

# **Farm Policy: 2012 and Beyond**

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**Dean's Outlook Meeting**  
**Columbus, OH**



# Outline

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- ▶ **Current Status of Farm Bill Process**
- ▶ **Shallow Loss Program Alternatives**
- ▶ **Multiple-Year Loss Program Alternatives**
- ▶ **Changing Policy Role of Crop Insurance and Next Farm Bill**

# Current Status of Farm Bill

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- ▶ **Farm Bills passed by full Senate and House Ag Committee; entwined with fiscal cliff debate**
- ▶ **Two farm bills drafts are quite similar**
- ▶ **Differences:**
  - (1) Cuts to nutrition programs**
  - (2) Should Farm Service Agency administer a farm level risk management program?**
  - (3) Should multiple-year risk program focus on price or revenue and have benchmarks that are fixed or change with market conditions?**

# 2012 Shallow Loss Programs

Program	Variable County Coverage Based on Insurance		Fixed Coverage Range Not Based on Insurance		
	SCO [Senate & House]	STAX [Senate & House]	Farm ARC [Senate]	County ARC [Senate]	County RLC [House]
<b>Loss Covered</b>	coverage elected for farm up to 90%	coverage elected for farm up to 90%	79% to 89%	79% to 89%	75% to 85%
<b>Payment Multiplier</b>	1.0	up to 1.2	1.0	1.0	1.0
<b>Price</b>	insurance price	insurance price	5-Year OMA of U.S. price	5-Year OMA of U.S. price	5-Year OMA of U.S. price
<b>Pay Acres vs. Premium Subsidy</b>	planted – all prevent - all 70%	planted – all prevent - all 80%	planted – 65% prevent – 45% ----	planted – 80% prevent – 45% ----	planted – 85% prevent – 30% ----
<b>Pay Limit</b>	None	None	\$50,000 per pay entity	\$50,000 per pay entity	\$125,000 per pay entity

**KEY:** SCO = Supplemental Coverage Option; STAX = Stacked Income Protection (only upland cotton); ARC = Agriculture Risk Coverage; RLC = Revenue Loss Coverage; OMA = Olympic Moving Average (removes low and high values); prevent = acres prevented from being planted

# Individual Crop Revenue Protection and Supplemental Coverage Option

## EXAMPLE FOR MCLEAN COUNTY, ILLINOIS (data from Gary Schnitkey, University of Illinois)

Individual Farm Revenue Protection Policy (RP)			County Supplemental Coverage Option (SCO)			RP plus SCO	
Coverage Level	Farm Premium	Expected Insurance Payment	Coverage Level	Farm Premium	Expected Insurance Payment	Total Premium	Expected Payment
85%	\$21	\$32	85%-90%	\$5	\$16	\$26	\$22
80%	\$10	\$20	80%-90%	\$9	\$30	\$19	\$31
75%	\$5	\$11	75%-90%	\$13	\$43	\$18	\$36
70%	\$3	\$6	70%-90%	\$16	\$54	\$19	\$41

# Proposed Multiple-Year Risk Programs

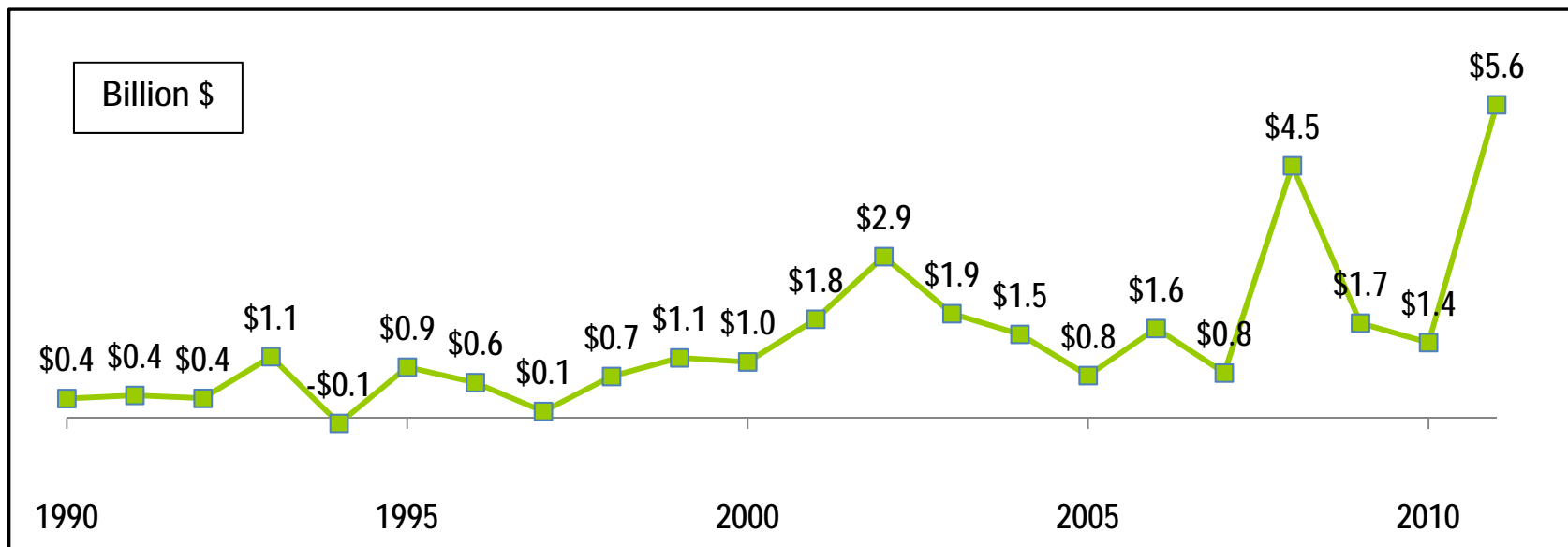
- ▶ Both farm bill drafts retain marketing loans.
- ▶ Senate proposes integrated multiple-year and shallow loss programs, while House proposes an updated target price program.

Program	Senate: Agricultural Risk Coverage	House: Target Price (Price Loss Coverage)
Loss Covered	79% to 89% of (product of 5-year Olympic averages of US price and county or farm yield)	Between loan rate and fixed target price times 90% of base yield (which can be updated to 2009-12 average yield)
Pay Acres	planted – county 80% (farm 65%) prevented planting – 45%	planted – 85% prevented planting – 30%
SCO	coverage maximum is 80%	coverage maximum is 90%
Pay Limit	\$50,000 limit per pay entity	\$125,000 limit per pay entity

Crop	Loan Rate	Target Price	Olympic Average Price 2008-12
Corn (bushel)	\$1.95	\$3.70	\$5.15
Cotton, Upland (pound)	\$0.47-\$0.52	\$0.69	\$0.71
Peanuts (pound)	\$0.18	\$0.27	\$0.26
Rice (hundredweight)	\$6.50	\$14.00	\$14.56
Soybeans (bushel)	\$5.00	\$8.40	\$11.26
Wheat (bushel)	\$2.94	\$5.50	\$6.57

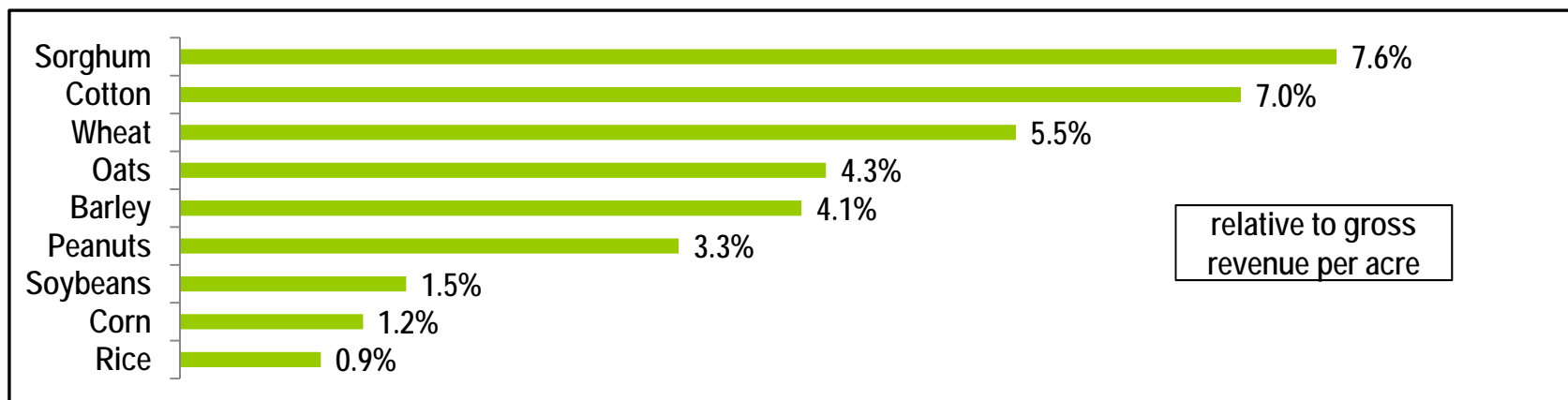
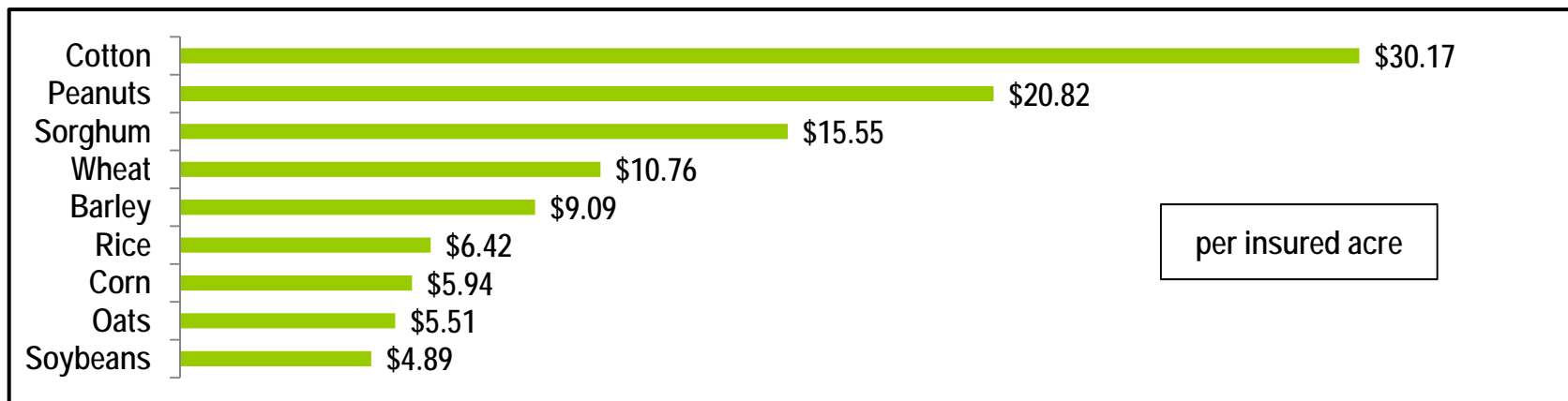
# Crop Insurance as a Farm Payment Program

Net Farm Payments from US Crop Insurance, 1990 - 2011



# Crop Insurance as a Farm Payment Program

## Average US Annual Net Insurance Payment by Crop, 2001 – 2011





# Issues That Will Drive Future Farm Safety Net

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**Insurance is core farm safety net program, but**

- ▶ **search for multiple-year risk companion program**
- ▶ **insurance and conservation compliance**
- ▶ **cost of insurance program**
- ▶ **risk compensation: an action that increases risk in response to another action that reduces risk;**
  - **potential risk compensation actions resulting from buying crop insurance**
    - **more, risky land in production**
    - **increased forward contracting**
    - **more risky production practices**
    - **higher land prices, especially cash rent**
- ▶ **insurance and farm size**

# Questions?

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**Thank you**

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