

**SELECTED PROVISIONS, COMMITTEE REPORTED BILLS - 2007 FARM BILL:
 FARM INCOME SUPPORT AND RISK MANAGEMENT PROGRAMS**

Carl Zulauf, Professor, Ohio State University, October 2007

This two-page article summarizes provisions and themes of the *Food and Security Act of 2007*, as reported by the Senate Committee on Agriculture, Nutrition, and Forestry, and the *Heartland, Habitat, Harvest, and Horticulture Act of 2007*, as reported by the Senate Committee on Finance. A companion paper is Carl Zulauf, "Selected Provisions, Committee Reported Bills - 2007 Farm Bill: Except Farm Income Support and Risk Management Programs," AEDE-RP-0092-07, October 2007. Both papers are available at <http://aede.osu.edu/resources/docs/display.php?cat=21>.

Farmers have a one-time only choice of two farm support program options. Current safety net is one option. Current base acres, base yields, and fruit and vegetable planting restriction is

retained except for a processing tomato pilot project in Indiana. Table contains proposed and 2007 rates. [upl. = upland; bu. = bushels; lb. = pounds; cwt. = hundredweight; PCCP = price counter-cyclical program].

- ▶ **Direct Payment** rates: no change
- ▶ **PCCP**: target price increased for barley, oats, soybean, and wheat.
- ▶ **Marketing Loan** rates increased for barley, oats, and wheat.

Crop	Unit	Direct Payment Rate	Loan Rate		PCCP Target Price	
			'07	'08-'12	'07	'08-'12
Barley	bu.	\$0.24	\$1.85	\$1.95	\$2.24	\$2.73
Corn	bu.	\$0.28	\$1.95	\$1.95	\$2.63	\$2.63
Upl. Cotton	lb.	\$0.0667	\$0.52	\$0.52	\$0.724	\$0.7225
Oats	bu.	\$0.024	\$1.33	\$1.39	\$1.44	\$1.83
Rice	cwt.	\$2.35	\$6.50	\$6.50	\$10.50	\$10.50
Sorghum	bu.	\$0.35	\$1.95	\$1.95	\$2.57	\$2.63
Soybean	bu.	\$0.44	\$5.00	\$5.00	\$5.80	\$6.00
Wheat	bu.	\$0.52	\$2.75	\$2.94	\$3.92	\$4.20

Second option is Average Crop Revenue (ARC) program for covered commodities and peanuts planted in 2010-12. Planting flexibility allowed for processing, but not fresh, fruits and vegetables; it is limited to 10,000 acres/state in Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio, and Wisconsin. ARC consists of direct and state counter-cyclical revenue payments, and recourse loans.

- ▲ Direct payment equals (a) \$15/acre times (B) farm's current total base acres times (C) 85%.
- ▲ Counter-cyclical revenue payment for a crop equals $\{[(\text{state revenue target} - \text{state actual revenue}) \times (\text{farm's base acres for crop}) \times (\text{farm's actual production history} \div \text{state trend yield}) \times 90\%] \times 85\%\}$.
- ▲ State revenue target equals $[(\text{state trend yield} \div \text{planted acre}) \times (\text{average of current and past 2 years revenue insurance pre-planting price})] \times 90\%$. A 15% cap exists on the change in the average pre-planting price from year to year.
- ▲ Actual state revenue equals $[(\text{state yield} \div \text{planted acre}) \times (\text{revenue insurance harvest price})]$

Other Farm Support Program Provisions

- ▶ Increases raw cane **sugar** loan rate 1 ¢/pound; sets refined beet sugar loan rate at 128.5% of raw cane sugar loan rate; establishes sugar allotments at 85% of domestic human consumption; and creates a program to convert surplus sugar into ethanol.
- ▶ Changes **dairy price support program** to directly support price of cheese, butter, and nonfat dry milk. Milk Income Loss Contract (MILC) extended through farm bill. MILC payments increase.
- ▶ Reimbursement rate for crop insurance administrative and operating costs is reduced by 2 percentage points unless the loss ratio for a state exceeds 1.2. Increases service fee for noninsured crop assistance program and catastrophic risk protection contract. Reduces projected loss ratio for federal crop insurance to 1.0 from 1.075.

► **Adjusted farm gross income eligibility cap** for farm support payments is reduced in steps to \$750,000 by 2010, unless 66.7% or more of income is from farming, ranching, and forestry. Direct attribution of direct and counter-cyclical payments is adopted. No limit on marketing loan gains.

SUPPLEMENTAL AGRICULTURAL DISASTER ASSISTANCE: A permanent Agriculture Disaster Relief Trust Fund is created by amending the *Trade Act of 1974*. It equals 3.34% of duties collected under the Harmonized Tariff Schedule on articles for consumption. **Five programs are funded from the Trust Fund.** Also authorized is a buy-up program for NAP (Noninsured Crop Disaster Assistance Program). It increases NAP coverage up to 60% or 65% of expected yield (from 50%) and up to 100% of average market price (from 55%). Fees paid by farmers will fully cover its cost.

- (1) **Pest and Disease Management and Disaster Prevention Program** funds early pest detection and surveillance activities, development of action plans, and audit-based certification to protect against the spread of plant pests.
- (2) **Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program** provides up to \$35 million annually to protect against losses caused by adverse weather and other environmental conditions not covered under the Secretary of Agriculture's authority to make qualifying natural disaster declarations.
- (3) **Tree Assistance Program** protects against adverse weather caused mortality and damage losses to trees that exceed 15% (adjusted for normal mortality and damage).
 - ▲ Amount paid covers 75% of replanting and 50% of pruning, removal, and other salvage or land preparation costs.
- (4) **Livestock Indemnity Program** protects against deaths above normal mortality that result from adverse weather.
 - ▲ Amount paid equals 75% of livestock's fair market value on the day before the date of death.
- (5) **Crop Disaster Assistance Program** protects against whole farm crop losses resulting from adverse weather.
 - ▲ To qualify, a producer (A) must purchase insurance for insurable crops at a minimum coverage of 50% of yield and 55% of price and purchase NAP for non-insurable crops, and (B-1) must farm in a declared disaster or contiguous county or (B-2) must have individual production losses caused by weather that exceed 50% of normal production.
 - ▲ Amount paid equals [52% of (sum of farm disaster guarantee for insurable and non-insurable crops minus farm crop revenue)].
 - Disaster Guarantee for each insurable crop equals:
 - product obtained by multiplying (A) greatest of the farm's actual production history, 85% of county's 5-year moving Olympic average yield, and farm's counter-cyclical payment yield, (B) farmer-elected percent of insurance yield guarantee, (C) farmer-elected percent of insurance price, (D) insurance price, and (E) 115%
 - for each crop capped at 90% of the crop's expected revenue
 - Disaster Guarantee for each non-insurable crop equals:
 - product obtained by multiplying (A) NAP yield guarantee, (B) farmer-elected percent of NAP price, (C) NAP price, and (D) 115%
 - Total Farm Crop Revenue equals
 - sum of (A) insurance and NAP indemnities, (B) prevented planting payments, (C) other Federal disaster assistance for same loss, (D) 20% of the farm's direct payments, and (E) value of crops and grazing.
 - Value of crops and grazing generally equals the product of (A) actual crop acres grazed or harvested, (B) estimated actual yield of grazing or crop land, and (C) average market price during the first 5 months of the marketing year for the county in the farm or a portion of the farm is located. Price can be adjusted for quality loss and excess moisture.

► Total disaster assistance is **limited to \$100,000** annually per eligible producer. Payments are denied to a producer whose adjusted gross income exceeds \$2.5 million unless at least 75% comes from farming, ranching, and forestry.