as calculated by USDA). Thereafter, annual loan rates for 1999 to 2010 are raised or lowered based on the change in the rolling three-year average of the USDA chemical input index of prices paid by farmers. For corn, that calculation resulted in a loan rate of \$2.27 in 1998, increasing to \$2.60 by 2010—this compares with \$1.95 under the current program. The various FOR loan rates approximate the historical ratio between the price of corn and the other crops, facilitating the arbitrage of crops to the most profitable mix for each farm, with minimal influence from the loan rate. Farmers are free to select their mix of crops based on the profitability of the crops.

Producers are paid \$0.40 per unit (e.g., bushel, cwt, lb.) per year as a storage payment for all crops placed in the FOR. Commodity payments would only be paid for quantities actually placed in the reserve and not for every bushel produced, as in the case of the current marketing loan program. As a result, the level of government payments is significantly reduced.

Each crop's FOR is capped: corn at 3 million bushels, wheat at 800 million bushels, soybeans at 400 million bushels, etc. A crop placed in the FOR must remain there until its market price exceeds 160% of its loan rate (referred to as the FOR release trigger) when it is released to the market. When a crop's FOR reaches its cap and its market price remains between the loan rate and the FOR release trigger, then no further FOR placements may occur and no FOR release is triggered. When a crop's FOR reaches its cap and the market price falls below the loan rate, then a voluntary paid set-aside is triggered.

The farm-level set-aside is based on whole-farm acreage and not allocated crop-by-crop as in the past. Set-asides would be allocated at the county level, and farmers would have the opportunity to bid acreage into the set-aside. Participation in the set-aside by any given farmer would not be mandatory, but all farmers would have the opportunity to offer a bid on acreage they would be willing to put in the set-aside. As in the past, farmers would be required to maintain an appropriate cover crop on the land.

According to the study results, the proposed farmer-owned-reserves program would address the lack of timely market self-correction when crop prices plummet, while permitting farmers to receive the bulk of their revenue from market receipts. Study results found that government payments for crops during the 13-year study period (1998 to 2010) would have been \$95.8 billion under the FOR program proposal—40% less than the actual \$152.2 billion spent under existing programs; the value of U.S. crop exports would have been \$4.9 billion higher, and crop prices would have averaged substantially higher including \$0.26 per bushel for corn, \$0.48 for wheat, and \$1.09 for soybeans. The value of crop production would have averaged slightly lower by about \$2.6 billion annually.

Dairy Security Act (Representative Peterson and Others)

The Dairy Security Act of 2011 (H.R. 3062) was introduced in September 2011.³¹ The bill has been developed with the National Milk Producers Federation over the last 18 months as an alternative to current dairy programs that critics say have not provided an adequate safety net for dairy producers. The bill consists of three components – a Dairy Producer Margin Protection Program, a Dairy Market Stabilization Program, and reforms to the Federal Milk Marketing Order system. Dairy producers would have the option to sign up for the margin program, which would make payments to producers when the gap (“margin”) between milk prices and feed costs drops below certain levels. Producers that sign up for the margin program would then automatically be enrolled in the stabilization program, which is designed to discourage milk production for program participants (and raise overall milk prices). When the stabilization program is activated during times of low margins, participating producers receive payment on only a portion of their base (historical) milk marketings. Under the bill, current dairy programs would be eliminated, including the Dairy Product Price Support Program (DPPSP), Milk Income Loss Contract (MILC) program, and Dairy Export Incentive Program (DEIP).

Concluding Comment

Most proposals for altering the farm safety have recommended reducing or eliminating direct payments for budgetary savings and as a way to fund revisions to other programs. Proposals offering the least amount of policy change include those by the Administration and by the American Farm Bureau, both of which would essentially extend farm programs at reduced funding levels.

Three proposals would cut direct payments and other commodity payment, and create a new crop revenue program by borrowing concepts from current programs. The Aggregate Risk and Revenue Management (ARRM) Act of 2011 (S. 1626) by Senators Brown, Thune, Durbin, and Lugar would create a modified ACRE program with a double trigger (farm level and crop reporting district level) that is designed to better protect farm income risk on a crop-by-crop basis.³² A proposal by Senator Conrad is a whole-farm revenue approach patterned after the expired SURE program (with only a single farm-level trigger), plus provisions to extend disaster programs for specialty crops and livestock producers. Finally, the American Soybean Association recommends a crop revenue program that would make payments (by crop) when revenue on farm is below a guarantee level that is based on producer’s APH or county yields and national farm prices (farm-level trigger only).

Three proposals focus on crop insurance. The National Cotton Council is advocating an area-wide, revenue-based crop insurance program that would supplement existing crop insurance products, plus changes to the marketing loan program. Similarly, Representative Neugebauer’s proposal would enable producers to purchase supplementary area-wide insurance to cover shallow losses. A proposal by a crop insurance company would insert a minimum price into crop insurance policies, among other changes, to protect against multi-year price declines.

³¹ House Committee on Agriculture Press Release, “Peterson, Simpson Introduce The Dairy Security Act of 2011,” September 23, 2011, at <http://democrats.agriculture.house.gov/press/PRArticle.aspx?NewsID=1126>.

³² In early October 2011, Senator Lugar and Representative Stutzman introduced the Rural Economic Farm and Ranch Sustainability and Hunger Act (REFRESH), a broad-based farm that incorporates ARRM.

The National Farmers Union would replace existing farm programs with a combination of farmer-owned-reserves, increased loan rates, and set asides.

Many of these proposals were unveiled in September 2011 as the Joint Committee on Deficit Reduction began its deliberations on government-wide budget cuts. The proposals may represent a starting point for developing the next installment of farm programs when the 2008 farm bill expires in 2012.

Author Contact Information

Dennis A. Shields
Specialist in Agricultural Policy
dshields@crs.loc.gov, 7-9051

Randy Schnepf
Specialist in Agricultural Policy
rschnepf@crs.loc.gov, 7-4277