A New Direction for U.S. Farm Policy

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Change is Inevitable

- Budget deficits
- Globalization/WTO
- Unmet needs of agriculture
- Involvement of new stakeholders

Change is On the Way

- Projected budget baseline
- New proposals from the administration; National Corn Growers Association; Specialty Crop Alliance; 25 x ’25

Farmers and Ranchers Want:

- Safety net and risk management tools
- Cost share for conservation
- New markets for renewable energy, environmental services, healthy diets, food security
- A foundation for future agriculture: land, people, research

Safety Net/Risk Mgt

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Current Programs: Ineffective and Inefficient

- Target prices set by Congress
- No protection for yield losses
- Crop insurance heavily subsidized
- Not enough protection for many farmers
- Regular ad hoc disaster needed ($1.8 Billion/year ’00-’05)

Safety Net/Risk Mgt

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Goal:

a real financial safety net and tools for farmers to help them better manage risk

Solution:

an integrated farm revenue program—national deficiency payment and crop insurance

Safety Net/Risk Mgt

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Premise:

Producers, the government and the private sector **each have a role in managing risk**

Premise:

A revenue based program provides **better protection for farmers**

Revenue Protection

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Principles Behind the Policy

- Risk shared between government, producers, and private insurance
- Integration of risk management programs
- Farmers make planting decisions based on market information
- Less trade distorting and more WTO compliant

Revenue Protection

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Principles Behind the Policy

- Protect revenue rather than price
- Protect against actual losses
- Replace LDPs and CCPs with better set of risk mgt tools
- Risk mgt tool, not income support

Risk Management

- Farmers face two types of risk:
  - Market-wide (“systemic”) risk;
  - Individual (“idiosyncratic”) risk.
- Private insurance can handle individual risk but not market risk

Revenue Protection

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Integrated Farm Revenue Program:

- **National revenue deficiency payment**
  - Covers uninsurable, market risk
- **Current individual revenue insurance**
  - Covers farmer’s individual revenue loss

National Revenue Deficiency Payment

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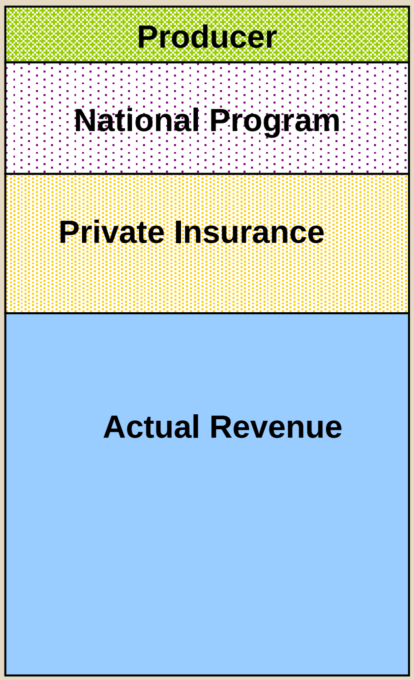
Total Revenue



How It Works

- Farmers, the federal government, and private crop insurance **share** risk
- The **first** drop from expected revenue is taken by the farmer
- The **market-wide** drop in revenue is covered by the national revenue deficiency payment
- The **individual** drop in revenue is covered by a private individual insurance product.

Benefits:

- Better protection by targeting revenue rather than price
- Based on market signals rather than politically set targets
- Builds off existing programs so is familiar to producers and is easily administered
- Treats all program crops equally

How It Works

- Operates much like it does currently
- Only covers revenue loss due to localized events…
- ***IF the loss*** is greater than the national loss

Benefits:

- Higher levels of coverage at equal or lower cost
- Private revenue insurance will work better
- Farmers are familiar and have confidence in the approach

Mechanics

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National Revenue Deficiency Program Example: Corn 2004

Expected U.S. Yield (February):	**145.0 bu/acre**
December Futures Price (February):	**$2.83/bu**
Expected U.S. Revenue:	**$410/acre**
Realized U.S. Yield (October):	**158.4 bu/acre**
December Futures Price (October):	**$2.05/bu**
Realized U.S. Revenue:	**$325/acre**

Revenue Deficiency Payment = ***$85/acre ($410-$325)***

(21% payment)

Example

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Integrated Individual Revenue Insurance Example: Corn 2004

Individual Revenue Insurance (similar to CRC and RA)

Ohio Farmer's Expected Revenue		$410
Farmer's Insurance Coverage		85%
Individual Guarantee:		**$349**
Farmer's Realized Revenue		**<u>$287</u>**
Realized Yield:	*140 bu.*	
Realized Price:	*$2.05/bu.*	
Farmer's Loss		***$62***
Minus Nat. Def. Pmt		**-$85**
Insurance Indemnity:		***$0/acre***

More Effective

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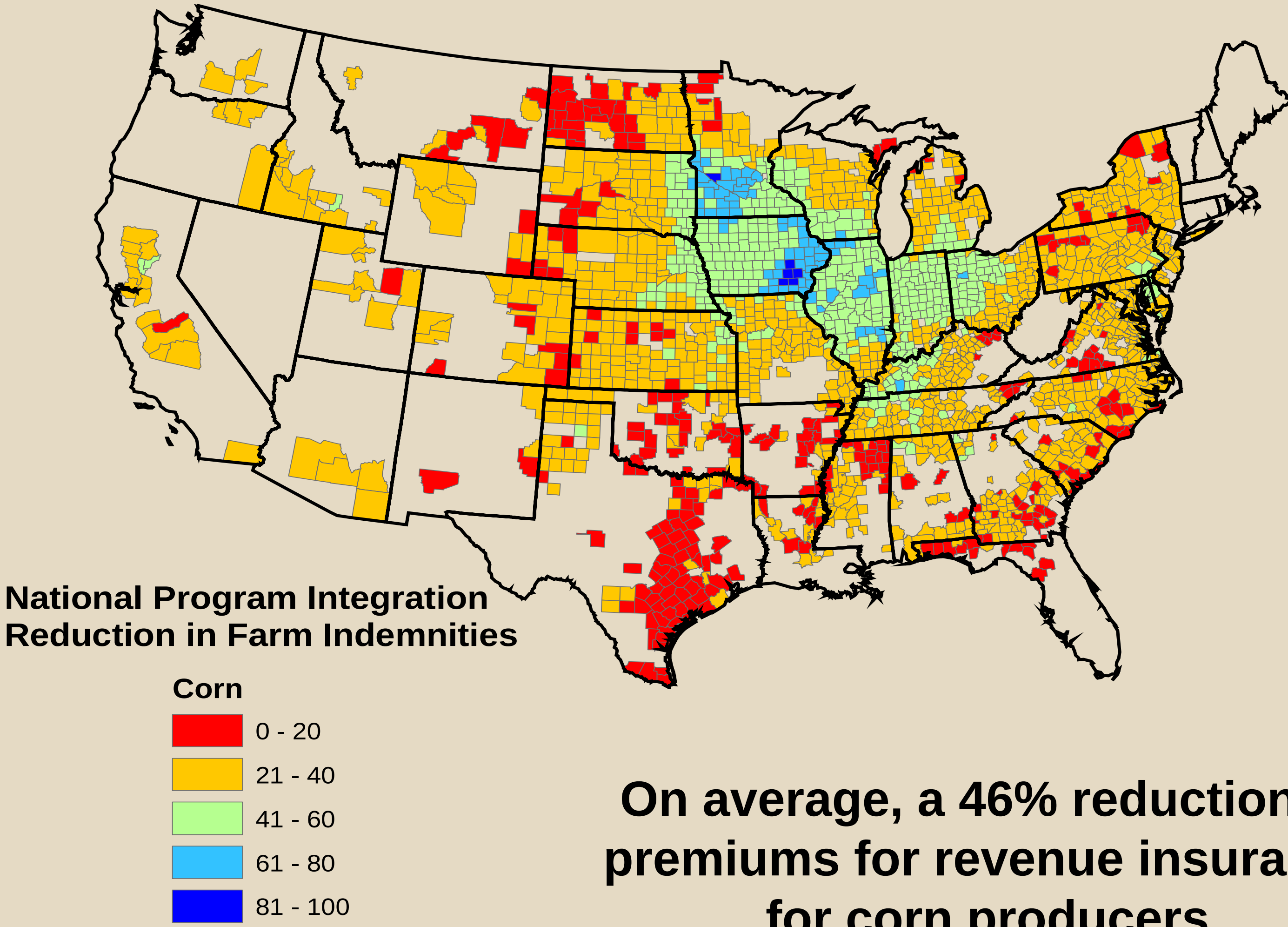
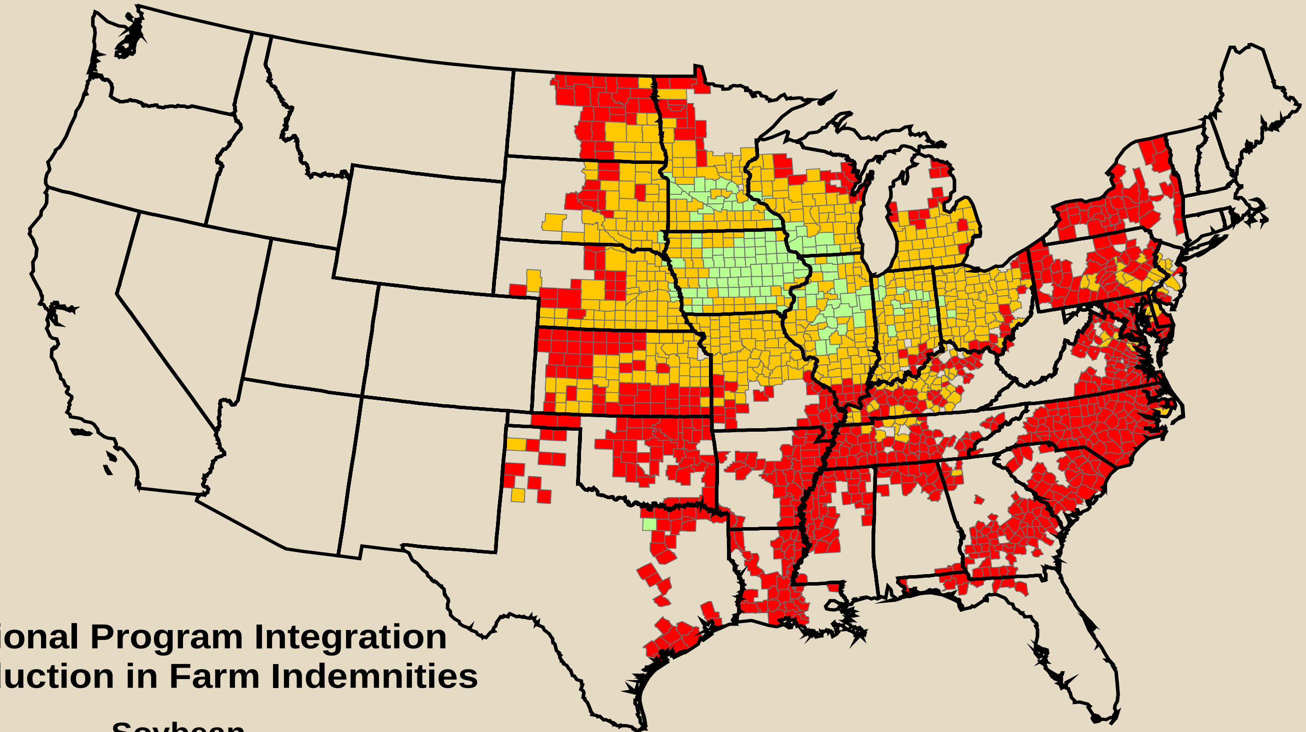


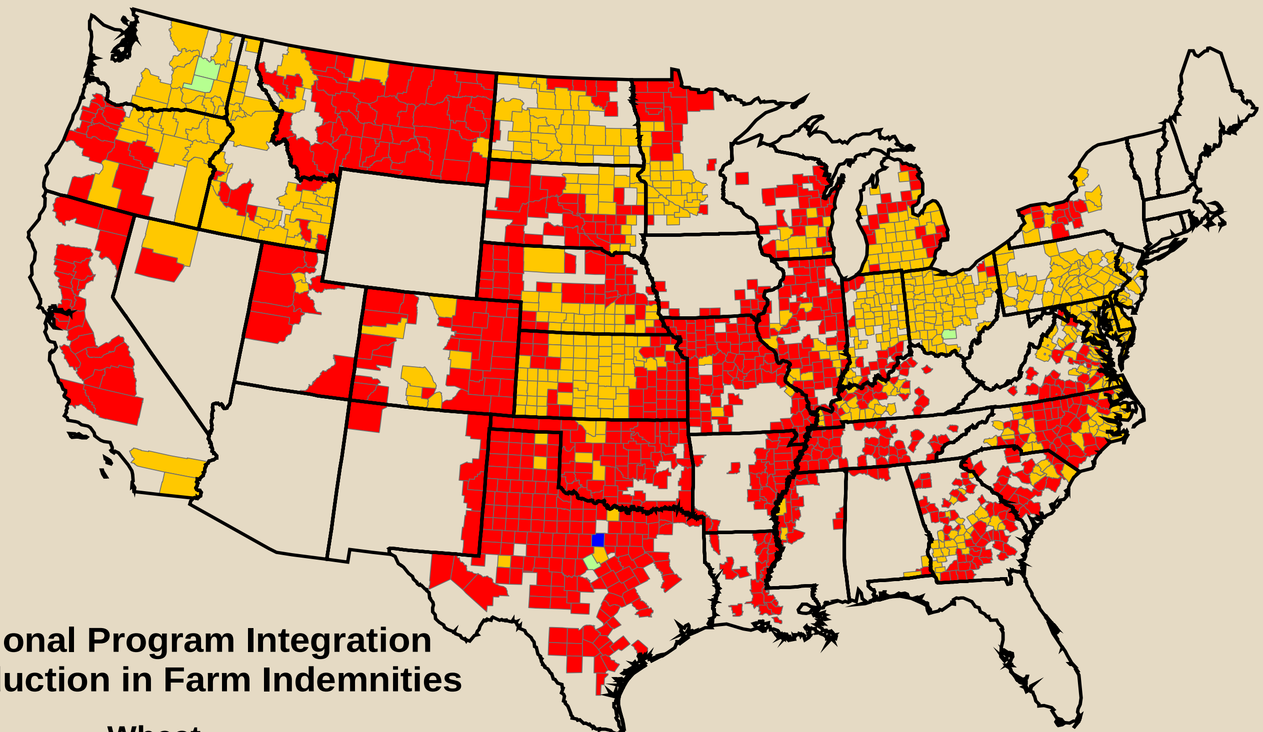
On average, a 46% reduction in premiums for revenue insurance for corn producers

More Effective



On average, a 29% reduction in premiums for revenue insurance for soybean producers

More Effective



On average, a 22% reduction in premiums for revenue insurance for wheat producers

Revenue Protection

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Average Costs 2008-2012

- National Revenue Deficiency Payment (90% coverage) — $4.4 billion/year
- Minus LDPs and CCPs* — -$2.7 billion/year
- Savings from integration — -$1.5 billion/year
- Ad Hoc Disaster Assistance — ??????

Revenue Protection

Advantages

- Better protection
- More market oriented
- Less trade distorting
- Integration makes crop insurance more efficient
- Transparent and crop neutral
- Less need for disaster assistance
- Provides risk protection, not income transfer

Income Support Alternative

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Combining Income Support & Environmental Stewardship

- Payments for Ecological Services
- Green Payments
- Conservation Security Program

Income Support Alternative

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Payments for Ecological Services

- Farmers “produce” environmental goods
- Some future farm support will be linked to land stewardship
- Reward structure is needed
- Public support is high
- Government must accept the role of “buyer” until markets can be established

Income Support Alternative

Green Direct Payments

- Justification for income transfer
- Could payments be linked to stewardship?
- Phase in over time?

Questions?

Learn more at www.farmland.org

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