



Farm Policy Risk and Policy Tools

Dr. Bradley D. Lubben
University of Nebraska-Lincoln
blubben2@unl.edu



Farm Policy Outlook

- **2018 Farm Bill**
 - **The debate is over, the decisions are ahead for commodity and conservation programs**
- **2014 Farm Program Payments**
 - **Reduced payments will stress cash flow in 2019**
- **Trade Assistance**
 - **Market Facilitation Program payments provided substantial cash flow in 2018-2019**
- **Farm Income Outlook**
 - **Farm program payments shift between farm bills**
 - **Careful planning needed for 2019 and beyond**





Farm Bill Issues

- **Commodity programs**
 - **ARC mechanics**
 - Yield data and history
 - **Reference prices**
 - **ARC v. PLC decision**
 - **Dairy and cotton**
- **Crop insurance programs**
 - **Program features**
 - **Eligibility limits**
 - **Premium subsidy**
- **Conservation**
 - **CRP**
 - **Acreage enrollment cap**
 - **CRP rental rates**
 - **Working lands programs**
 - **EQIP and CSP funding**
- **Nutrition (Supplemental Nutrition Assistance Program)**
 - **Supports and eligibility levels**
 - **Not a source of funds for farm program spending**



2018 Farm Bill

- **Separate bills passed each chamber of Congress in Summer 2018**
 - **House bill passed 213-211 on June 21 after failing 198-213 on May 18**
 - **Senate bill passed 86-11 on June 28**
- **2014 Farm Bill expired on September 30, 2018 without an extension**
 - **Permanent legislation and the “milk cliff” would have presumably taken effect on January 1, 2019 without a new farm bill**
- **After extended negotiations, final agreement moved quickly at the end of 2018**
 - **Conference report filed on December 10**
 - **Passed the Senate 87-13 on December 11**
 - **Passed the House 369-47 on December 12**
 - **Signed by the President on December 20**



Commodity Programs

Small Changes, Big Decisions

- **ARC**
 - Yield data
 - Coverage by practice
 - Coverage by physical county
 - Plug yield increase
 - Trend yield adjustment
 - Big county split
- **PLC**
 - Payment yield update
 - Effective reference price
- **Marketing loans**
 - Increased loan rates
- **Base acreage**
 - Payment cuts to base acreage not planted to program crops in 10 years with some conservation incentives added
- **Payment limits**
 - Payment eligibility rules for extended family (nieces, nephews, cousins)
- **Decisions**
 - ARC v. PLC in 2019 for 2019-2020, annually beginning in 2021



ARC Revisions

- **Yield Data**
 - Use of alternative yield data, presumably USDA-RMA crop insurance data, as the primary source of data instead of USDA-NASS survey data
 - It should provide more consistent data for major crops in major growing regions
 - It will not resolve all data gaps, leaving some yield estimates to committee determination
- **ARC-CO Coverage by Practice**
 - Coverage by irrigated and nonirrigated practice available upon FSA committee request if not less than 5% of the acreage was irrigated and not less than 5% of the acreage was nonirrigated during the 2014-2018 crop years (as opposed to the 25% factor used to establish ARC-CO coverage by practice under the 2014 Farm Bill)
- **ARC-CO Coverage by Physical County**
 - ARC-CO coverage tied to physical county regardless of administrative county
- **Plug Yield**
 - Plug yield in ARC-CO increased from 70% to 80% of transitional yield

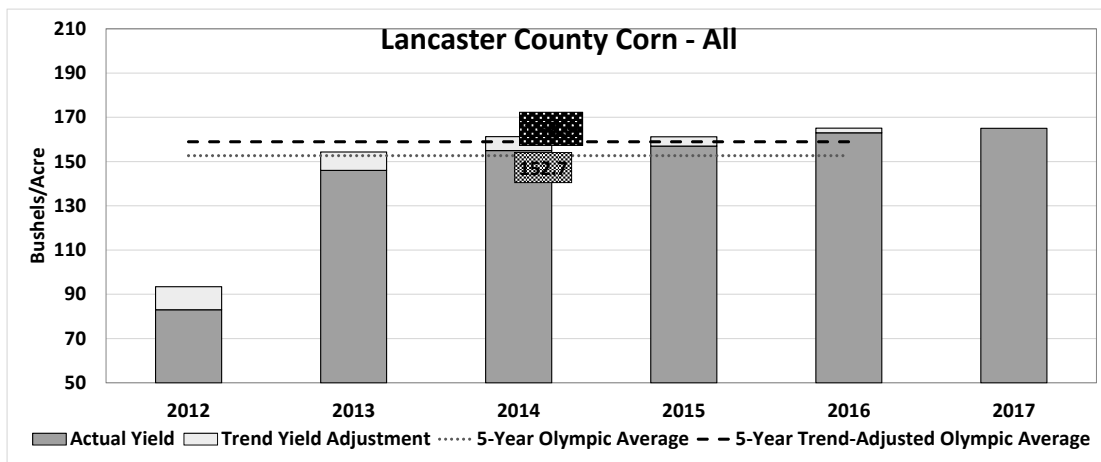


ARC Revisions

- **Trend Yield Adjustment**
 - **Historical yield data in the ARC benchmark equation to be adjusted in similar fashion as with the Federal crop insurance trend-adjusted yield endorsement**
 - **Crop insurance trend-adjusted yield methodology**
 - **Trend-adjusted yield factor by crop, county, and practice calculated each year from historical data**
 - **TA factor added to historical yields to produce de-trended yield history**
 - (TA factor * 1) added to yield in year (t-1)
 - (TA factor * 2) added to yield in year (t-2)
 - Etc.
 - **Should improve the ARC-CO benchmark and thus the guarantee to reflect trend-yield expectations that are at or above historical yield averages (no negative trends allowed)**

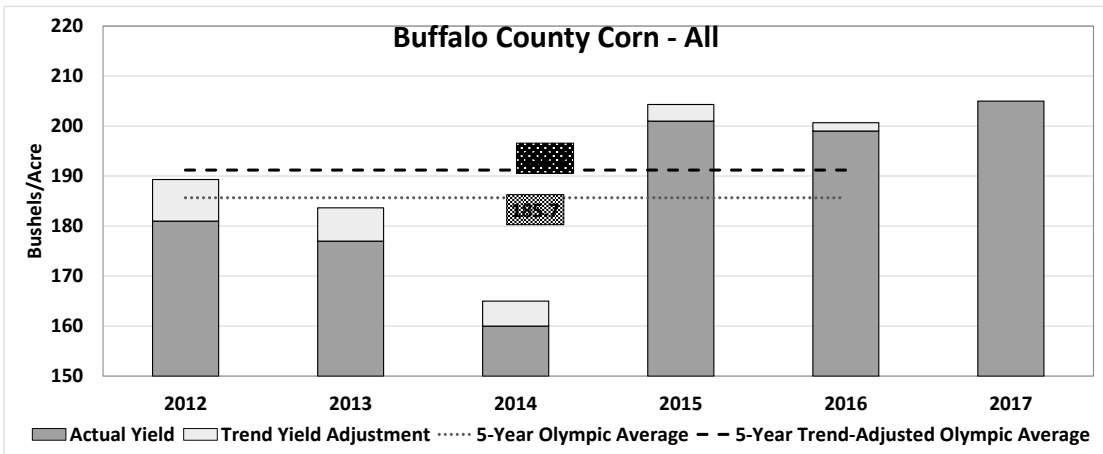


ARC-CO Trend-Adjusted Yield Comparison

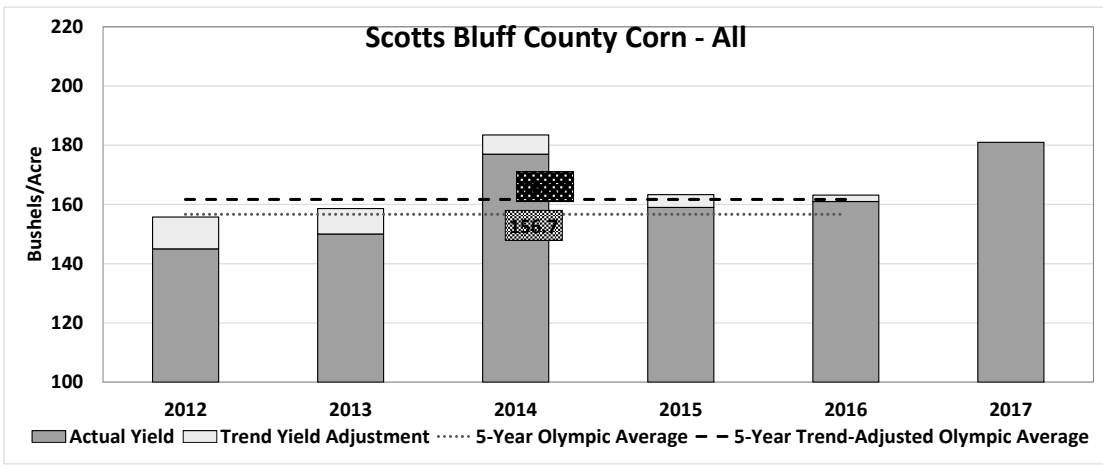




ARC-CO Trend-Adjusted Yield Comparison



ARC-CO Trend-Adjusted Yield Comparison





PLC Revisions

• Payment Yield Update

- All farms have an opportunity to update yields, not just drought counties

$$\frac{\text{Payment}}{\text{Yield}} = 90\% * \left(\frac{2013 - 2017}{\text{average yield}} \right) * \frac{2008 - 2012 \text{ national average yield}}{2013 - 2017 \text{ national average yield}}$$

- Formula provides for yield update, but uses ratio of national yield levels to back up payment yields to 2008-2012 general yield levels, subject to a limit on the ratio of not less than 90% nor more than 110%
- Benefit primarily to farms with below average farm yields in the 2008-2012 period utilized for the last payment yield update (90% of 2008-2012 average yield)



PLC Revisions

• Effective Reference Price

- Reference price accelerator

$$\text{Effective Reference Price} = \text{Maximum of } \left[\begin{array}{l} \text{Reference} \\ \text{Price} \end{array} \text{ or } 85\% * \left(\frac{5 - \text{year Olympic average}}{\text{marketing year average price}} \right) \right]$$

- Formula provides increased reference price if 5-year Olympic average price exceeds existing reference price, subject to a limit of no more than 115% of the existing reference price
- Could essentially provide a moving average reference price at 85% of the Olympic average, but only if prices move substantially above existing reference levels (above \$4.35 for corn, given the \$3.70 existing reference price)





Marketing Loan Rate Revisions

Commodity	Unit	Existing Loan Rate	New Loan Rate
Barley	bushel	\$1.95	\$2.50
Corn	bushel	1.95	2.20
Grain Sorghum	bushel	1.95	2.20
Oats	bushel	1.39	2.00
Soybeans	bushel	5.00	6.15
Wheat	bushel	2.94	3.38
Other Oilseeds	hundredweight	10.09	10.09
Dry Peas	hundredweight	5.40	6.15
Lentils	hundredweight	11.28	13.00
Small Chickpeas	hundredweight	7.43	10.00
Large Chickpeas	hundredweight	11.28	14.00



Dairy Revisions

- **Margin Protection Program (MPP) revised to Dairy Margin Coverage (DMC)**

Margin Coverage Level	MPP Tier 1 (<= 5 M Lbs)	MPP Tier 2 (>5 M Lbs)	DMC Tier 1 (<= 5 M Lbs)	DMC Tier 2 (>5 M Lbs)
\$4.00	\$0	\$0	\$0	\$0
4.50	0	0.02	0.0025	0.0025
5.00	0	0.04	0.005	0.005
5.50	0.009	0.10	0.03	0.10
6.00	0.160	0.155	0.05	0.31
6.50	0.04	0.29	0.07	0.65
7.00	0.630	0.83	0.08	1.107
7.50	0.087	1.03	0.09	1.413
8.00	0.142	1.36	0.10	1.813
8.50	N/A	N/A	0.105	N/A
9.00	N/A	N/A	0.11	N/A
9.50	N/A	N/A	0.15	N/A

- **Increased margin coverage levels available**
- **Decreased premiums for lower production and margin levels**
- **Increased coverage options available from 5% to 95% of production**
- **Affects role of LGM-Dairy as well**

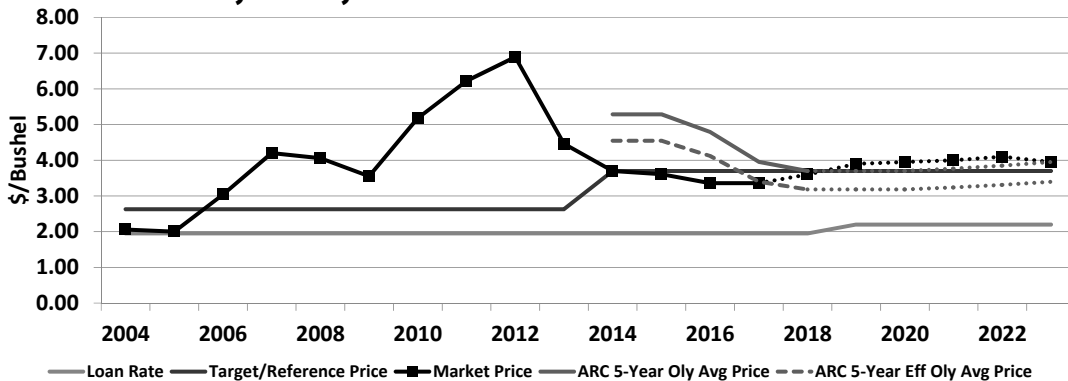


Program Decisions

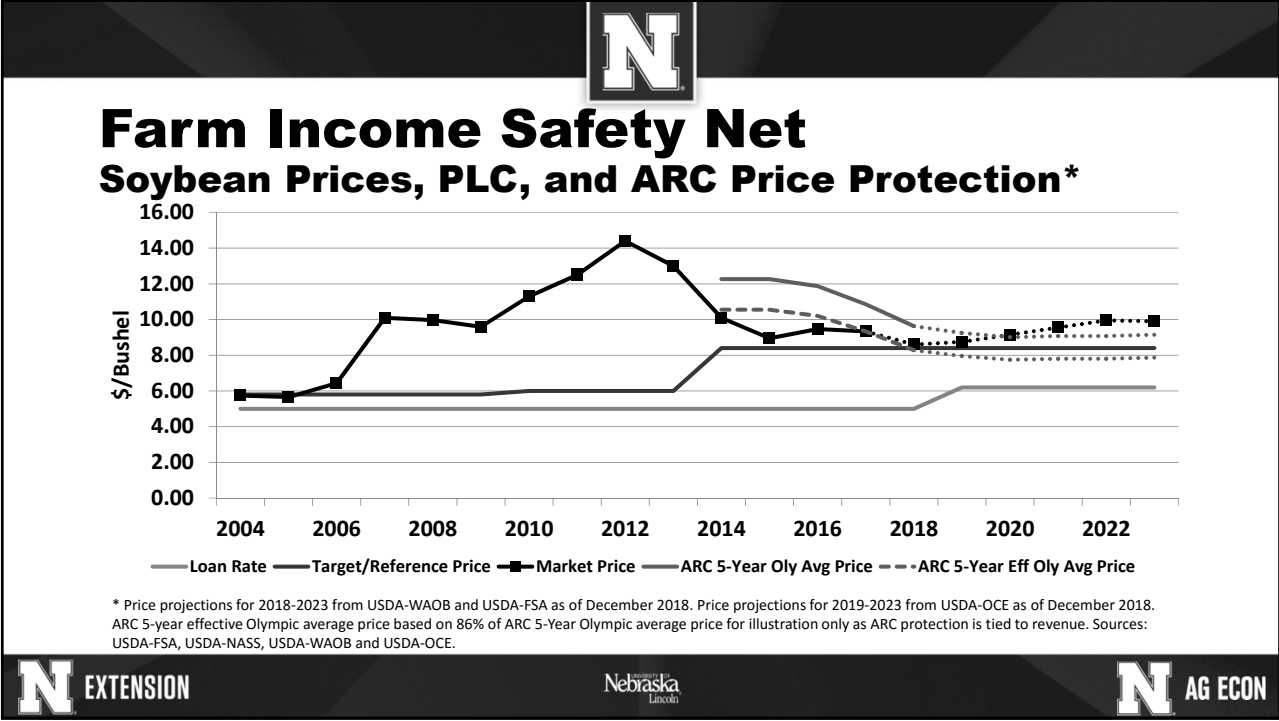
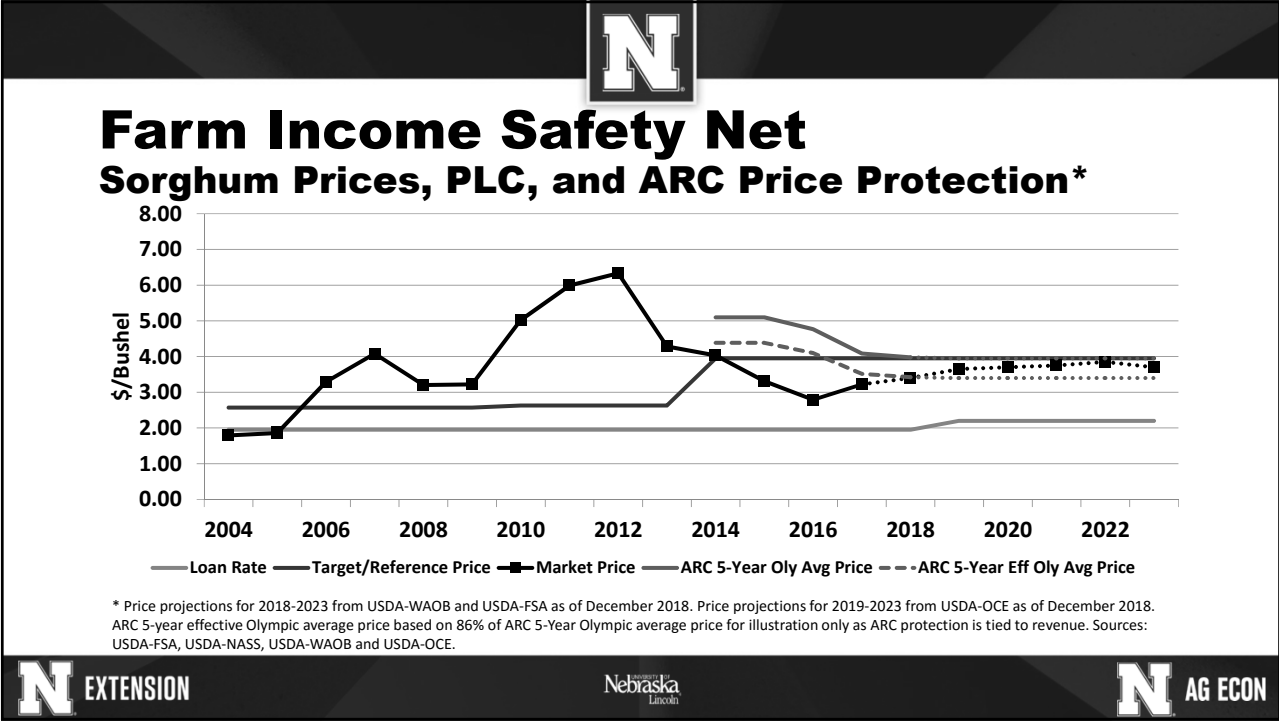
- **Payment Yield Update**
 - Look to prove 2013-2017 production then consider whether payment yield update will be beneficial
- **ARC v. PLC Decisions**
 - Decision in 2019 for 2019-2020 program year
 - Annual decision beginning in 2021
 - Change in enrollment only needed to change decision
- **Analyzing program changes and analyzing market expectations**
 - Improvements to ARC and PLC payment yields
 - Market price expectations affect ARC v. PLC comparison and decision

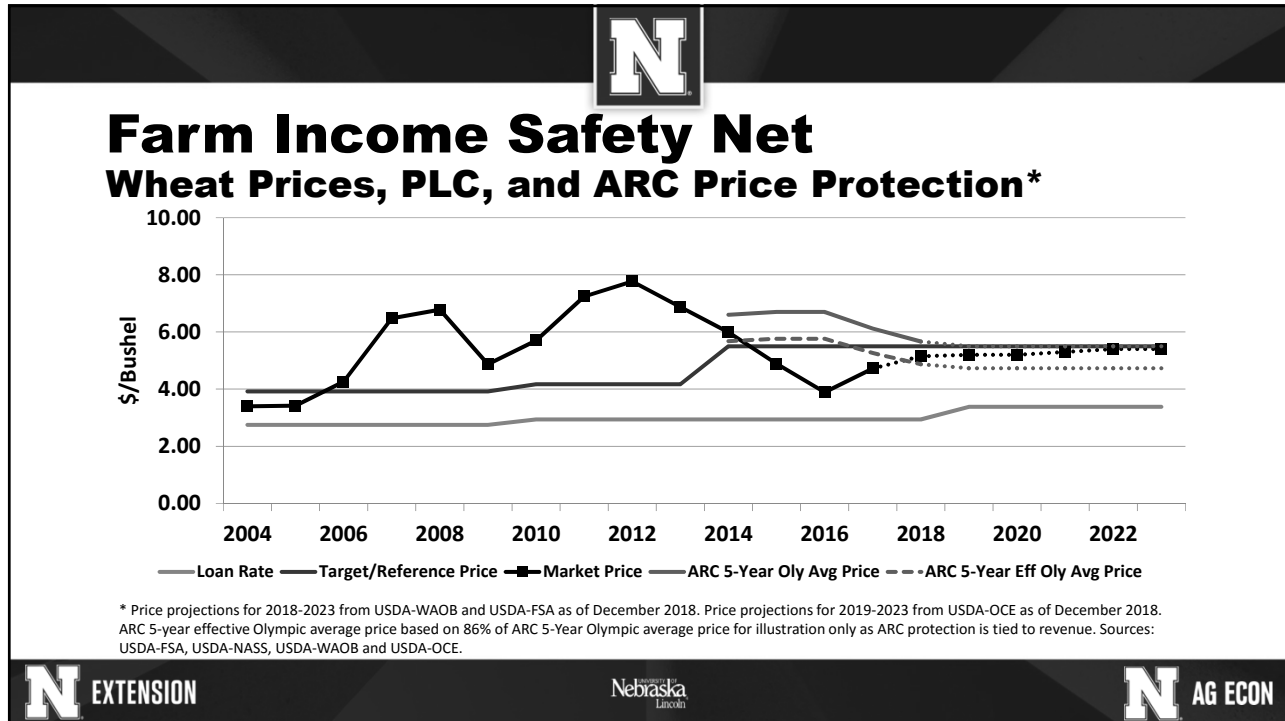


Farm Income Safety Net Corn Prices, PLC, and ARC Price Protection*



* Price projections for 2018-2023 from USDA-WAOB and USDA-FSA as of December 2018. Price projections for 2019-2023 from USDA-OCE as of December 2018. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.





2018 Farm Bill Program Decisions

- **ARC v. PLC Decisions**
 - **Under stable, lower price levels, PLC support will kick in before ARC support for downward price movement**
 - **Under modestly increasing price levels, ARC and PLC support may quickly disappear**
 - **Under substantially higher prices, moving average price in ARC benchmark and moving average price in PLC effective reference price could ratchet up support to near equivalent levels**

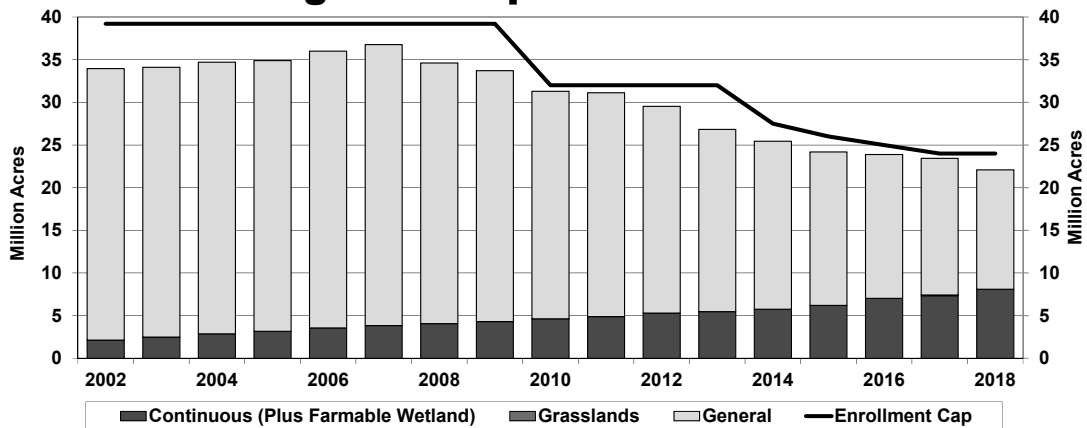


Conservation Revisions

- **CRP**
 - Increased enrollment cap from 24 million to 27 million
 - Reduced rental rate cap to 90% (continuous) or 85% (general) of county average rental rates
- **Working lands (EQIP and CSP)**
 - Repealed existing CSP, maintaining authority only to service existing contracts
 - Combined CSP into same section as EQIP
 - Less total funding for combined EQIP and CSP programs
- **Easements (ACEP) and regional partnerships (RCPP)**
 - Disappearing funding restored

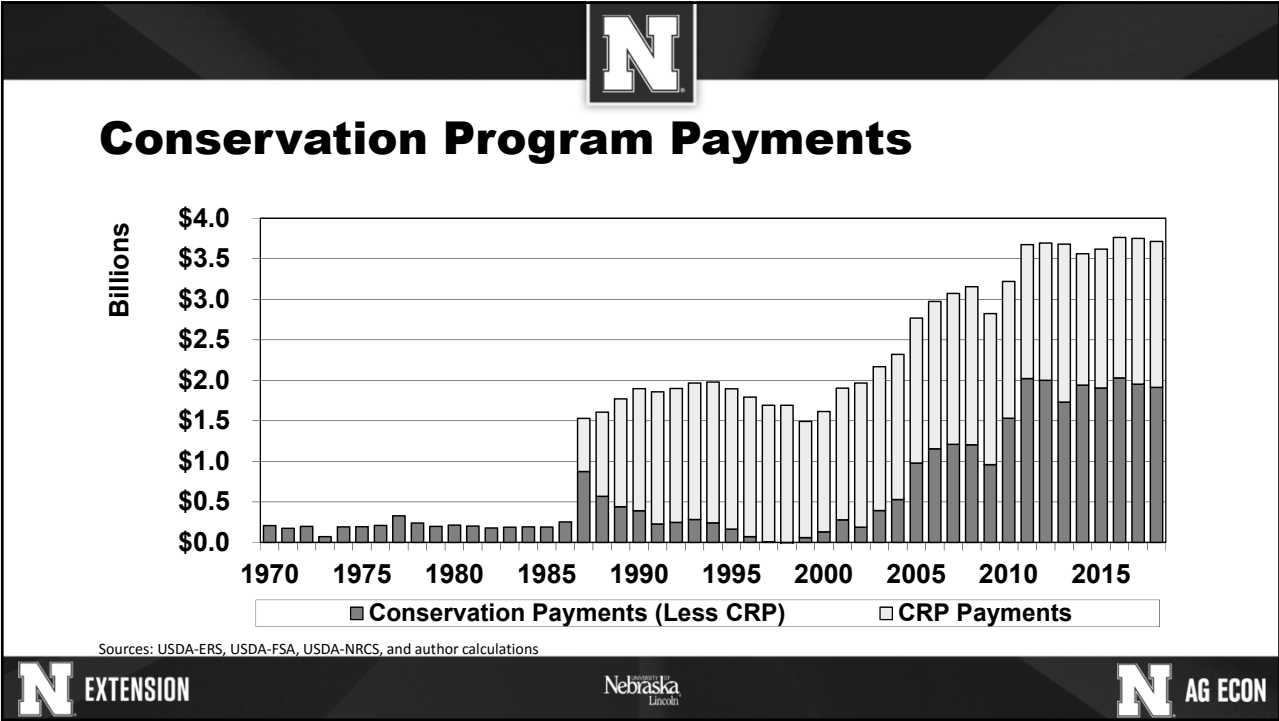
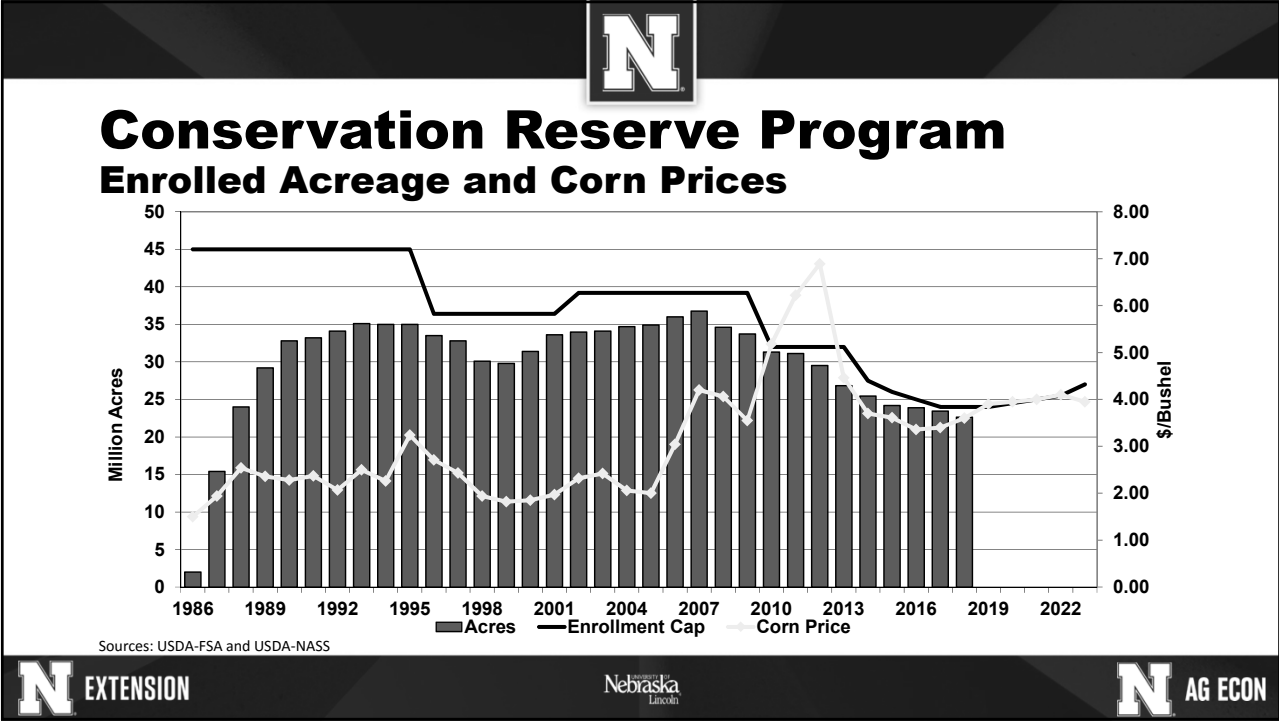


Conservation Reserve Program Enrolled Acreage and Caps



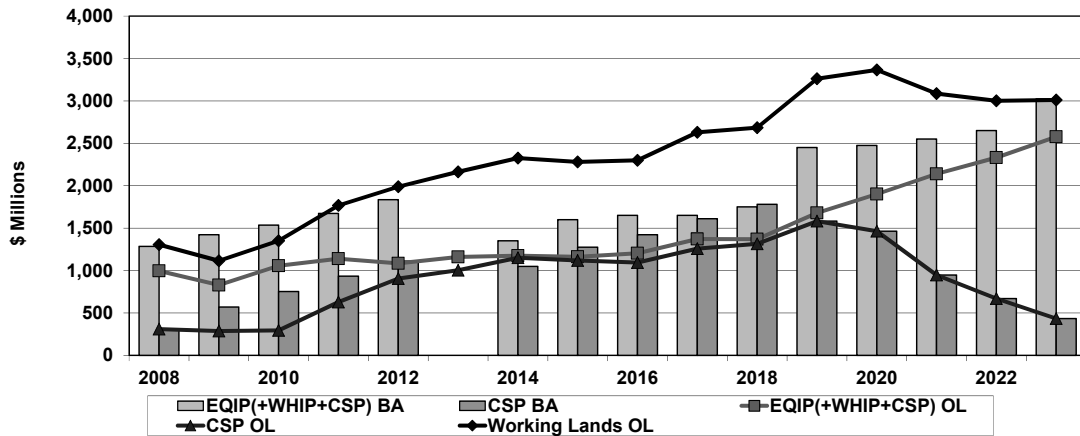
Sources: USDA-FSA and author calculations







Working Lands Programs



Sources: CBO and author calculations



Program Decisions

- **CRP**
 - Increased opportunity for both continuous and general enrollment
 - Pilot programs for both short (3-5 year) and long-term (30 year) enrollments
 - Economics of CRP enrollment changing
 - Crop economics v. grazing economics v. CRP enrollment at reduced rates
- **Working Lands Programs**
 - Revised EQIP and CSP opportunities, but also less total funding





Farm Program Payments and Outlook

- **2014 Farm Bill programs**
 - 2017 program provided reduced support in October 2018
 - 2018 program expected to provide little support in October 2019
- **2018 Farm Bill programs**
 - 2019 program will provide support in October 2020
- **Trade assistance program**
 - Market Facilitation Payment program provided substantial support in late 2018, early 2019



Farm Program Outlook Price Projections*

Commodity	Prices (\$/bushel)				
	2014	2015	2016	2017	2018
Corn	3.70	3.61	3.36	3.20	3.60
Grain Sorghum	4.03	3.31	2.79	3.22	3.40
Soybeans	10.10	8.95	9.47	9.33	8.60
Wheat	5.99	4.89	3.89	4.72	5.15

* Price projections for 2018 from USDA-WAOB and USDA-FSA as of December 2018. Sources: USDA-FSA, USDA-NASS, and USDA-WAOB.





Farm Program Outlook Average PLC Payment Rates in Nebraska*

Commodity	Average PLC Payment Yield (bushels/acre)	Average PLC Payment Rates per Base Acre (\$/base acre)				
		2014	2015	2016	2017	2018
Corn	150	0.00	11.47	43.31	43.31	12.74
Grain Sorghum	77	0.00	41.95	76.04	47.85	36.05
Soybeans	45	0.00	0.00	0.00	0.00	0.00
Wheat	41	0.00	21.19	55.93	27.09	12.16

* PLC payment projections (prior to payment limits and budget sequestration) based on weighted average PLC payment yields and price projections for 2018 from USDA-WAOB and USDA-FSA as of December 2018. Sources: USDA-FSA, USDA-NASS, and USDA-WAOB.



Farm Program Outlook Average ARC-CO Payment Rates in Nebraska*

Commodity	County/Practice Combinations	Average ARC-CO Payment Rates per Base Acre (\$/base acre)				
		2014	2015	2016	2017	2018
Corn	131	53.31	52.36	52.89	5.31	0.00
Grain Sorghum	103	18.44	21.54	29.25	14.94	0.00
Soybeans	112	15.47	28.45	5.60	6.61	0.00
Wheat	113	9.11	24.30	8.26	5.55	0.00

* ARC-CO payment projections (prior to payment limits and budget sequestration) based on yield and price projections for 2018 from USDA-NASS, USDA-WAOB, and USDA-FSA as of December 2018. Sources: USDA-FSA, USDA-NASS, and USDA-WAOB.





Trade Assistance from USDA

- **Market Facilitation Program**

- Direct payments to producers of selected commodities impacted by trade losses
- Initial payments of \$4.7 billion on 50% of 2018 production
- Shelled almonds and fresh sweet cherries added to direct payments (from original food purchase announcement)
- Second round of payments added on remaining 2018 production

- **Food Purchase and Distribution Program**

- Government purchases of selected commodities for distribution through food assistance programs
- Initial target of \$1.2 billion in purchases

- **Agricultural Trade Promotion Program**

- Cost-share assistance to organizations for trade promotion efforts such as advertising, public relations, point-of-sale demonstrations, trade fairs/exhibits, market research, or technical assistance
- Initial commitment of \$200 million

Trade assistance announced by USDA in wake of trade conflicts, tariffs, retaliatory tariffs, and price losses.



Trade Assistance from USDA Market Facilitation Program

Commodity	First and Second Round Total Payment Rate (on 100% of production)	Estimated Total Payments (\$ Millions)
Corn	\$0.01/bu	\$192
Cotton	0.06/lb	553.8
Dairy (milk)	0.12/cwt	254.8
Pork (hogs)	8.00/head	580.6
Sorghum	0.86/bu	313.6
Soybeans	1.65/bu	7,259.4
Wheat	0.14/bu	238.4
Shelled Almonds	0.03/lb	63.3
Fresh Sweet Cherries	0.16/lb	111.5
Total		\$9,567.4

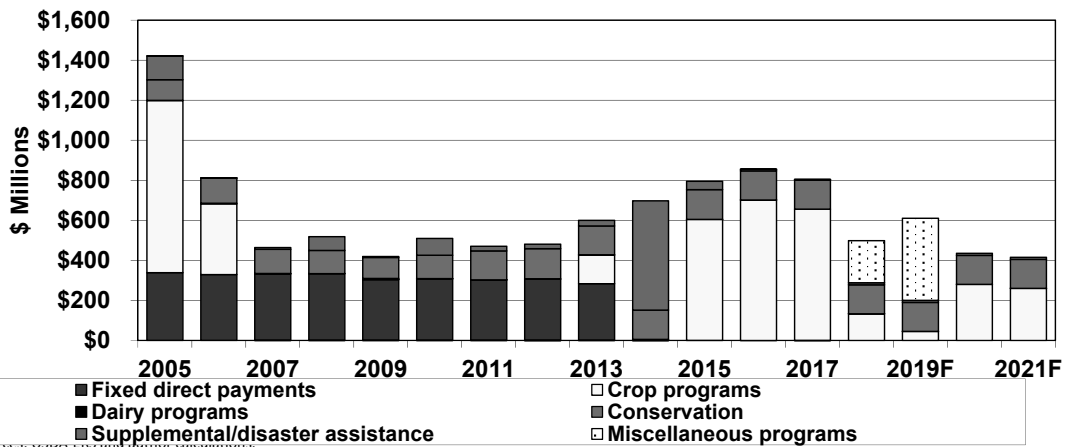


Trade Assistance from USDA Food Purchase and Distribution Program

Commodity	Targeted Purchases (\$ Thousands)	Commodity	Targeted Purchases (\$ Thousands)	Commodity	Targeted Purchases (\$ Thousands)
Apples	\$93,400	Kidney Beans	14,200	Pecans	16,000
Apricots	200	Lemons/Limes	3,400	Pistachios	85,200
Beef	14,800	Lentils	\$1,800	Plums/Prunes	18,700
Blueberries	1,700	Macadamia	7,700	Pork	558,800
Cranberries	32,800	Navy Beans	18,000	Potatoes	\$44,500
Dairy	84,900	Oranges (Fresh)	55,600	Rice	48,100
Figs	15	Orange Juice	24,000	Strawberries	1,500
Grapefruit	700	Peanut Butter	12,300	Sweet Corn	2,400
Grapes	48,200	Pears	1,400	Walnuts	34,600
Hazelnuts	2,100	Peas	11,800	Total	\$1,238,800

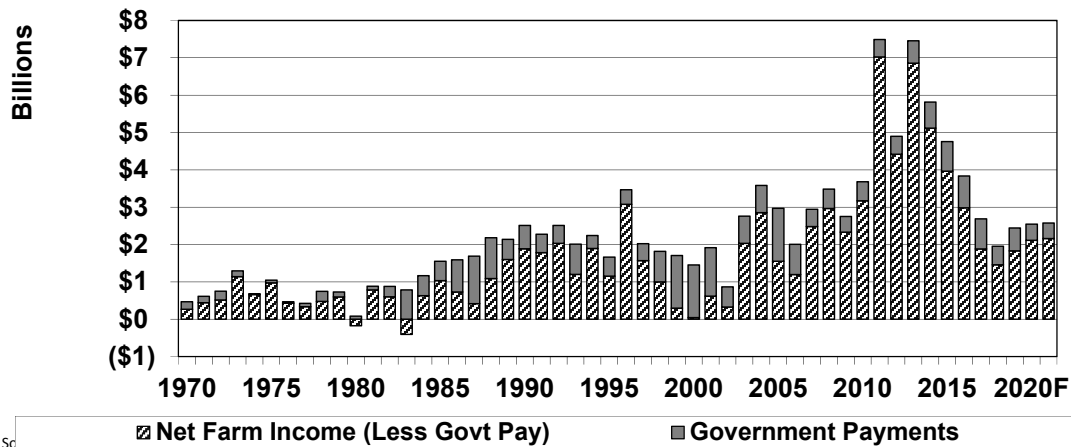


Nebraska Farm Program Payments





Nebraska Net Farm Income



Sc



Key Points

- **Little farm program support for the 2018 crop to be paid in 2019**
 - **But a new farm program decision is coming in 2019 with support to be paid in 2020**
 - **And, trade assistance is providing some current support on selected 2018 production**
- **More policy uncertainty ahead**
- **Manage risks as part of a comprehensive strategy**
- **Educational programs, resources, and information forthcoming, including resources available at farmbill.unl.edu**