MEMORANDUM February 10, 2012

Subject: **Summary of Selected Farm Safety Net Proposals**

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In advance of the expiration of the 2008 farm bill (P.L. 110-246), numerous proposals have been offered to revise the "farm safety net" for producers of crops covered by farm commodity support programs. In this memo, we describe current farm safety net programs designed to support farm income and manage risk. Next we discuss issues and tradeoffs that might affect various policy approaches. We then compare a number of current proposals relative to these key issues.

Proposals considered in this memo surfaced mostly during fall 2011 when budget deliberations by the Joint Select Committee on Deficit Reduction generated concerns that a new farm bill might be "written" or severely constrained from a budgetary perspective by budget negotiators, rather than by the House and Senate Agriculture Committees. Prior to the joint committee's deadline of November 23, 2011, Members of Congress and several prominent commodity and agricultural interest groups released proposals for U.S. farm policy in general, and commodity programs in particular. The proposals ranged from simply extending current farm programs at reduced funding levels to program elimination and wholesale replacement.[1] In October 2011, leadership of the House and Senate Agriculture Committees, drawing on various proposals that emerged, sought to develop new farm policy that would fit within proposed budgetary guidelines. Ultimately the joint committee failed to reach a bipartisan consensus on deficit reduction. As a result, development of the farm bill is now following a more traditional legislative process beginning with committee deliberations.

Three major issues are embedded in nearly all of the farm safety net proposals: (1) how price (or revenue) protection is established, (2) at what geographic level program benefits are triggered, and (3) whether the proposal addresses "shallow losses," i.e., those not covered by federally subsidized crop insurance but absorbed by the producer via the policy deductible. Additional issues include whether program benefits should be based on current plantings ("re-coupled") rather than tied to historical plantings (as done since 1996 under "direct" payments), and to what extent a revised farm safety net program is applicable to crops outside of the traditional farm program mix.

The Appendix examines each proposal individually against the following criteria: program type, commodity coverage, type of losses covered, program mechanics, payment limits, conservation compliance, cost to producers and taxpayers, and proposal sponsor's rationale.

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[1] CRS Report R42040, *Farm Safety Net Proposals and the Joint Select Committee on Deficit Reduction* reviews several proposals that are either general or not specific to commodity programs and therefore not covered in this memo.

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Current Farm Safety Net Programs[2]

The federal government supports farm income and helps farmers manage risks associated with variability in crop yields and prices through a collection of programs. The broader farming community often refers to the "farm safety net" as:

1. farm commodity price and income support programs under Title I of the 2008 farm bill,
2. federal crop insurance (permanently authorized) under the Federal Crop Insurance Act of 1980, and
3. disaster assistance programs under Title XII of the 2008 farm bill, which expired on September 30, 2011.

Each of these three components is covered in the sections below and summarized in **Table 1**. The Congressional Budget Office (CBO) currently estimates the total cost of farm safety net programs for FY2011 at $13.5 billion. Projected budget authority for farm safety net programs averages $15.2 billion over FY2013-FY2022, including $6.2 billion for Title I (including commodity programs) and $9 billion for Title XII (crop insurance). (Disaster programs do not have baseline funding.) [3]

Commodity Programs

The mandatory commodity provisions of Title I of the 2008 farm bill provide support for 26 farm commodities. Producers of program commodities (food grains, feed grains, oilseeds, upland cotton, peanuts, and pulse crops) are eligible for a variety of payments.[4] Types of payments include "direct," "counter-cyclical" or "Average Crop Revenue Election (ACRE)," and "marketing loan benefits," as described in **Table 1**.[5] Producers of other so-called "loan commodities" (including extra long staple, or ELS, cotton, wool, mohair, and honey) are eligible only for nonrecourse marketing assistance loans and marketing loan benefits. In the 2008 farm bill, benefits for producers of dry peas, lentils, and chickpeas were expanded to include counter-cyclical payments (but not fixed "direct" payments).

Current farm law also mandates that raw cane and refined beet sugar prices be supported through a combination of limits on domestic output that can be sold and nonrecourse loans for domestic refined sugar, backed up by quotas that limit imports. Dairy product prices are supported by guaranteed government purchases of nonfat dry milk, cheese, and butter at set prices, and quotas that limit imports. Additionally for dairy, Milk Income Loss Contract (MILC) payments are made directly to farmers when farm-level milk prices fall below specified levels. In contrast to producers of traditional program commodities, producers of specialty crops (e.g., fruits, vegetables, horticulture crops) and livestock

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[2] See CRS Report R41317, *Farm Safety Net Programs: Issues for the Next Farm Bill*. While many critics of farm subsidies take issue with what does and does not constitute a safety net and whether current farm programs actually perform as such, the term *safety net* is used here as a catchall descriptor rather than an assessment of the merits. Several current farm programs contain elements of a safety net and are intended to protect farmers against risks or ensure a minimum level of economic well-being. For example, crop farmers and landowners receive counter-cyclical payments when the crop price or revenue declines below a certain level. In contrast, "direct payments" deliver nearly $5 billion every year to owners of agricultural base acres irrespective of the level of farm prices or production.

[3] CBO Budget Projections, January 2012.

[4] Food grains include wheat and rice, and feed grains include corn, sorghum, barley, and oats. Oilseeds include soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed. Pulse crops include dry peas, lentils, small chickpeas, and large chickpeas. Commodity programs are financed through USDA's Commodity Credit Corporation (CCC). See CRS Report RL34594, *Farm Commodity Programs in the 2008 Farm Bill*.

[5] For more information on direct and counter-cyclical payments, and the ACRE program, see USDA factsheets at: http://www.fsa.usda.gov/Internet/FSA_File/dcp_0112.pdf and http://www.fsa.usda.gov/Internet/FSA_File/acre_2012_fact_sheet.pdf

generally have received little or no direct government support through commodity programs. Instead, these farms may manage risks through business diversification, purchase of federal crop insurance, and participation in federal disaster assistance programs.

Crop Insurance

The federal crop insurance program provides risk management tools to address losses in revenue (accounting for about 75% of total policy premiums) or crop yield (25%). Federally subsidized policies protect producers against losses during a particular season, with price guarantee levels established immediately prior to the planting season.[6] This is in contrast to commodity programs, where protection levels are specified in statute (e.g., counter-cyclical payments) or use average farm prices from previous years (e.g., ACRE).

Federal crop insurance has grown in importance as a farm risk management tool since the early 1990s, due in large part to substantial federal subsidy intervention. The federal government pays about 60%, on average, of the farmer's crop insurance premium. Thus, as participation in crop insurance programs has grown over time, so too has the absolute level of federal premium subsidies. CBO projects that the crop insurance program in its current form would cost, on average, $8.9 billion per year (**Table 1**) through 2022.[7]

In 2011, crop insurance policies covered 264 million acres. Major crops such as corn, soybeans, wheat, and cotton are covered in most counties where they are grown, and policies cover at least 80% for each crop. Crop insurance is also available for over 80 specialty crops. In 2009, specialty crop policies covered more than 7 million acres, which was between 53% to 75% of specialty crop area, depending on how total area is calculated. In total, policies are available for more than 100 crops, including coverage on fruit trees, nursery crops, dairy and livestock margins, as well as pasture, rangeland, and forage.

Disaster Assistance

In an attempt to avoid ad hoc disaster programs that had become almost routine, and to cover additional commodities, the 2008 farm bill included funding for five new disaster programs. However, these programs were authorized only for losses for disaster events that occur on or before September 30, 2011, and not through the entire life of the 2008 farm bill (which generally ends on September 30, 2012). As a result of this early expiration, program funding is not included in future baseline estimates.

The largest of the disaster programs is the Supplemental Revenue Assistance Payments Program (SURE), which is designed to compensate eligible producers for a portion of crop losses not eligible for an indemnity payment under the crop insurance program. Unlike traditional disaster assistance and crop yield insurance, losses are calculated using total crop revenue for the entire farm (i.e., summing revenue from all crops for an individual farmer). The whole-farm feature and the use of 12-month season-average prices—while perhaps fiscally responsible—have made SURE complicated, data-dependent, and slow to respond to disasters. The 2008 farm bill also authorized three new livestock assistance programs and a tree assistance program.

[6] Insurance policies are serviced through approved private insurance companies. Independent insurance agents are paid sales commissions by the companies. The insurance companies' losses are reinsured by USDA, and their administrative and operating costs are reimbursed by the government. The program is administered by the USDA's Risk Management Agency (RMA) and financed through USDA's Federal Crop Insurance Corporation (FCIC). Separately, the Noninsured Crop Disaster Assistance Program (NAP), administered by USDA' Farm Service Agency, attempts to fill in the gaps in catastrophic coverage in counties where crop insurance policies are not offered.

[7] CBO Budget Projections, January 2012.

Table 1. Farm Safety Net Programs

(authorized under the 2008 farm bill and other legislation)

Program Instrument	Commodity Coverage	Program Description and Outlays ($16.2 bil./yr.)
Commodity Programs		**Projected Avg. Outlays FY2013-FY2022: ($5.7 bil./yr.)**
1. Direct payments (DP)	Wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, sunflower, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed, and peanuts	Fixed annual payment based on land's production history. Income transfer; not tied to current market prices or yields. ($4.9 billion/yr.)
2. Counter-cyclical payments (CCPs)	Above crops plus pulse crops (dry peas, lentils, small chickpeas, and large chickpeas)	Variable annual payment—varies inversely with market price relative to "target price" in statute. Based on historical yield and acreage, and national season-average farm price of commodity. ($0.2 billion/yr.)
3. Marketing Assistance Loan benefits (loan deficiency payments, marketing loan gains, and certificate exchanges)	Same crops as those eligible for CCPs plus extra long staple cotton, wool, mohair, and honey	Variable payment—varies inversely with market price relative to "loan rate" in statute. Based on actual production. Farmer chooses timing. Allows loan to be repaid at possibly lower market price, or cash payment. ($0.1 billion/yr.)
4. Average Crop Revenue Election (ACRE)	Same crops as those eligible for CCPs (farmers receive either CCPs or ACRE payments, not both)	Variable annual payment—varies inversely with state-level revenue relative to crop benchmarks. Triggered by *both* low farm and state revenues. ($0.5 billion/yr.)
5. Non-recourse loans and marketing allotments	Sugar	Price guarantee for refined beet sugar and raw cane sugar; limits on sales of domestically produced sugar. ($0, designed to be no net cost)
6. Milk Income Loss Program (MILC) and Dairy Product Price Support Program (DPPSP)	Milk (MILC); nonfat dry milk, cheese, and butter (DPPSP), indirectly supporting farm milk price	Variable payment—varies inversely with national farm milk price (MILC); dairy product prices supported at certain minimums (DPPSP). ($0.03 billion/yr.)
Risk Management		**Projected Avg. Outlays FY2013-FY2022: ($9.0 bil./yr.)**
7. Crop insurance	More than 100 crops, including most major crops, many specialty crops, and some livestock	Subsidized insurance premiums. Indemnities paid when yield or revenue drops below guarantees established prior to planting. Coverage level selected by producer and based on expected prices, farm yield, farm revenue, and/or area yield. ($8.9 billion/yr.)
8. Noninsured Crop Disaster Assistance Program (NAP)	Crops not covered by crop insurance	Payments for severe crop yield losses in regions where crop insurance is not available. ($0.1 billion/yr.)
Disaster Assistance (authority ended 9/30/11)		**Average Annual Losses (2008-2011): ($1.5 bil./yr.)**
9. Supplemental Revenue Assistance Payments Program (SURE)	All crops	Payment based on whole-farm crop revenue shortfall not covered by crop insurance.
10. Four additional disaster programs	Livestock, forages, honey bees, farm-raised fish, fruit tree, vines	Payment for losses due to adverse weather or other conditions (e.g., wildfire).
11. Ad hoc disaster payments	Policymakers' discretion	Payment and eligibility determined by each disaster bill.

Source: Congressional Research Service using outlays from January 2012 CBO baseline for FY2013-22.

Notes: The term "safety net" is used broadly here and does not assess the merits of the various programs. Not shown is additional support for dairy and sugar producers through import restrictions. The four additional disaster programs cited above include Livestock Indemnity Program (LIP); Livestock Forage Disaster Program (LFP); Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP); Tree Assistance Program (TAP).

Policy Issues for Current Programs

The current tight federal budget situation and the general global economic difficulties since 2008 contrast sharply with the financial success experienced by the U.S. farm sector in recent years.[8] The U.S. agricultural sector has been thriving financially since the mid-2000s as rising commodity prices and land values have pushed farm incomes to record levels and reduced debt-to-asset ratios to historically low levels. Over the past decade, farm household incomes have surged ahead of average U.S. household incomes. With this economic backdrop, several critical policy issues have emerged in recent years that are likely to play a role in shaping the next farm bill.[9]

Effectiveness of the Current Farm Safety Net. Some producers have criticized farm safety net programs for being too slow to respond to disasters, not being well integrated, or not providing adequate risk protection. In contrast, long-time farm program critics question the need for any farm subsidies, contending that government funding could be better spent advancing environmental goals or improving productivity. Others cite economic arguments against the programs—that they distort production, capitalize benefits to the owners of the resources, encourage concentration of production, harm smaller domestic producers and farmers in lower-income foreign nations, and pay benefits when there are no losses or to high-income recipients.

Overlap in Farm Risk Programs. Farm policy observers have identified apparent overlap among farm safety net programs. For example, the ACRE program and crop insurance both address revenue variability. Also, the current farm program mix has several variations of "counter-cyclical-style" payments, including marketing loan benefits, traditional (price) counter-cyclical payments, ACRE (revenue) payments, revenue-type crop insurance, and whole-farm insurance. Some believe that a simplified approach might be more effective and less expensive.

Commodity Coverage Limited to Major Crops. The extent of the current commodity coverage is primarily a result of the historical and evolving nature of farm policy. Producers of major commodities have benefited the most from farm programs because farmers and policymakers representing those commodities shaped the programs from their inception. Since then, other commodity advocates have not had the interest or sufficient political power to add their commodities to the mix. Commodity coverage could be increased by enhancing crop insurance for non-program crops, developing a whole-farm program, or revising the current whole farm insurance product so it would be more widely accepted by producers.

Payment Limits and Farm Size. Payment limits for the farm commodity programs, with the exception of the marketing assistance loan program, either set the maximum amount of farm program payments that a person can receive per year or set the maximum amount of income that an individual can earn and still remain eligible for program benefits (a means test). The payment limits issue is controversial because it directly addresses questions about the size of farms that should be supported, whether payments should be proportional to production or limited per individual, and who should receive payments. Some policymakers want limits to be tightened to save money, respond to general public concerns over payments to large farms, and reduce the possibility of encouraging expansion of large farms at the expense of small farms. Others say larger farms should not be penalized for the economies of size and efficiencies they have achieved. Crop insurance has no payment limits, a feature that some policymakers say makes crop insurance an attractive centerpiece of farm policy because it helps small and large farms alike, with neither apparently gaining at the expense of the other.

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[8] See CRS Report R40152, *U.S. Farm Income*.

[9] These policy issues are discussed in CRS Report R41317, *Farm Safety Net Programs: Issues for the Next Farm Bill*.

Farm Policy Alignment with U.S. Trade Commitments. As a World Trade Organization (WTO) member, the United States has committed to operate its domestic support programs within the parameters established by the Agreement on Agriculture as part of the Uruguay Round Agreement.[10] The United States also faces pressure to modify certain "trade-distorting" elements of its upland cotton programs due to an unfavorable WTO dispute settlement ruling.[11]

Is a loss necessary to trigger a federal farm program payment? The recent surge in U.S. farm income has brought into question the need for nearly $5 billion in direct payments that are paid to agricultural land owners whether a loss was incurred or not.

Farm Safety Net Issues

A major driver in developing the next farm bill is the current federal budget situation. Deficit reduction is likely to continue, as evidenced by the mandate given to the Joint Select Committee on Deficit Reduction, and agriculture is frequently mentioned as a target for cutting government spending. From an agricultural policy perspective, many supporters as well as some critics of farm subsidies have become increasingly interested in developing a safety net that reflects, at least to some degree, the following goal as expressed by one advocate:

> making the farm program safety net more effective, efficient, and defensible by reallocating baseline funding to improve risk management and complement crop insurance. Currently, marketing loan rates and target prices are too low to provide effective price and income support. The ACRE program has too many disincentives to participation. The SURE disaster program has not made timely payments and is expiring, and there is concern about how to protect against shallow losses. Direct Payments are increasingly difficult to defend as farm prices remain at historically high levels.[12]

Several specific policy directions, issues, and questions have emerged in recent months.

1. Apparent consensus for the elimination of direct payments, and crop insurance to serve as the primary safety net policy.
2. Should any farm commodity payments be based on planted acres (i.e., benefits "re-coupled" as they were prior to 1996 farm bill) or on historical base acres (as done currently for direct and counter-cyclical payments)?
3. Multiple commodity programs (i.e., different programs for different commodities) raise the issues of fairness and equity for payment distribution.
4. Using arbitrarily determined target/reference prices at above-market levels might alter producer behavior, with implications for shifts in planted area and WTO obligations.
5. Should producers have increased planting flexibility by removing restrictions on growing fruits, vegetables, and wild rice as a condition for receiving program benefits?
6. Federal programs need to address the potential for losses following successive years of downward trending prices (multi-year price protection).
7. How should conservation compliance be maintained if direct payments are eliminated? Would it be attached to crop insurance or some other program?

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[10] See CRS Report RS20840, *Agriculture in the WTO: Limits on Domestic Support*, and CRS Report RL32916, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture*.

[11] See CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*.

[12] From the American Soybean Association, "Risk Management for America's Farmers and Meeting Agriculture's Share of Deficit Reduction," September 29, 2011, http://www.soygrowers.com/policy/ASA-RMAF.pdf.

8. The level and applicability of payment limits remain contentious.
9. Under sequestration, cuts of approximately $15 billion might be required for mandatory farm programs. Will committee leadership retain the $23 billion reduction goal previously announced?
10. How will sequestration be incorporated into the budget scoring of any new farm bill?

Revising the Farm Safety Net

Several broad policy issues affect potential tradeoffs for revising the farm safety net. These include:

(1) how is price (or revenue) protection established,

(2) at what geographic level are program benefits triggered, and

(3) whether or not a proposal addresses "shallow losses," i.e., losses not covered by federally subsidized crop insurance due to the policy deductible.

Each of these issues is discussed below and shown graphically in **Table 2**.

Farm safety net proposals offered to-date by Members of Congress and interest groups can be analyzed using these same three issues as points of comparison. A matrix in **Table 3** arranges each proposal accordingly. The left column is price (revenue) protection determination; the top row is the geographic trigger; and shallow loss programs are shaded within the table. A summary table and brief description of each of the 11 proposals reviewed in this memo are provided in the **Appendix**.

(1) Fixed Price vs. Market Formula Protection

Given current relatively high price levels and agricultural market volatility, many ask how the government might best protect producers against lower prices and/or revenue. Crop insurance covers only intra-season price risk; and current program parameters for most farm programs are at levels that generally do not provide much protection at current price levels. Many producer groups are interested in protecting against multi-year price declines. However, using recent high prices as fixed references could increase program outlays and lead to potential World Trade Organization (WTO) disputes.

In general, fixed price guarantees, if set at a relatively high level, can provide the most market protection for farmers but at a relatively high potential cost for taxpayers, as well as at increased risk for WTO trade disputes. In contrast, more market-oriented program parameters can reduce potential for overproduction and high taxpayer costs, but may provide less support to farmers when prices decline rapidly, particularly if the guarantee is based on current prices.[13] Price protection based on historical average prices may be more attractive for producers following a high price period because it would establish a higher protection than current prices.

(2) Individual Farm Protection vs. Area-wide Trigger

A program's geographic trigger is used to determine at what level a loss must occur before producers receive a benefit: farm, county, state, or national, or some combination. Farm-level compensation is usually preferred by producers because it is specific to their loss, but it can be more expensive for

[13] Some farm groups are concerned that support levels do not keep up with rising input prices. The economic argument against tying government support to input costs is that guaranteeing profits can result in over investment in the agricultural sector, high public expenditures, and a misallocation of resources within the general economy.

taxpayers. Also, a farm-specific program would need provisions (e.g., an insurance deductible) to avoid moral hazard problems—farmers deliberately taking actions that might increase their indemnities—or adverse selection whereby only farms with high risk of loss participate. For an area-based program (such as county or district), farms might suffer a loss but not receive payment if the program payment trigger also requires a loss at the area level. Also, some say the lack of county data might make program administration difficult. National level programs can be easier to administer (e.g., less data and calculations required) but benefits might not match individual needs if national-level payments do not correspond with local farm losses.

By design, a trigger based on individual farm loss would provide better farm-level yield protection than an area trigger. However, a lower payment rate (or limiting factor on payments) might be needed for budgetary purposes since farm yield variability is greater than for a larger geographic area and hence, the program could trigger payments more often. In contrast, an area-wide plan would provide less protection against individual yield risk while perhaps offering more price protection, depending on how the program is constructed. In any case, payment adjustment factors can be used to reduce eligible acreage so that a program fits under a predetermined cost constraint when scored by CBO.

(3) Shallow Loss vs. Deep Loss

The issue of "shallow losses" (i.e., losses not covered by federally subsidized crop insurance but absorbed by the producer via the policy deductible) has received considerable attention in policy discussions. Shallow losses can vary widely from year to year based on minor deviations from normal weather or due to modest market price changes. They generally do not threaten the commercial viability of a business, but instead are thought of as part of the cost of doing business.

Some policymakers and producers are concerned about the level of deductible and the cost of purchasing additional coverage to protect against shallow losses. Several entities have proposed alternatives to address shallow losses through a new revenue program (similar to ACRE). In contrast, others advocate that federal farm programs should focus only on "deep losses" that would otherwise drive a producer out of business and let individual operators use existing risk management tools to deal with year-to-year shallow losses. They argue that a shallow loss program would remove too much risk for producers and would encourage overproduction, which could reduce crop prices and drive up federal outlays. Yet others have commented that offering inexpensive deep loss coverage might encourage production of certain crops in more risky production areas if policies are made available in those areas or the coverage level is too high.

Additional Issue: "Recoupling"

Another choice when designing a farm program is whether to tie the benefits to current plantings or to historical plantings. Under the 1996 farm bill, payments were "de-coupled," meaning producers were no longer required to plant a specific crop in order to receive a payment (counter-cyclical program payments were added in 2002). Congress chose this method to encourage farmers to plant according to market signals and not for potential government payments. If under the next farm bill, payments are made on planted acres instead of historical base acres ("recoupling"), benefits would be more closely tied to producer loss. The tradeoff is that it could create the potential for market-distorting behavior by encouraging producers to plant for the program rather than the market, which could lead to overproduction, lower crop prices, and higher federal outlays. Also, programs using current plantings are less WTO compliant.

Table 2. Policy Issues for Developing a Farm Safety Net

Issue	Producer Concern	Program Design and Cost Issues
Fixed Price vs. Market Formula Protection	Crop insurance covers only intra-season price risk; successive years of market price declines would lower price protection; most current program parameters are at levels that generally do not provide much protection in current high-price markets.	Current market conditions could be incorporated into program parameters by using multi-year average prices, either in a revenue program (as ACRE does now) or through crop insurance. Using recent prices could increase protection while possibly increasing outlays and leading to potential disputes under WTO rules if the payment formula is too generous.
Individual Farm Protection vs. Area-wide Trigger	A trigger at a more aggregated level (above farm level) may result in no payments to producers with losses.	Triggers set only at the farm level can be more expensive because likelihood of payout is higher. Farmers might take actions that increase their indemnities (moral hazard problem).
Protect against revenue loss at the whole-farm level (i.e., total revenue for all crops)	Historically, producers think about farm subsidies, indemnities, and disaster payments on a crop basis. Also, whole-farm payments may be less than crop-specific payments due to offsetting crop revenues on the farm.	Whole-farm approach would address farm loss directly and perhaps cost less but approach is historically not popular with producers; it might encourage more risky practices (moral hazard problem) such as planting only one crop because farm diversification may reduce likelihood of payment to farmer.
Covering shallow loss vs. deep loss	Crop insurance covers deep losses in crop revenue but deductible leaves producers with potential for out-of-pocket loss (shallow loss).	A farm program could be designed to cover a portion of this loss; or additional crop insurance coverage could be provided through higher subsidies for policies with lower deductibles or with a separate insurance policy. Farmers might take actions that increase their indemnities (moral hazard problem).

Source: CRS.

Table 3. Matrix of Farm Safety Net Proposals (Shallow Loss Programs are Shaded)

How is price (or revenue) protection established?	At what geographic level are program benefits triggered?			
	Farm	**County**	**Crop reporting district**	**National**
	Compensation matches a portion of farm loss but costs can be high and certain rules might be required for program integrity	*Can be less expensive than farm level program but county loss may not match farm loss*	*Farm may suffer loss but not receive payment if loss does not occur in Crop Reporting District (CRD)*	*National program is easier to administer but benefits might not match need if payments do not correspond with farm loss*
1. Current market price *Farmers would plant according to market incentives but price protection might not be enough if crop prices drop sharply or trend lower.*	**Environmental Working Group (EWG)** – free crop insurance coverage for yield losses greater than 30%; no subsidies for revenue policies or higher coverage levels; guarantee based on current prices.	**Total Coverage Option or TCO (Neugebauer)** – new area yield insurance policy available to pay for a producer's deductible when area yield losses are greater than 10%; guarantee based on current market prices.		
2. Multi-year average historical price *Price protection is based on historical prices, which is attractive for producers following a high price period, but it might be too costly or not provide enough price protection if crop prices trend lower over time.*	**Revenue Loss Assistance Program (Conrad)** – revenue payment for each program crop when triggered by revenue losses greater than 10%; guarantee based on higher of historical farm prices or target prices. **Risk Management for America's Farmers or RMAF (American Soybean Association)** – revenue payment for each program crop when triggered by losses greater than 10%; guarantee based on historical farm prices.	**Deep Loss Program (American Farm Bureau Federation)** – new county revenue insurance policy for losses greater than 20% or 30%; guarantee based on historical prices (current insurance policies use only within season prices).	**Aggregate Risk and Revenue Management or ARRM (Senator Brown et al.)** (S. 1626) – revenue payment for each program crop when triggered by losses greater than 10% at both district and farm level; guarantee based on historical crop insurance prices.	
3. Fixed in statute *Depending on program parameters, legislated guarantee price might provide the highest amount of price protection but might also encourage overplanting and/or result in high federal outlays if target prices are set too high relative to the market.*		**Stacked Income Protection Plan or STAX (National Cotton Council)** for cotton only – new county insurance policy with a price guarantee fixed in statute and low deductible.		**Farmer-Owned Reserve (FOR) by National Farmers Union** – acreage set-aside and storage programs; increase loan rates. **Revised Counter-cyclical Price Program** – make payments on planted acreage rather than base acres; increase target prices.

Source: CRS based on proposal descriptions.

Notes: (1) Programs in shaded boxes are designed to address "shallow loses," i.e., out-of-pocket losses including those paid by the producer via the crop insurance deductible. Advocates say a shallow loss program is needed to better protect producers, while opponents argue that it would remove too much risk and encourage overproduction, which they say could reduce crop prices and drive up federal outlays; (2) not appearing in the figure: the Administration's Deficit Reduction Plan (eliminates direct payments and reauthorizes other programs) and Senator Coburn's plan (eliminates farm programs and retains crop insurance); (3) all proposals are discussed in more detail in the Appendix.

Concluding Comment

Most proposals for altering the farm safety net have recommended reducing or eliminating direct payments for budgetary savings and as a way to fund revisions to other programs. Proposals offering the least amount of policy change include those by the Administration and others, which would essentially extend farm programs at reduced funding levels. Some proposals would eliminate all commodity payments, but retain or revise crop insurance.

Several proposals would reduce or eliminate direct payments and other commodity payments, and create a new crop revenue program by borrowing concepts from current programs such as ACRE or SURE. Several other proposals focus on changes to crop insurance, such as providing an area-wide, revenue-based crop insurance program that would supplement existing crop insurance products to cover shallow losses. Many of these proposals were unveiled in fall 2011. The proposals might represent a starting point for developing the next installment of farm programs when the 2008 farm bill expires in 2012.

Acronyms

ACRE – Average Crop Revenue Election.

AGI – Adjusted Gross Income.

APH – Actual production history; an individual producer's historical farm yield used for determining the crop insurance guarantee.

CCP – Counter-Cyclical Payment.

CRD – Crop Reporting District.

DP – Direct Payment.

FSA – Farm Service Agency, USDA agency responsible for administering farm commodity programs and NAP.

NAP – Noninsured Crop Disaster Assistance Program, administered by FSA.

RMA – Risk Management Agency, USDA agency responsible for administering the crop insurance program.

SURE – Supplemental Revenue Assistance Payments Program.

TBD – To be determined.

Note

All budget cost estimates in this memo are from proposal descriptions or press reports, except where noted.

Appendix: Safety Net Proposal Descriptions

In fall 2011, Members of Congress, the Administration, and a number of farm groups put forward a variety of proposals to reduce government expenditures on farm subsidies and revise farm programs.[14] Selected proposals are summarized in the sections that follow and are listed in **Table A-2** on the following page. Several proposals not reviewed in this memo are included in CRS Report R42040.

The proposals are grouped into four categories: (1) modify current policy, (2) new revenue programs, (3) crop insurance, and (4) other. Most proposals either reduce or eliminate direct and counter-cyclical payments to generate savings and provide funding to change the farm safety net so it addresses concerns pertaining to farm revenue risk for producers. Also, most either leave the marketing loan program unchanged or retain it with modest modifications.

Not all of the proposals specify how much budgetary savings would occur and, even if they do, few have official comparable scores by the Congressional Budget Office (CBO). As a reference point, total budget authority for all mandatory farm bill programs under current law is $994 billion during FY2013-FY2022, according to the CBO January 2012 baseline (**Table A-1**).[15] Of this amount, budget authority for farm safety net programs is $152 billion over the 10-year period, including $62 billion for Title I (including commodity programs) and $90 billion for Title XII (crop insurance). (Disaster programs do not have baseline funding.)

Table A-1. Baseline for Mandatory Farm Bill Programs, FY2013-FY2022
(budget authority in millions of dollars)

	5-year Baseline	10-year Baseline
2008 Farm Bill Title and Program	**FY2013-FY2017**	**FY2013-FY2022**
Title I and XII - Farm Safety Net Programs	**74,424**	**152,476**
Title I - Commodity Programs	30,967	62,411
Title XII - Crop Insurance	43,457	90,065
Title II - Conservation	**30,453**	**65,003**
Title IV - Nutrition	**399,485**	**771,606**
All other titles	**2,366**	**4,874**
Total	**506,729**	**993,959**

Source: CRS analysis based on the CBO baseline (January 2012).

Notes: Nutrition includes only the Supplemental Nutrition Assistance Program (SNAP) and related programs because both House and Senate Agriculture committees have jurisdiction. Child nutrition programs (Senate Agriculture Committee jurisdiction only) would add $238 billion over 10 years. Conservation and other titles exclude $769 million for expiring programs that do not have future baseline.

[14] Some proposals have been revised and/or updated in early 2012. This memo includes the most recently available information for each proposal.

[15] It is assumed that legislative proposals for a 2012 farm bill will be scored against the forthcoming March 2012 CBO baseline.

Table A-2. Selected Farm Safety Net Proposals

Proposal	Description	Eliminations / Net savings
Group I. Modify Current Policy		
Administration: Deficit Reduction Plan	Reauthorize CCP, ACRE, SURE, and marketing loan program; lower crop insurance expenditures by reducing producer subsidies and payments to companies for expenses and risk-sharing.	Eliminate DP. $33 billion savings over 10 years (including separate conservation savings).
Senator Coburn: Deficit Reduction Plan	Maintain crop insurance and guaranteed farm loans.	Eliminate all farm commodity programs.
Revised Counter-cyclical Price Program	Modify the current CCP program by making payments on planted acreage (not base) and raising target prices.	Cost not available.
Group II. New Revenue Programs		
S. 1626, Aggregate Risk and Revenue Management (ARRM) by Senators Brown, Thune, Durbin, and Lugar	Crop revenue program—makes payments (by program crop) on 85% of planted acres when two triggers are met: (1) farm revenue is below guarantee, and (2) crop revenue at crop reporting district level is below guarantee. Both use historical crop insurance prices.	Eliminate DP, CCP, ACRE, and SURE. CBO estimates $20 billion savings over 10 years. Payments capped at 15% of CRD guarantee.
Revenue Loss Assistance Program by Senator Conrad	Crop revenue program—makes payments (by program crop) on plantings when actual crop revenue is below guarantee. Payment is 60% of difference between adjusted historic revenue and actual revenue. Price based on higher of target price or 5-yr Olympic ave. farm price.	Eliminate DP, ACRE, and SURE. Reauthorize marketing loans and CCP. Payments capped at 10% of guarantee. Cost not available.
Risk Management for America's Farmers (RMAF) by American Soybean Association	Crop revenue program—makes payments (by program crop) on planted acres when crop revenue is below guarantee. Payment is 85% of difference between guarantee and actual revenue. Guarantee based on APH or county yields and higher of target price or 5-yr Olympic average farm price.	Eliminate DP, CCP, ACRE, and SURE. Cost not available.
Group III. Crop Insurance		
Stacked Income Protection Plan (STAX) by National Cotton Council	STAX is described for cotton producers only. Farmers could buy insurance coverage to protect against shallow losses under an area-wide insurance product with a fixed minimum harvest price; would be in addition to a farmer's individual policy.	Eliminate DP, CCP, ACRE, and SURE. Modify marketing loan (2-yr ave. Adjusted World Price within 47 to 52 ¢/lb. range). Cost of $400 to $500 million per year.
Total Coverage Option (TCO) contained in H.R. 3107 by Representative Neugebauer	Enable producers to supplement farm-level with area-wide yield insurance to cover shallow losses.	Cost not available.
Environmental Working Group (EWG) Proposal	Replace current farm commodity programs and crop insurance subsidies with a free crop insurance policy that covers yields losses of more than 30%. Revenue insurance policies and additional yield coverage would be available but not subsidized.	Eliminate current farm programs and crop insurance subsidies. EWG expects a total savings of $80 billion over 10 years.
Deep Loss Program by American Farm Bureau Federation	Focus on deep losses by replacing current programs and catastrophic crop insurance with an area-wide (e.g., county) revenue insurance policy. Guarantee would be based on historical prices to address multi-year price declines. Farmers could purchase additional subsidized insurance to cover shallow losses.	Eliminate DP, CCP, ACRE, and SURE. Insurance deductible and premium subsidy rates to be determined by budget cost implications.
Group IV. Other		
Farmer-Owned Reserves (FOR) by National Farmers Union	FOR, increased loan rates, and acreage set-asides. Payments limited to crops placed under FOR.	Eliminate DP, CCP, and marketing loan benefits.

Source: Compiled by CRS from proposal statements, news reports, and other sources.

Notes: If not indicated, costs estimates provided by authors of proposals. Additional proposals not appearing here are reviewed in CRS Report R42040, *Farm Safety Net Proposals and the Joint Select Committee on Deficit Reduction*. DP=direct payment, CCP=counter-cyclical payment, CRD = crop reporting district, APH=actual production history (crop insurance yield). Olympic average excludes high and low years,

Proposal: The Administration's Plan for Economic Growth and Deficit Reduction[16]

Sponsor: the Administration

Program type: Modify current policy so as to reduce budget costs.

Programs eliminated: DP.

Commodity coverage: Current program crops: wheat, feed grains (corn, grain sorghum, barley, oats), rice, soybeans, upland cotton, minor oilseeds, peanuts, and pulse crops (dry peas, lentils, chickpeas).

Loss coverage: No change from current programs.

Program description: Reauthorize CCP, ACRE, marketing loan program, and the suite of disaster programs, including SURE, that expired September 30, 2011; reduce crop insurance expenditures by reducing producer subsidies (by 2 percentage points) on those policies in which premiums are subsidized at above a 50% rate, reduce company average return on investments (ROI) to a 12% average, and reduce payments to companies for expenses and risk-sharing.

Price/Revenue protection: No change from current farm and crop insurance programs (NC).

Geographic loss trigger: NC.

Eligible acres: NC.

Payment calculation: NC.

Payment limit: NC.

Conservation compliance: NC.

Cost to producer: Higher crop insurance premiums.

Budget cost estimate: Administration estimates net savings of $33 billion over 10 years including: $2 billion in savings from better targeting of conservation programs; $30 billion from DP; and $8 billion from changes to the crop insurance program. Reauthorization of the suite of disaster programs, including SURE, would cost roughly $7 billion over 5 years.

Rationale: The Administration is concerned that both the level of federal support directed to the crop insurance industry, as well as the crop insurance industry's return on investment (ROI), are artificially inflated by the high market-price setting of recent years rather than by a change in risk. This is because

[16] Office Of Management And Budget, "Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction," September 19, 2011, pp. 17-19, and Table S-5, p. 59, at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/jointcommitteereport.pdf.

both premiums and subsequent federal support levels rise with market prices. To support its argument, the Administration points to a study that found that average ROI was 14% for crop insurance companies compared to an average of 12% for other types of insurance companies. As a result, the Administration proposes lower federal support so as to help bring the ROI more into line with the insurance industry average ROI. To achieve this, the Administration proposes capping administrative expense reimbursements based on 2006 premiums rather than the recent high-priced 2010 premiums. Also the Administration proposes to more accurately price the premium for catastrophic (CAT) coverage policies, which will slightly lower the reimbursement to crop insurance companies. Farmers would not be impacted by the change to CAT since the farmer portion of the CAT premium remains fully subsidized.

For many crop insurance policies, over half of the premium is paid by the federal government. The original rationale for high federal premium subsidies was to encourage greater producer participation. Today participation rates average near 83%. As a result, the Administration argues that the rationale for such high premium subsidy rates has weakened. The Administration proposes cutting federal premium subsidy rates by two percentage points on those policies that are subsidized in excess of 50%.

Proposal: Senator Coburn's Deficit Reduction Plan[17]

Sponsor: Senator Coburn

Program type:	Part of broad plan to reduce government spending by eliminating most farm programs, but maintaining crop insurance programs and guaranteed farm loans.
Programs eliminated:	All farm programs including DP, CCP, ACRE, and SURE. It also would end direct ownership and operating loans and not reauthorize disaster programs that expired September 30, 2011.
Commodity coverage:	No change from current crop insurance program (NC).
Loss coverage:	NC.
Program description:	Among its many government-wide provisions, the plan would maintain crop insurance and guaranteed loans.
Price/Revenue protection:	NC.
Geographic loss trigger:	NC.
Eligible acres:	NC.
Payment calculation:	NC.
Payment limit:	NC.
Conservation compliance:	None.
Cost to producer:	NC.
Budget cost estimate:	Total safety net savings would be more than $80 billion over 10 years (sponsor estimate).

Rationale: Senator Coburn's proposal states that the farm safety net should be reformed to serve solely as a risk management tool intended to promote the capitalization of farmers; income support programs, such as direct payments, ACRE, and marketing assistance loans should be ended.

[17] Office of Senator Tom Coburn, *Back in Black—A Deficit Reduction Plan*, July 2011, pp. 48-84, http://coburn.senate.gov/public//index.cfm?a=Files.Serve&File_id=c6590d01-017a-47b0-a15c-1336220ea7bf.

Proposal: Revised Counter-cyclical Price Program

Sponsor: unspecified

Program type: Expand current CCP program.

Programs eliminated: DP, ACRE, and SURE.

Commodity coverage: Current program crops: wheat, feed grains (corn, grain sorghum, barley, oats), rice, soybeans, upland cotton, minor oilseeds, peanuts, and pulse crops (dry peas, lentils, chickpeas).

Loss coverage: No change from current CCP and crop insurance programs.

Program description: Modify CCP program two ways. **First**, make payments on planted acreage (rather than base acres) when the national average farm price during first several months (TBD) of marketing year drops below a reference (target) price. **Second**, increase target prices to more closely align with current market prices (formula TBD).

Price/Revenue protection: Increases under CCP modifications relative to current CCP program.

Geographic loss trigger: National.

Eligible acres: All planted acres.

Payment calculation: Same as under current CCP program.

Payment limit: Unspecified.

Conservation compliance: Unspecified.

Cost to producer: None.

Budget cost estimate: No estimate available.

Rationale: Producer groups supporting these CCP modifications say current program parameters are no longer relevant and do not provide meaningful price protection. Switching from base acres to planted acres would align the CCP payment more closely with price risk associated with a producer's production (as provided under current ACRE program but not current CCP program). Using only partial-year data rather than the entire year for determining the payment would speed up payment delivery. The portion of the marketing year to be used has yet to be determined.

Proposal: Aggregate Risk and Revenue Management (ARRM)[18]

Sponsors: Senators Brown, Thune, Durbin, and Lugar

Program type: Shallow-loss crop revenue program.

Programs eliminated: DP, CCP, ACRE, and SURE.

Commodity coverage: Current program crops: wheat, feed grains (corn, grain sorghum, barley, oats), rice, soybeans, upland cotton, minor oilseeds, peanuts, and pulse crops (dry peas, lentils, chickpeas).

Loss coverage: Covers losses from 10% to 25% of crop-reporting-district (CRD) revenue guarantee. The first 10% of losses are not covered. Losses greater than 25% are expected to be covered by crop insurance polices.

Program description: Makes crop-specific payments when two triggers are met: (1) actual farm revenue < farm guarantee, and (2) actual CRD revenue < CRD revenue guarantee. Both loss triggers use crop insurance harvest prices.

Price/Revenue protection: Multi-year: both revenue guarantees (farm and CRD) are based on 5-year Olympic average of yield (APH and CRD) times crop insurance harvest price.

Geographic loss trigger: Two triggers must be met—farm level and CRD level.

Eligible acres: Planted or intended to be planted acres.

Payment calculation: Payment on 85% of planted acres with adjustment for farm yield relative to CRD yield. Per-acre payment rate equals 100% of difference between 90% of CRD revenue guarantee and actual CRD revenue (CRD yield x RMA harvest price). Payment rates capped at 15% of CRD guarantee.

Payment limit: Subject to adjusted gross income (AGI) limitation of $500,000 non-farm average income and a payment limit of $65,000.

Compliance issues: Eligibility subject to conservation compliance rules. ARRM eliminates restrictions on planting fruits and vegetables on program acres.

Cost to producer: None.

Budget cost estimate: The elimination of several existing programs would score substantial savings which are partially offset by the cost of the ARRM program (estimated at $28 billion over 10 years). CBO has scored $20 billion in net savings over 10 years for ARRM.[19]

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[18] "Aggregate Risk and Revenue Management Act of 2011," S. 1626, referred to Senate Agriculture Committee, September 23, 2011, at http://www.gpo.gov/fdsys/pkg/BILLS-112s1626is/pdf/BILLS-112s1626is.pdf. Subsequently, in early October, Senator Lugar and Representative Stutzman introduced S. 1658 and H.R. 3111, the Rural Economic Farm and Ranch Sustainability and Hunger Act (REFRESH), a broad-based farm bill that incorporates ARRM.

[19] CBO score of ARRM relative to the CBO March 2011 baseline, September 19, 2011.

Rationale: ARRM was designed to address several criticisms that emerged regarding the 2008 farm bill's Average Crop Revenue Election (ACRE) program. ACRE was intended to help farmers manage their revenue risks (not just price risk as under other farm programs) and protect against losses from multi-year price declines. Under ACRE, payments for an eligible crop required meeting two separate revenue triggers at both the state and farm levels. While the revenue aspect has been conceptually attractive for many, some have criticized ACRE's use of *state* crop yields to determine guarantee and payment levels. They point out that a crop loss problem in one part of a state might be offset by better yields in another part, resulting in minimal or no risk protection at a more local level. Another criticism is that, because ACRE payments are determined with season-average prices calculated by USDA at the conclusion of the marketing year, payments arrive at least a year after harvest.

ARRM addresses these issues by using a five-year, Olympic average revenue trigger based on yields in crop reporting districts (CRDs), which are multi-county areas, rather than state-wide yields. This change is designed to shift the program's risk protection closer to the farm. Secondly, the program uses harvest prices from the crop insurance program (which are based on current futures market prices for harvest-time contracts) for calculating actual and guarantee levels of revenue. This would speed up the payment delivery because crop insurance prices are available many months before season-average farm prices can be calculated. Like ACRE, the program has two revenue triggers at both the CRD and farm levels.

Proposal: Revenue Loss Assistance Program[20]

Sponsor: Senator Conrad

Program type:	Shallow-loss crop revenue program.
Programs eliminated:	DP, ACRE, and SURE.
Commodity coverage:	Current program crops: wheat, feed grains (corn, grain sorghum, barley, oats), rice, soybeans, upland cotton, minor oilseeds, peanuts, and pulse crops (dry peas, lentils, chickpeas).
Loss coverage:	Covers commodity-specific revenue losses on all of the planted/prevented planted program crop acreage of a producer or landlord greater than 10% but not to exceed 25%.
Program description:	Makes payment when actual revenue for one or more program crops is less than the adjusted historic revenue guarantee for each crop (defined as 90% of historic revenue for each crop). CCP continues with 2012 target prices and payments made on 75% of base acres (down from current level of 85%).
Price/Revenue protection:	Multi-year; for each crop, revenue guarantee is: 90% <u>*times*</u> planted (and prevented planted) acreage <u>*times*</u> the higher of 5-year Olympic average farm price or 2012 target price <u>*times*</u> producer yield (higher of the farm: (1) APH, (2) 5-year Olympic average APH, or (3) CCP yield).
Geographic loss trigger:	Farm level.
Eligible acres:	Planted or intended to be planted acres. Total eligible acres cannot exceed historical program crop base acres.
Payment calculation:	Per-acre payment rate equals 60% of difference between the adjusted historic revenue and the actual crop revenue for the current year. For each crop, actual revenue is harvested acres <u>*times*</u> actual yield <u>*times*</u> national farm price for the first four month of year (or the loan rate if it is higher) <u>*plus*</u> net crop insurance indemnities and government program payments. (The national price could be adjusted for quality losses.) A payment factor of 40% would be used (instead of 60%) for prevented planted acres. The farm payment is capped at 10% of the adjusted historic crop revenue guarantee (90% times historic revenue).

[20] Senator Kent Conrad, "Conrad Working Group Focuses on Potential Changes to National Ag Policy ," press release, January 18, 2012, http://conrad.senate.gov/pressroom/record.cfm?id=335596; and Jerry Hagstrom, "Conrad preparing to introduce commodity title crop revenue guarantee," *The Hagstrom Report*, January 26, 2012.

Payment limit: Subject to a payment limit of $105,000 for all program payments (Revenue Loss Assistance Program, CCP, and marketing loan benefits) and a total adjusted gross income (AGI) limit of $999,000.

Compliance issues: Farmers required to purchase at least catastrophic crop insurance (or a policy under the Noninsured Crop Disaster Assistance Program—NAP).

Cost to producer: None.

Budget cost estimate: CBO score has been requested.

Rationale: Senator Conrad's proposal for revenue assistance is designed to address shallow losses by combining the ACRE and SURE programs into a single program. It would not require a disaster designation to trigger producer eligibility. The primary program is limited to current program crops. Among other provisions, the proposal would re-authorize for 2012 to 2021 the recently expired livestock and fruit tree disaster programs with slightly lower payment percentages to reduce overall costs. In the payment calculation, using the national farm price for the first four months of the market season would speed up payment delivery compared to the SURE, ACRE, and CCP programs, which requires using full marketing-year average prices.

Proposal: Risk Management for America's Farmers (RMAF)[21]

Sponsor: American Soybean Association

Program type:	Shallow-loss crop revenue program.
Programs eliminated:	DP, CCP, ACRE, and SURE.
Commodity coverage:	Current program crops.
Loss coverage:	Covers losses from 10% to 25% of farm revenue guarantee (5% to 20% for irrigated crops). The first 10% (5% for irrigated crops) of losses are not covered. Losses greater than 25% are expected to be covered by crop insurance polices.
Program description:	Makes crop-specific payments when one trigger is met: actual farm revenue < farm guarantee.
Price/Revenue protection:	Multi-year; farm revenue guarantee is 5-yr. Olympic average farm price times higher of: producer's APH, producer's 5-yr. Olympic average APH, or 80% of the county yield.
Geographic loss trigger:	Farm level.
Eligible acres:	Planted or intended to be planted acres.
Payment calculation:	Per-acre payment rate equals 85% of difference between the farm guarantee and actual farm revenue (actual yield times national farm price for the first four month of year only plus net crop insurance indemnities). Payment rates capped at 25% of guarantee.
Payment limit:	Subject to adjusted gross income (AGI) limitation of $500,000 non-farm AGI and $750,000 farm AGI.
Compliance issues:	Eligibility subject to conservation compliance rules.
Cost to producer:	None.
Budget cost estimate:	Not available.

Rationale: The American Soybean Association (ASA) has proposed a revenue-based program which they say improves farm risk management as a complement to crop insurance and serves as a replacement for current commodity programs. It features a single, farm-level loss trigger.

[21] American Soybean Association, "Risk Management for America's Farmers and Meeting Agriculture's Share of Deficit Reduction," September 29, 2011, at http://www.soygrowers.com/policy/ASA-RMAF.pdf.

Proposal: Stacked Income Protection Plan (STAX)[22]

Sponsor: National Cotton Council (NCC)

Program type:	Shallow-loss, area-wide revenue insurance (described below) and a modified marketing loan program.
Programs eliminated:	DP, CCP, ACRE, and SURE as applied to cotton.
Commodity coverage:	STAX is described for cotton producers only.
Loss coverage:	Loss coverage to be determined but likely in the range of 10% to 20% of revenue guarantee such that the first 10% of losses are not covered, and losses greater than 20% would be covered by crop insurance polices.
Program description:	Voluntary program whereby farmers could supplement existing revenue insurance with an area-wide insurance product subsidized at 80%.
Price/Revenue protection:	The revenue guarantee has "floor protection" since the standard RMA projected harvest-time price (i.e., pre-planting time price for harvest-time futures contracts) is "cupped" by a minimum fixed reference price of \$0.65 per pound that acts as a floor price guarantee when the projected harvest price falls below the fixed reference price. Producer prices have floor protection from the modified marketing loan—the upland cotton marketing loan rate is determined in the fall prior to planting the crop and would be set equal to the average of the Adjusted World Price for the two most recently completed marketing years within a bounded range of \$0.47 and \$0.52 per pound.[23]
Geographic loss trigger:	Area-wide insurance policies are determined at the county level.
Eligible acres:	No change from current crop insurance programs (NC).
Payment calculation:	NC.
Payment limit:	NC.
Conservation compliance:	NC.
Cost to producer:	Producer premiums for the supplementary shallow-loss coverage would be offset to the maximum extent possible by using the available upland cotton program spending authority under the eliminated DP, CCP, ACRE, and SURE programs.
Budget cost estimate:	NCC reports an annual cost of \$400 to \$500 million.

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[22] "National Cotton Council 2012 Farm Policy Statement," NCC, Aug. 26, 2011, at http://www.cotton.org/news/releases/2011/farmstrat.cfm; and Forest Laws, "NCC advocates change in course on farm policy direction," *Delta Farm Press*, Sept. 6, 2011.

[23] Under the 2008 farm bill, the upland cotton marketing loan rate is set at \$0.52 per pound.

Rationale: The "stacked" feature of the program is that it would provide shallow-loss coverage that would sit on top of the producer's individual crop insurance deep-loss product. It involves using an area-wide revenue product such as a modified Group Risk Income Protection (GRIP) program where losses are determined at the county level rather than the farm level. The product would be delivered through crop insurance, providing protection against shallow losses—for example, 10% to 20% loss of average revenue—by riding on top of existing crop insurance policies. GRIP is an insurance product designed to protect farms against revenue losses that occur at the county level rather than at the individual farm level.[24] Area-wide policies such as GRIP are generally cheaper than farm-level policies since the risk of loss is pooled at a more aggregate level.

The NCC claims that adjustments to the upland cotton marketing loan program would make the program compatible with World Trade Organization (WTO) domestic support commitments and address the long-running WTO dispute settlement case by Brazil against specific provisions of the U.S. cotton program.[25]

[24] For more information, see "Group Risk Plan (GRP) and Group Risk Income Protection (GRIP)," William Edwards, Iowa State University, updated February 2011, at http://www.extension.iastate.edu/agdm/crops/html/a1-58.html.

[25] For details of the dispute, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*. With respect to NCC's proposed marketing loan adjustments, the WTO panel that reviewed the dispute settlement case (DS267) recommended that the U.S. upland cotton marketing loan rate should be more reflective of market conditions. In an attempt to accomplish this, the NCC proposes using a two-year moving average of USDA's calculated adjusted world price (AWP)[25] for the most recently completed marketing years to serve as the marketing loan, provided that it stays within a tight price band of 47 to 52 cents per pound. If the moving average AWP moves below 47 cents/lb., then the proposed marketing loan for upland cotton would be set at 47 cents/lb. The current marketing loan rate for upland cotton is set at 52 cents/lb.

Proposal: Total Coverage Option or TCO (H.R. 3107)

Sponsor: Representative Neugebauer

Program type:	Shallow loss, area-wide crop insurance.
Programs eliminated:	None.
Commodity coverage:	Potentially all crops covered by yield insurance.
Loss coverage:	Shallow losses greater than 10%.
Program description:	Producers can supplement their individual farm-level yield policy with a new policy that pays an indemnity when area (e.g., county) yield is below 90% of expected level. Payment is designed to cover some or all of the deductible under an individual policy.
Price protection:	Guarantee is based on current prices (pre-planting time).
Geographic loss trigger:	Area level (e.g., county).
Eligible acres:	Planted acreage.
Payment calculation:	TCO payment made on eligible acres. Per-acre payment rate equals RMA price times the difference between area yield guarantee—90% times normal (historic) area yield—and actual area yield.
Payment limit:	None.
Compliance issues:	Not specified.
Cost to producer:	Crop insurance premium (subsidized at not less than 60% for TCO policy).
Budget cost estimate:	Not available.

Rationale: A producer would purchase an individual policy under the current crop insurance program and receive an indemnity when actual production or revenue is less than the policy's guarantee. A producer who also purchases a TCO policy would receive a second indemnity that covers all or part of the deductible, depending upon the level of loss for the entire area (e.g., county). Under the TCO, the farmer would receive the full value of the individual policy deductible when the actual area yield as a percent of normal is the same or less than the individual policy guarantee coverage selected by the producer. For example, if a producer purchases 75% yield coverage for individual yield policy, the policy's entire deductible is covered by TCO if the actual area average yield is no more than 75% of normal. The TCO coverage would be triggered only if the losses in the area exceed 10% of normal levels. The federal subsidy for TCO would be not less than 60% of the premium, which is similar to average subsidy level for the current crop insurance program.

Proposal: Safety Net by EWG[26]

Sponsor: Environmental Working Group (EWG)

Program type:	Deep-loss yield insurance.
Programs eliminated:	DP, CCP, ACRE, Marketing Loan Program, and SURE.
Commodity coverage:	Potentially all crops covered by yield insurance.
Loss coverage:	Deep yield losses of more than 30%.
Program description:	Replace current farm commodity programs and all crop insurance subsidies with a free crop insurance policy that covers yield losses of more than 30%.
Price protection:	Guarantee is based on current prices (planting time).
Geographic loss trigger:	Farm level.
Eligible acres:	Planted acreage.
Payment calculation:	Payment made on eligible acres. Per-acre payment rate equals crop insurance price times the difference between a farm's yield guarantee (e.g., 70% times APH yield) and actual farm yield.
Payment limit:	None.
Compliance issues:	Require producers to meet a basic standard of conservation practices.
Cost to producer:	Basic policy is free. Producer could purchase additional coverage including revenue policies at full market price (i.e., no subsidies).
Budget cost estimate:	EWG expects a total net savings of $80 billion over 10 years.

Rationale: EWG advocates that taxpayers should not guarantee business income for anyone and the government should provide agricultural assistance only when losses are incurred due to a natural phenomenon such as bad weather, which is unique to agriculture.

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[26] Bruce Babcock and Craig Cox, *The Revenue Insurance Boondoggle: A Taxpayer-paid Windfall for Industry*, Environmental Working Group, November 3, 2011, http://static.ewg.org/pdf/Crop_Insurance.pdf.

Proposal: Deep Loss Program (formerly known as Systemic Risk Reduction Program—SRRP)[27]

Sponsor: American Farm Bureau Federation (AFBF)

Program type: Deep-loss revenue insurance.

Programs eliminated: DP, CCP, ACRE, SURE, and catastrophic crop insurance.

Commodity coverage: Current program crops (with potential extension to other crops also covered by crop insurance at later date).

Loss coverage: Deep losses (e.g., in excess of 20% or 30%).

Program description: Program makes a payment when crop revenue for a county (or some geographic area) is below a guarantee based on county yields and historical prices. Protects against multi-year price declines but not shallow losses (i.e., losses stemming from producer's crop insurance deductible). To protect against shallow losses or to cover individual farm yield risk, producers could purchase individual policies that would "wrap around" the core coverage.

Price protection: Guarantee based on 3-year average or 5-year Olympic average of crop insurance harvest prices.

Geographic loss trigger: County (if data not available, use crop reporting district or other region).

Eligible acres: Planted acreage.

Payment calculation: Payment made on eligible acres. Per-acre payment rate equals difference between area revenue guarantee (e.g., 70% or 80% times county yield x crop insurance historical average price) and actual revenue (e.g., county yield x crop insurance harvest price).

Payment limit: None.

Compliance issues: Not specified.

Cost to producer: Minimal fee. As currently available, producer could purchase individual (subsidized) policies for additional coverage.

Budget cost estimate: Not available. AFBF expects that crop insurance premiums (i.e., the cost to both producers and the government) would decline because individual polices would "wrap around" the core coverage, and hence have less liability and potential for indemnities. The level of the insurance deductible on the core policy as well as the premium subsidy rates for buy-up coverage would be determined by budget cost implications.

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[27] American Farm Bureau Federation "AFBF Proposes 'Systemic Risk Reduction' Farm Program," press release, October 21, 2011, http://www.fb.org/index.php?action=newsroom.news&year=2011&file=nr1021b.html.

Rationale: AFBF argues that the federal government should provide more protection from larger downside risks while allowing producers to manage shallow losses on their own by purchasing additional (subsidized) insurance. According to the organization, the farm bill should provide strong safety net programs "...that do not guarantee a profit and minimize the potential for farm programs affecting production decision."[28] AFBF also says the proposal, unlike others, can be applied to a broader range of commodities, like fruits and vegetables.

[28] *FBNews*, January 23, 2012, http://www.fb.org/assets/files/fbn/current_issue.pdf.

Proposal: Farmer-Owned Reserves (FOR) [29]

Sponsor: National Farmers Union (NFU)

Program type: Establishes a new FOR for each of the major program crops with increased loan rates, and acreage set-asides.

Programs eliminated: DP, CCP, and marketing loan benefits (i.e., loan deficiency payments and marketing loan gains).

Commodity coverage: Current program crops: wheat, feed grains (corn, grain sorghum, barley, oats), rice, soybeans, upland cotton, minor oilseeds, peanuts, and pulse crops (dry peas, lentils, chickpeas).

Loss coverage: Not applicable.

Program description: Producers may place their crop in a crop-specific FOR whenever the market price falls below that crop's loan rate. Each FOR is capped, e.g., corn at 3 million bus., wheat at 800 million bus., soybeans at 400 million bus., etc. A crop placed in the FOR must remain there until its market price exceeds 160% of its loan rate (i.e., FOR release trigger), when it is released to the market. All crops placed in the FOR receive an annual storage payment of $0.40 per unit (e.g., bushel, cwt, lb.). When a crop's FOR reaches its cap and its market price remains between the loan rate and the FOR release trigger, then no further FOR placements may occur and no FOR release is triggered. When a crop's FOR reaches its cap and the market price falls below the loan rate, then a voluntary paid set-aside is triggered. The farm-level set-aside is based on whole-farm acreage, not crop-by-crop as in the past. Set-asides would be allocated at the county level. Participation in the set-aside is voluntary, but all farmers could bid on acreage they would be willing to put in the set-aside.

Price/Revenue protection: Producer prices are protected by higher loan rates.[30]

Geographic loss trigger: Not applicable.

Eligibility: Commodity payments would only be made for quantities actually placed in the FOR, in contrast to the current marketing loan program which

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[29] NFU News Release, "NFU Unveils Study to Present Policy Options to Reduce Farm Bill Costs," September 13, 2011, at http://nfu.org/news/news-archives/current-news/52-family-farm-policy/686-nfu-unveils-study-to-present-policy-options-to-reduce-farm-bill-costs. Key study findings and URL links to the University of Tennessee study are available at http://www.nfu.org/study.

[30] Each crop's annual loan rate is pegged to the corn loan rate based on the ratio between corn and other crops, as found in the 1996 farm bill, with the two exceptions of grain sorghum, which is increased to the same price as corn, and soybeans, which are raised to $6.32. The corn loan rate is set as the midpoint between the variable cost of production and full cost of production for the 1998 crop (as calculated by USDA). Thereafter, annual loan rates for 1999 to 2010 are raised or lowered based on the change in the rolling three-year average of the USDA chemical input index of prices paid by farmers. For corn, that calculation resulted in a loan rate of $2.27 in 1998, increasing to $2.60 by 2010—this compares with $1.95 under the current program. The various FOR loan rates approximate the historical ratio between the price of corn and the other crops, which would encourage farmers to follow market signals with minimal influence from the loan rate.

makes payments on every bushel produced. As a result, the level of government payments could be significantly lower.

Payment calculation: Producers are paid $0.40 per unit (e.g., bushel, cwt, lb.) per year as a storage payment for all crops placed in the FOR.

Payment limit: None.

Conservation compliance: Not specified.

Cost to producer: None.

Budget cost estimate: No official score available.

Rationale: According to a study funded by NFU[31], the proposed farmer-owned reserves program would address the lack of timely market self-correction when crop prices plummet, while permitting farmers to receive the bulk of their revenue from market receipts—the FOR proposal would have saved an estimated $56.4 billion over a historical 13-year period from 1998 to 2010 if it had been in place in lieu of existing programs, while the value of production for affected crops would have been $33 billion higher.

[31] Harwood D. Schaffer et al., *A Study of the Impact of a Reserve Program Had One Been in Effect in the Period, 1998 to 2010*, University of Tennessee Institute of Agriculture, Knoxville, TN, September 10, 2011, http://www.nfu.org/images/stories/policy/091211_Report.pdf.