



Food & Agricultural
Policy Research Institute

University of Missouri

U.S. farm policy: Continuity and change

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“Farm Policy Here and Abroad” breakout session

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Main points

- The new farm bill represents modest, evolutionary change
- Trade disputes have affected both markets and policy
- The nature of the farm safety net has changed a lot since 2014

2018 farm bill: House and Senate bills

- House and Senate wrote farm bills that had much in common with each other and with the 2014 farm bill
 - Neither bill made large changes in commodity programs or crop insurance
 - Neither bill changed total expected farm program spending much
- House bill
 - Made controversial changes in nutrition programs
 - Passed House 213-211 on second try, with no Democrats supporting the bill, on June 21, 2018
- Senate bill
 - Fewer changes in nutrition programs than in House bill
 - Passed Senate 86-11 on June 28, 2018

2018 farm bill: Conference

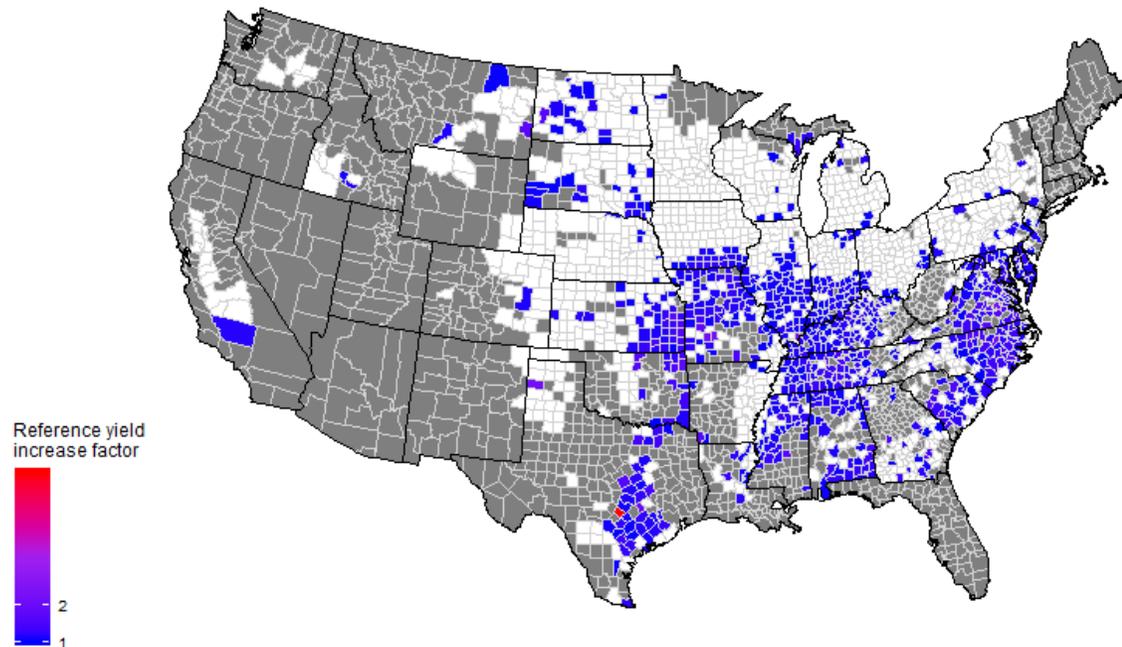
- Senate would not accept House-proposed nutrition title
 - Needed votes from Democrats to avoid potential filibuster
 - Final nutrition provisions generally are close to Senate bill
- House got some of what it wanted on other provisions
- Final compromise bill was approved by lopsided votes and signed by the President
 - 369-47 in House, 87-13 in Senate
 - Signed by President on December 20, 2018

Agriculture Improvement Act of 2018: The new Farm Bill

- Evolutionary, not revolutionary
- But, there are some important changes
 - Ability for some to update PLC yields
 - Trend adjustment in determining ARC benchmark revenues
 - Multiple opportunities to make new ARC/PLC elections
 - Higher loan rates for many crops
 - Changes in payment limitation rules
 - Restructuring of dairy margin program
 - Conservation program restructuring

Where the PLC yield update might matter

CORN, ALL CLASSES



The yield update depends on yields on a particular farm.

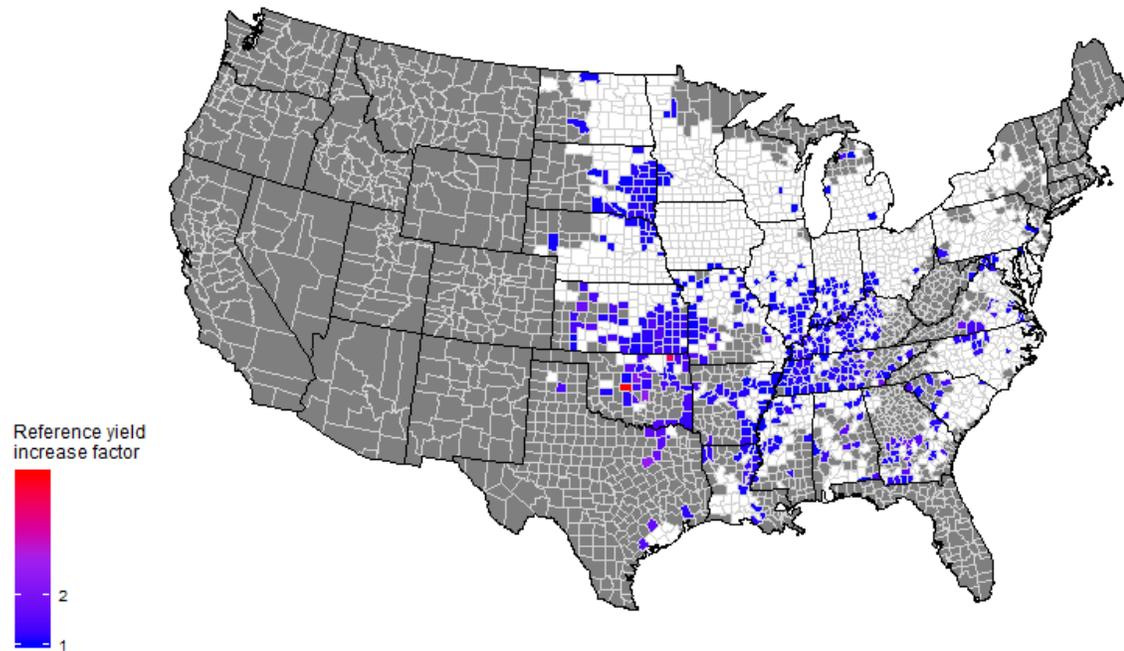
Counties in blue and red on the map are counties where county-average yields suggest it is likely that many producers will benefit from updating PLC yields for corn.

In the counties in white, fewer producers are likely to benefit from the update.

Source: Calculations by Scott Gerlt of FAPRI-MU based on NASS data

Where the PLC yield update might matter

SOYBEANS, ALL CLASSES



Source: Calculations by Scott Gerlt of FAPRI-MU based on NASS data

The yield update depends on yields on a particular farm.

Counties in blue and red on the map are counties where county-average yields suggest it is likely that many producers will benefit from updating PLC yields for soybeans.

In the counties in white, fewer producers are likely to benefit from the update.

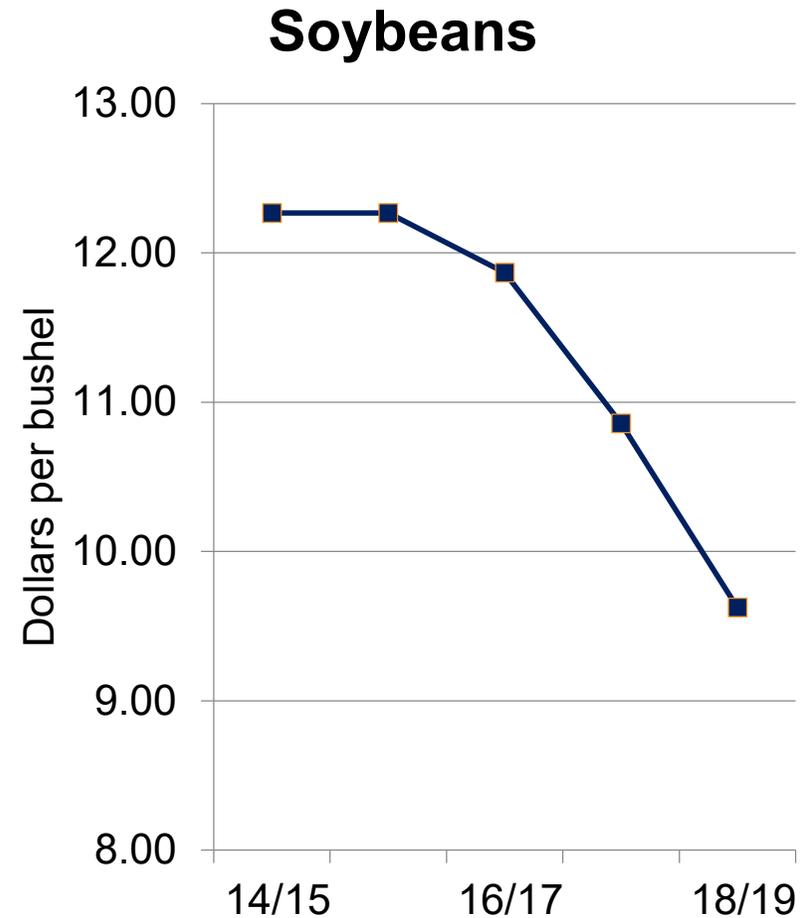
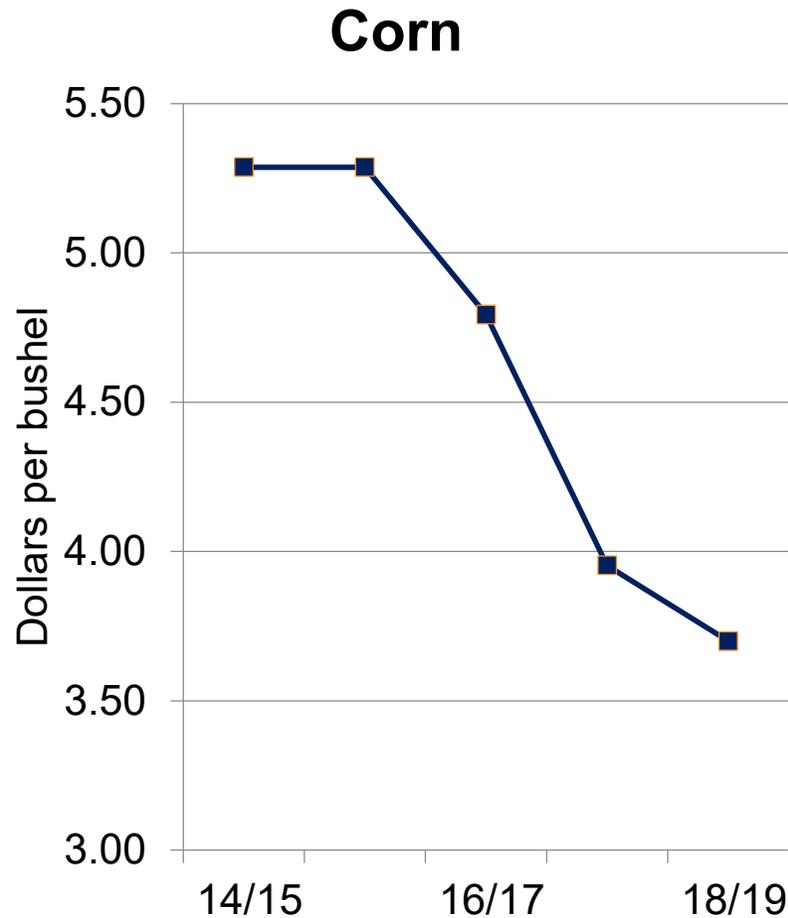
ARC changes

- Trend-adjusted yield (like that in crop insurance) for determining ARC revenue benchmark
- Use 80% of transitional yield to replace especially low yield years in calculating benchmark
- Both of these changes should increase the probability of an ARC payment in any given year

ARC/PLC elections

- Producers can make a new election in 2019 for the 2019 and 2020 crop years
- And they can revise those elections in 2021, 2022 and 2023
- As in 2014, FAPRI will work with AFPC colleagues at Texas A&M to provide a tool to help with this choice, once program rules are clear

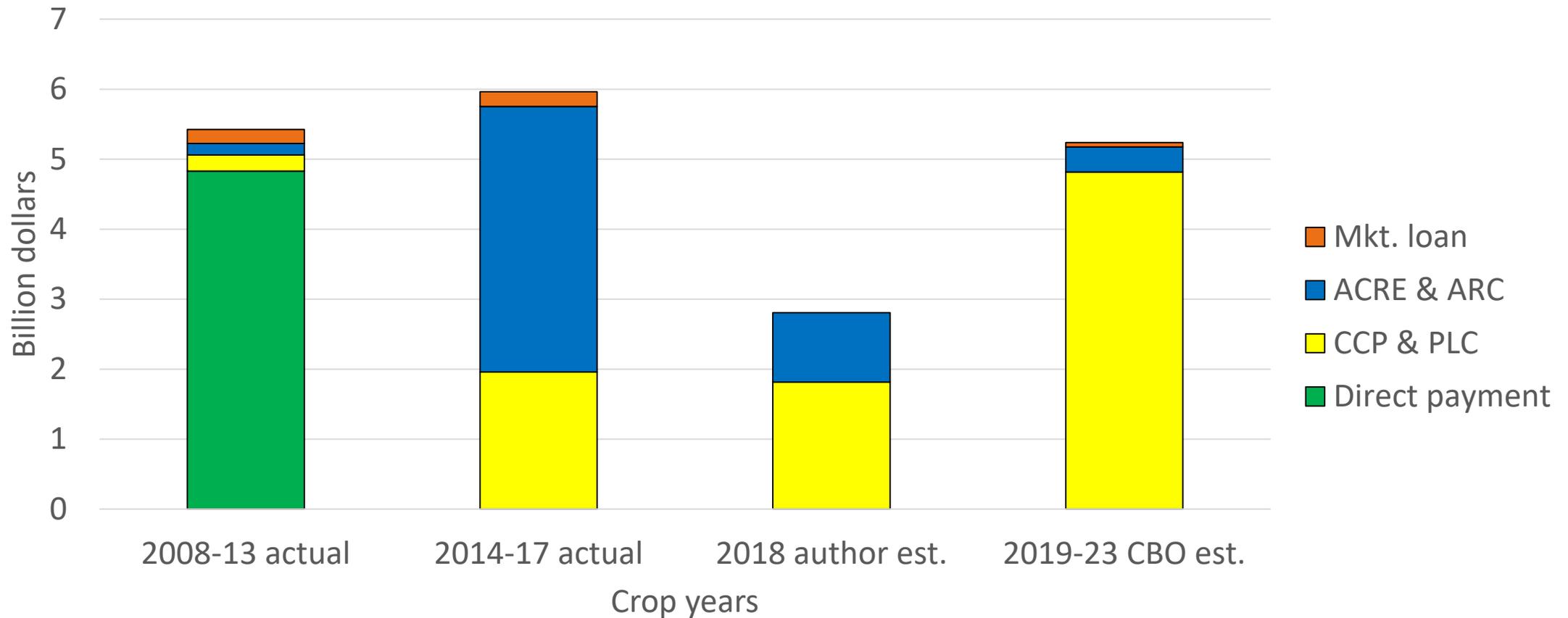
ARC Olympic average prices (Last 5 years, higher of MYA or reference)



Implications for program participation

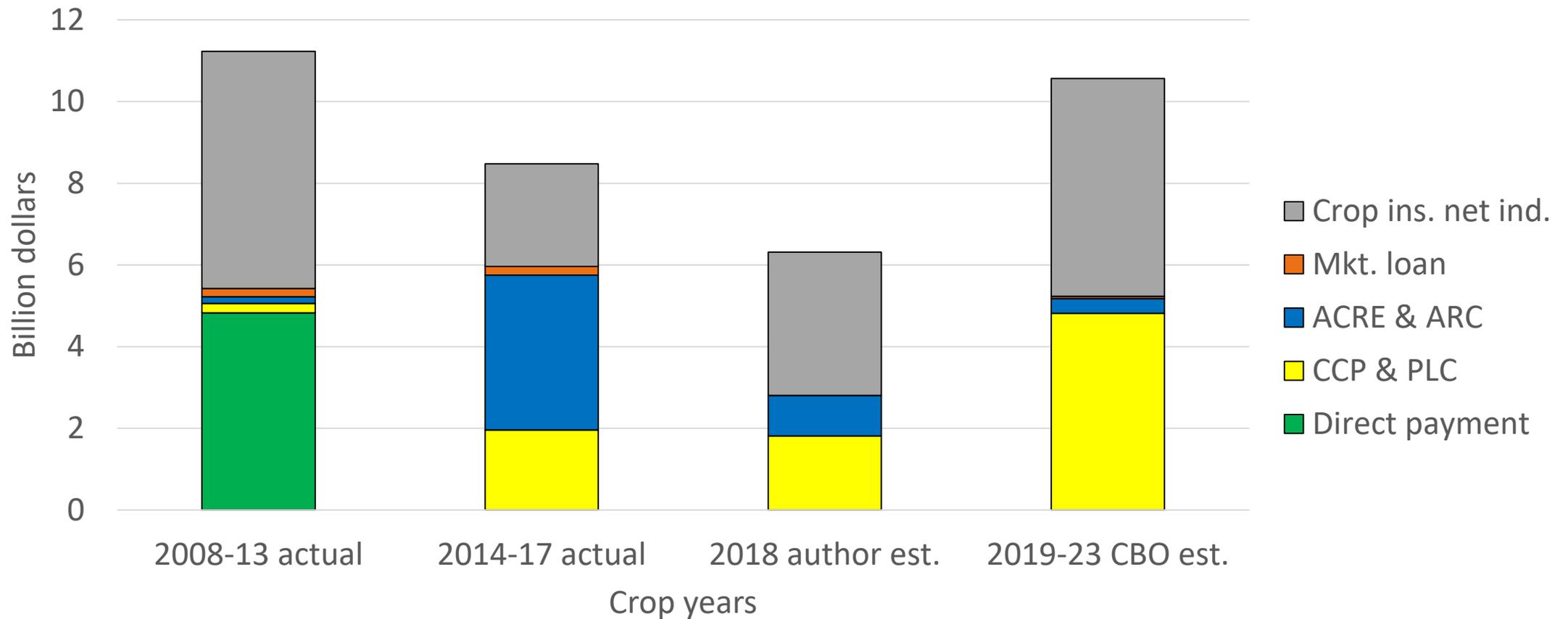
- For corn and soybean producers, ARC was very attractive in 2014
- For 2019, comparisons of ARC and PLC may be very different
 - If actual county yields equal trend-adjusted Olympic average yields, MYA corn prices will have to drop below \$3.18/bu. for ARC to pay
 - PLC will pay any time the MYA price is below the \$3.70 reference
- We expect higher PLC participation in 2019 than under the 2014 bill

Comparing annual average crop program benefits under recent farm bills: Title I



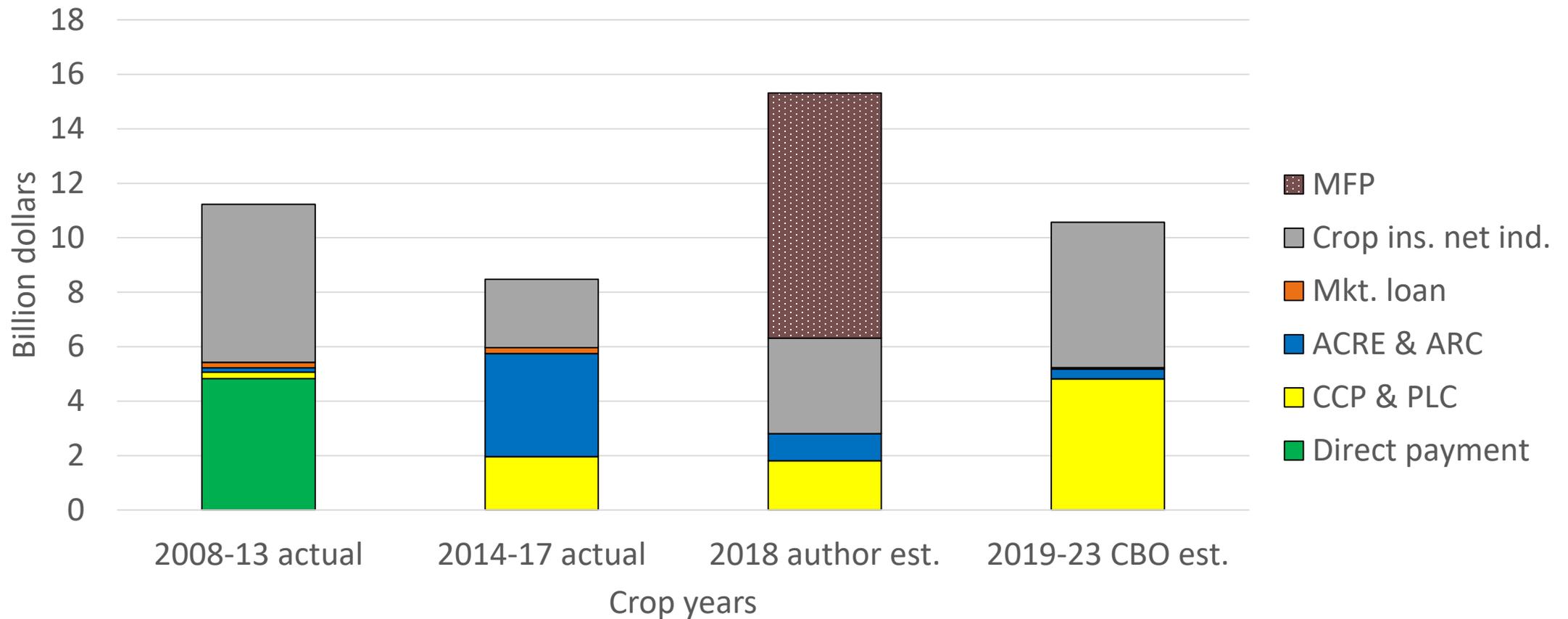
Notes: Historical data for crop years 2008-2017 are primarily from FSA. The 2018 crop years estimates are by the author, and the 2019-2023 crop year estimates by CBO.

Comparing annual average crop program benefits: adding crop insurance



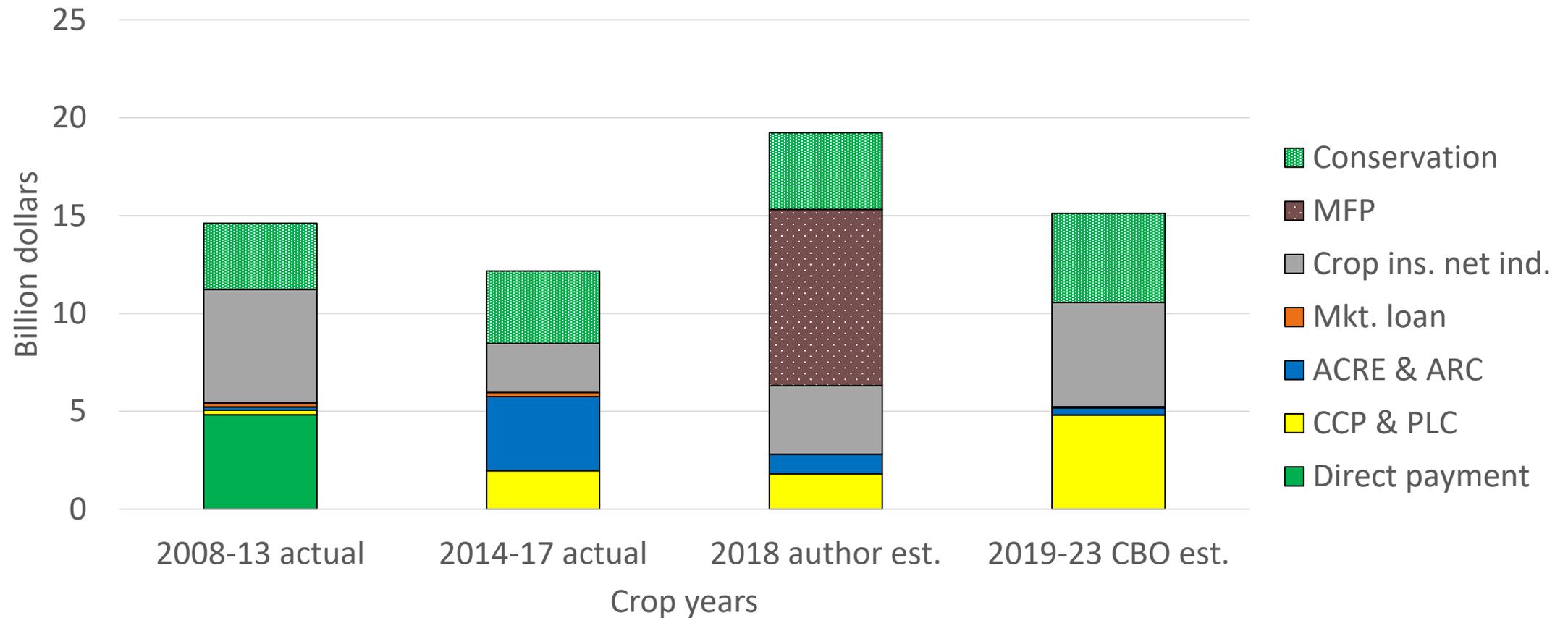
Notes: Crop insurance data are net indemnities (indemnities for losses minus producer-paid premiums). Historical crop insurance data for crop years 2008-2017 are from RMA.

Comparing annual average crop program benefits: adding MFP payments



Note: 2018 MFP payments are assumed to total about \$9 billion.

Comparing annual average benefits: adding conservation payments



Notes: Conservation payments are calendar year figures as reported in ERS farm income estimates. Projections are by the author, and are a function of CBO FY estimates.

Some things to note

In aggregate, ARC and PLC payments under 2014 bill were similar to direct payments under the 2008 bill

A string of above-average yields resulted in unusually low crop insurance net indemnities under 2014 bill—and higher ARC & PLC

MFP payments for 2018 are likely to exceed other program benefits combined

CBO projects PLC will account for lion's share of Title I spending under the 2018 farm bill

Crop insurance costs are higher from 2019-2023 because of assumed “normal” weather variability, not because of program changes

So what about trade disputes?

- China's tariffs on soybeans and other products certainly reduced U.S. prices
- MFP payments as a "one-time" response
 - NOT based on estimated market price impacts
 - Rather, on value of lost sales in affected markets
- MFP payments did NOT consider
 - Impacts on sales to countries not imposing tariffs (doing so would have resulted in smaller soybean payments)
 - Basis issues
 - Cross-commodity impacts (doing so probably would have resulted in larger corn payments)

MFP payments in context

(Crop value and payments in billion dollars)

U.S.	Soybeans	Corn	2-crop total
2017 crop value	41.2	49.1	90.2
2018 crop value	39.1	51.9	91.0
2018 MFP payment	7.1	0.2	7.3
2018 crop value + MFP payment	46.2	52.1	98.3

Source: Author estimates. Crop values based on Feb. 2019 USDA estimates of crop production and marketing year average prices. MFP payment estimates are based on this formula:

*MFP payment = Payment rate * Production * 0.95. The 95% is a rough adjustment for payment limitations.*

MFP payments in context

(Crop value and payments in billion dollars)

U.S.	Soybeans	Corn	2-crop total	Missouri	Soybeans	Corn	2-crop total
2017 crop value	41.2	49.1	90.2	2017 crop value	2.73	1.86	4.59
2018 crop value	39.1	51.9	91.0	2018 crop value	2.24	1.68	3.92
2018 MFP payment	7.1	0.2	7.3	2018 MFP payment	0.41	0.01	0.42
2018 crop value + MFP payment	46.2	52.1	98.3	2018 crop value + MFP payment	2.65	1.69	4.34

Source: Author estimates. Crop values based on Feb. 2019 USDA estimates of crop production and marketing year average prices. MFP payment estimates are based on this formula:

*MFP payment = Payment rate * Production * 0.95. The 95% is a rough adjustment for payment limitations.*

So what happens now?

- A positive solution to trade disputes is strongly desired by many
- If tariffs continue, will there be another round of MFP payments?
 - Secretary Perdue has said “no” on many occasions
 - This was news to a farmer I spoke with on Wednesday
- MFP payments were tied to actual 2018 production, not base area and yields
 - If they were one-time payments and everyone understood that, likely market impacts are small
 - But if some producers think they might be repeated, may get more 2019 soybean acres than would have otherwise

Some final points to ponder

- U.S. has shifted away from a relatively decoupled payment program (1996-2013 direct payments) to policies tied to:
 - Fixed base acreage but actual prices (PLC) or county revenues (ARC)
 - Current year production (crop insurance and MFP)
 - Environmental performance (CRP, EQIP, CSP, etc., not discussed today)
- What will the next farm bill look like?
 - Recall that final 2018 bill passed with strong majorities in both House & Senate
 - What does this imply for those who argue that current programs are not politically sustainable?

Thanks!

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