

# **The 2014 U.S. Farm Bill: DDA Implications of Increased Countercyclical Support and Reliance on Insurance**

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**Presented at the EC DG Trade Workshop *US farm policy and its implications on the WTO-DDA negotiations*, April 13, 2015**

**(Based on joint work with Carl Zulauf presented at the AAEA invited paper session *The 2014 Farm Bill: An Economic Post Mortem*, ASSA Annual Meetings, Boston, MA, January 4, 2015)**

# The 2014 Farm Bill – Introduction

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- **A long, contentious debate resulted ultimately in *The Agricultural Act of 2014* signed into law February 7. Three years of deliberations was framed by**
    - **Recessionary macroeconomic conditions and partisan contestation over entitlements and fiscal policy**
    - **High but volatile farm yields, prices and revenue during 2008-2013**
    - **Divergent views among of farm groups on what they sought in strengthened downside risk protection**
  - **Two main objectives of this presentation are**
    - **A brief synopsis of the bill’s major agricultural support provisions**
    - **Assessment of their “fit” within existing and proposed WTO domestic support commitments**
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# Shift Back to Countercyclical Policy in 2014

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**The farm “safety net” that emerged in the 2014 farm bill is complex (a plethora of support program choices for farmers), but can be abstracted to a few basic points**

- **Eliminated fixed direct payments of about \$4.5 billion annually**
  - **Enhances protection against low prices or declining revenue**  
Debate centered on farmers’ calls for protection against “shallow losses” and strengthened protection against multiple years of low prices or revenue
  - **Countercyclical commodity programs and subsidized, within-year insurance entrenched as complementary/competing pillars of support. Costs less certain than with fixed direct payments**
  - **Permanent “farm bill” legislation retained**
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# Multi -Year Losses

- **Price Loss Coverage (PLC) [modified CCP]**
  - Fixed “References Prices” substantially higher than in 2008 farm bill (e.g. for corn \$3.70/bu vs. \$2.63/bu, 41% increase)
  - Applies to fixed acreage base and fixed program yield, regardless of crop grown (updating options allowed)
  - Covers difference of Reference Price and market price or Loan Rate
  - Loan rates not raised from levels below 2009-13 market prices
  
- **Agriculture Risk Coverage (ARC) [modified ACRE]**
  - Revenue benchmark calculated from 5-year Olympic averages of national crop year prices and county yields (ARC-CO), or farm yields with payment acreage penalty (ARC-IC)
  - Revenue benchmark generally moves over time, subject to PLC reference price as minimum price entering ARC’s price component
  - Applies to fixed acreage base
  - Covers revenue decline only from 14% to 24% of benchmark

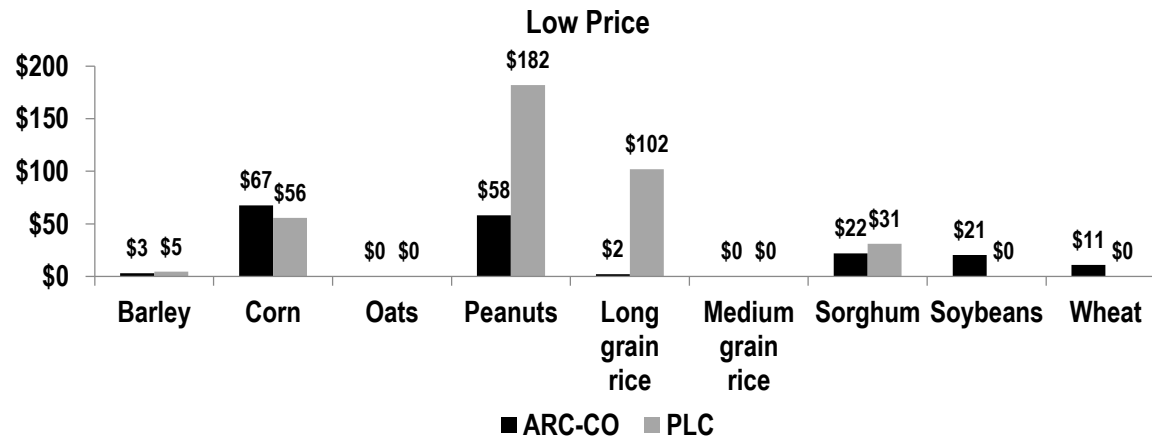
# Multi -Year Losses

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- **ARC vs. PLC raises a policy design issue of whether downside risk protection is capped at a lower value in exchange for assistance for declining prices or revenue from higher levels**
    - **Related to this are whether the focus should be price or revenue and whether policy parameters should be fixed or move with the market**
  - **Farmers chose between these two program by April 7, 2015 for the duration of the farm bill (2014-2018 crop years)**
    - **For corn base acres in particular, farmers had to decide whether they prefer ARC support expected to make large payments for crop year 2014 and possibly 2015, or support retained under PLC for low prices that may or may not materialize in subsequent years**
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# Potential per Acre Costs

(Based on December 2014 WASDE Yield and Price Estimates)

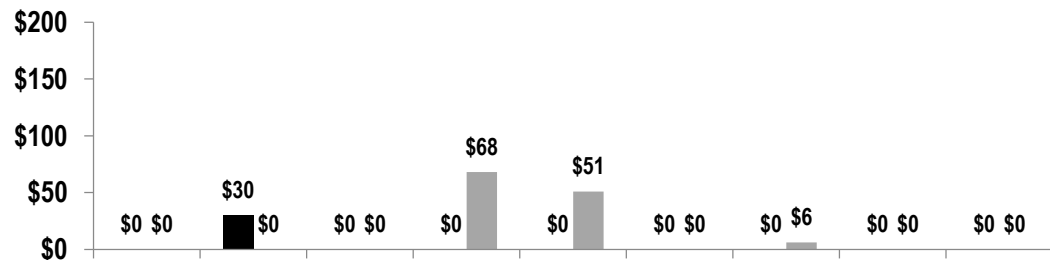


| WASDE Projections and Policy Prices (\$/bu, except rice \$/cwt) |                 |                     |                                      |
|---|-----------------|---------------------|--------------------------------------|
| Crop  | WASDE low price | PLC reference Price | ARC price component (2014 crop year) |
| Barley  | \$4.85          | \$4.95              | \$5.45                               |
| Corn  | \$3.20          | \$3.70              | \$5.28                               |
| Oats  | \$3.05          | \$2.40              | \$3.25                               |
| Long-grain rice   | \$12.00         | \$14.00             | \$14.17                              |
| Medium-/short-grain rice  | \$18.50         | \$14.00             | \$17.87                              |
| Sorghum   | \$3.20          | \$3.95              | \$5.09                               |
| Soybeans  | \$9.00          | \$8.40              | \$12.27                              |
| Wheat   | \$5.80          | \$5.50              | \$6.60                               |

# Potential per Acre Costs

(Based on December 2014 WASDE Yield and Price Estimates)

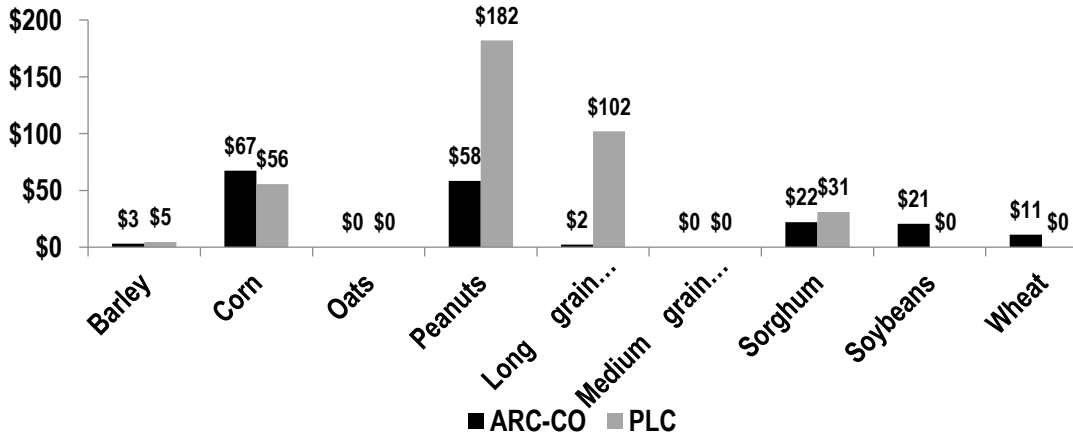
### High Price



### Mid-Price



### Low Price



### WASDE Price Projections (\$/bu, except rice \$/cwt)

| Crop                     | Low price | Middle price | High price |
|--------------------------|-----------|--------------|------------|
| Barley                   | \$4.85    | \$5.15       | \$5.45     |
| Corn                     | \$3.20    | \$3.50       | \$3.80     |
| Oats                     | \$3.05    | \$3.25       | \$3.45     |
| Long-grain rice          | \$12.00   | \$12.50      | \$13.00    |
| Medium-/short-grain rice | \$18.50   | \$19.00      | \$19.50    |
| Sorghum                  | \$3.20    | \$3.50       | \$3.80     |
| Soybeans                 | \$9.00    | \$10.00      | \$11.00    |
| Wheat                    | \$5.80    | \$6.00       | \$6.20     |

# Potential Program Costs (million dollars)

(December 2014 WASDE Estimates and Other Assumptions)

| Crop Year | Low Price              |          | Middle Price         |          | High Price           |          |
|-----------|------------------------|----------|----------------------|----------|----------------------|----------|
|           | ARC / PLC              | Only PLC | ARC / PLC            | Only PLC | ARC / PLC            | Only PLC |
| 2014      | 7,530 / 1,041<br>8,571 | 5,734    | 6,050 / 680<br>6,730 | 2,557    | 2,551 / 361<br>2,912 | 361      |

Note: Program cost indicators assume either all program acres are enrolled in the program that would pay the most for crop year 2014 (ARC / PLC column) or all acres are enrolled in PLC (only PLC column)



# Potential Program Costs (million dollars)

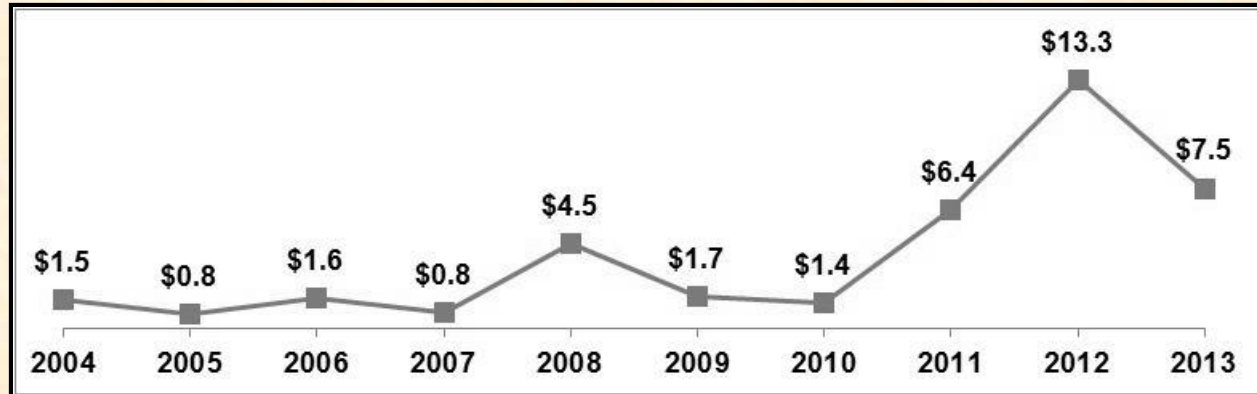
## (December 2014 WASDE Estimates and Other Assumptions)

| Crop Year                   | Low Price                        |               | Middle Price                     |               | High Price                     |              |
|-----------------------------|----------------------------------|---------------|----------------------------------|---------------|--------------------------------|--------------|
|                             | ARC / PLC                        | Only PLC      | ARC / PLC                        | Only PLC      | ARC / PLC                      | Only PLC     |
| 2014                        | 7,530 / 1,041                    | 5,734         | 6,050 / 680                      | 2,557         | 2,551 / 361                    | 361          |
| 2015                        | 7,511 / 1,041                    | 5,734         | 6,170 / 680                      | 2,557         | 2,551 / 361                    | 361          |
| 2016                        | 5,972 / 1,041                    | 5,734         | 3,572 / 680                      | 2,557         | 234 / 361                      | 361          |
| 2017                        | 1,270 / 1,041                    | 5,734         | 0 / 680                          | 2,557         | 0 / 361                        | 361          |
| 2018                        | 0 / 1,041                        | 5,734         | 0 / 680                          | 2,557         | 0 / 361                        | 361          |
| <b>Total Combined Total</b> | <b>22,283 / 5,205<br/>27,488</b> | <b>28,670</b> | <b>15,792 / 3,400<br/>19,192</b> | <b>12,785</b> | <b>5,336 / 1,805<br/>7,141</b> | <b>1,805</b> |

**Notes: Program cost indicators assume either all program acres are enrolled in the program that would pay the most for crop year 2014 (ARC / PLC column) or all acres are enrolled in PLC (only PLC column)**

# Insurance Pillar

**Crop Insurance Net Indemnities, Billion dollars**



- **2014 Farm Bill**
  - Strengthens and expands existing crop insurance programs
  - Crop revenue-cost margin insurance programs authorized
  - Cotton program redesigned into insurance
- For shallow losses a policy design issue is whether downside risk protection should be delivered by insurance or commodity programs

# Shallow Losses

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- **Agriculture Risk Coverage (ARC) [commodity program]**
  
  - **Supplemental Coverage Option (SCO) [insurance program]**
    - **Complements individual farm yield or revenue insurance**
    - **Covers losses (at county level) from 14% to underlying individual farm level of insurance deductible**
    - **Applies to current production**
    - **65% subsidy of actuarially fair premium**
    - **Acreage enrolled in ARC not eligible for SCO**
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# Cotton, Dairy and Sugar

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- **Significant change in upland cotton program design**
    - **Unique outcome: Direct and countercyclical payments eliminated and replaced by the Stacked Income Protection Plan (STAX), a county-based revenue insurance program; Individual cotton farm crop insurance program continues**
    - **Driven in part by WTO Brazil-U.S. Cotton Case; high insurance net indemnities compared to direct payments made it easier for cotton industry to adopt insurance option**
    - **Termination of WTO dispute a success of 2014 farm bill**
    - **Policy design issues raised include: creation of generic base acres with payments coupled to crop grown; Balkanization of crop insurance; will lack of multi-year support (other than loan rate) prove viable**
  - **Dairy margin protection (MPP) introduces revenue-cost risk coverage**
  - **Sugar program unchanged**
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# WTO Issues

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- **There is currently little WTO discipline on the 2014 farm bill**
  - **Had agreement been reached along lines of tighter disciplines in the Dec. 6, 2008 Doha negotiating documents (Rev. 4), it is unlikely the U.S. would have adopted the 2014 farm bill as it is**
  - **Enactment of 2014 farm bill makes it more difficult for the U.S. to contribute to attaining such limits on a global level in future negotiations**
  - **Low prices would renew scrutiny in the WTO of U.S. programs**
    - **With higher reference prices, PLC payments would be \$30 billion if all crop prices fell to the loan rates and all acreage was enrolled in PLC**
  - **Several considerations affect notifications and compliance**
    - **Elimination of dairy Market Price Support under the 2014 farm bill**
    - **Shift in 2012 U.S. domestic support notification to notifying crop insurance premium subsidies as product-specific support**
    - **Expenditures under the 2104 farm bill**
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# Agreement on Agriculture Compliance

WTO Table 1. Summary of U.S. 2012 AMS Notifications, Actual and Hypothetical under 2014 Farm Bill (million dollars)

| Product-Specific                       | Actual Notification |       | Hypothetical Notification |       |
|--|---------------------|-------|---------------------------|-------|
|  | AMS                 | CTAMS | AMS                       | CTAMS |
| Dairy (MPS 2,923)                      | 3,335               | 3,335 | “0”                       | --    |
| Sugar (MPS 1,405)                      | 1,454               | 1,454 | 1,454                     | 1,454 |
| Other Products (mostly crop insurance) |                     |       |                           |       |
| Corn                                   | 2,719               | --    | 2,719                     | --    |
| Cotton                                 | 636                 | 636   | “636+330= 966”            | “966” |
| Soybeans                               | 1,479               | --    | 1,479                     | --    |
| Rice                                   | 46                  | --    | 46                        | --    |
| Wheat                                  | 1,115               | 1,115 | 1,115                     | 1,115 |
| All other                              | 1,041               | 323   | 1,041                     | 323   |
| Subtotal (other products)              | 7,036               | 2,074 | 7,366                     | 2,404 |
| TOTAL                                  | 11,825              | 6,863 | 8,820                     | 3,858 |
| Non-Product-Specific                   | 300                 | --    | “300”                     | --    |
| Threshold (5% de minimis)              | 19,830              |       | 19,830                    |       |

Notes: -- indicates under de minimis threshold so not included in CTAMS

“ ” indicates estimate (lower bound for dairy MPP; adds average CBO projected outlay for STAX to cotton notified AMS; crop year prices above reference prices and no ACRE payments so no PLC or ARC payments)

# **Doha Draft U.S. Commitments**

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**Final Bound OTDS – \$14.5 billion**

**Subject to:**

**Final Bound Total AMS – \$7.6 billion**

**Total Blue Box Limit – \$4.8 billion**

***De minimis* – 2.5% value of production thresholds**

**Product-specific AMS and Blue Box caps**

**and with:**

**Change in criteria for Blue Box eligibility**

**Modification of Green Box crop insurance criteria**

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# Doha WTO Compatibility (AMS)

WTO Table 2. Hypothetical U.S. 2012 AMS Notifications under 2014 Farm Bill and Doha 2008 Draft Commitments (million dollars)

| Product-Specific            | AMS          | Threshold<br>(2.5% de minimis) | Product-specific<br>AMS Cap | CTAMS          |
|-----------------------------|--------------|--------------------------------|-----------------------------|----------------|
| Dairy                       | “0”          | 930                            | 4,781                       | --             |
| Sugar                       | 1,454        | 92                             | 1,126                       | 1,454*         |
| Corn                        | 2,719        | 1,858                          | 1,106                       | 2,719*         |
| Cotton                      | “966”        | 194                            | 142                         | “966”*         |
| Soybeans                    | 1,479        | 1,094                          | 1,124                       | 1,479*         |
| Rice                        | 46           | 76                             | 314                         | --             |
| Wheat                       | 1,115        | 437                            | 231                         | 1,115*         |
| All other                   | 1,041        | various                        | various                     | 503            |
| <b>TOTAL</b>                | <b>8,820</b> |                                |                             | <b>8,236**</b> |
|                             |              |                                |                             |                |
| <b>Non-Product-Specific</b> | <b>300</b>   | <b>9,915</b>                   |                             | <b>--</b>      |

Notes: -- indicates under de minimis threshold so not included in CTAMS

“ ” indicates estimate

\* exceeds draft Doha product-specific AMS cap

\*\* exceeds draft Doha Final Bound Total AMS



# Doha WTO Compatibility (Blue Box)

**WTO Table 3. ARC and/or PLC Expenditures under WASDE December 2014 Low Prices Compared to Doha 2008 Draft Blue Box Product-Specific Caps (Million dollars)**

| Product           | Blue Box Cap | ARC / PLC                        | Only PLC       |
|-------------------|--------------|----------------------------------|----------------|
| Barley            | 32           | / 40*                            | 40*            |
| Corn              | 2,360        | 5,691* /                         | 4,693*         |
| Oats              | 5            | 0                                | 0              |
| Peanuts           | 149          | / 268*                           | 268*           |
| Long grain rice   | 235          | / 373*                           | 373*           |
| Medium grain rice |              | 0                                | 0              |
| Sorghum           | 107          | / 360*                           | 360*           |
| Soybeans          | 400          | 1,029* /                         | 0              |
| Wheat             | 1,041        | 810 /                            | 0              |
| <b>TOTAL</b>      | <b>4,329</b> | <b>7,530 / 1,041<br/>8,571**</b> | <b>5,734**</b> |

**Notes: Program cost indicators assume either all program acres are enrolled in the program that would pay the most for crop year 2014 (ARC / PLC column) or all acres are enrolled in PLC (only PLC column)**

**\* exceeds draft Doha product-specific Blue Box cap**

**\*\* exceeds draft Doha total Blue Box limit**

# A Feasible Way Forward? — “Proposal”

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- **Convert current Final Bound Total AMS to a Final Bound OTDS and reduce 15% (US \$19.1 to \$16.2 billion)**
  - **Set new Final Bound Total AMS at half of OTDS (US \$8.1 billion)**
  - **Reduce *de minimis* thresholds from 5% to 2.5%**
  - **Convert current 5% *de minimis* thresholds to caps on product-specific and non-product-specific support**
  - **Eliminate Blue Box**
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# A Feasible Way Forward? — Benefits

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- **Tightens existing limits and builds on but simplifies Doha Rev. 4 proposals**
  - **Reduces space for non-green-box U.S. support to the Final Bound OTDS (reduction of more than 50% from existing Bound Total AMS + NPS *de minimis* + PS *de minimis* for products not in CTAMS + Blue Box)**
  - **Limits ARC and PLC payments and requires they be unchallengeable as non-product-specific support. This would close off expansion of “generic acres” re-coupling to products**
  - **Would constrain crop insurance premium subsidies as product-specific support**
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# Selected References

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## Selected information/analysis about *Agricultural Act of 2014*

- Chite, R. M. (coordinator). 2014. “The 2014 Farm Bill (P.L. 113-79): Summary and Side-by-Side Comparison,” Congressional Research Service Report R43076, February.
- Glauber, J. and P. Westhoff. 2015. “50 Shades of Amber: The 2014 Farm Bill and the WTO,” *American Journal of Agricultural Economics*, forthcoming.
- Orden, D. and C. Zulauf. 2015. “Political Economy of the 2014 Farm Bill,” *American Journal of Agricultural Economics*, forthcoming.
- U.S. Congress. 2014. *Agricultural Act of 2014*. February 7. Washington DC: U.S. Government Printing Office.
- USDA, ERS. *Agricultural Act of 2014: Highlights and Implications*
- Zulauf, C. and D. Orden. 2014. “The US Agricultural Act of 2014: Overview and Analysis,” IFPRI Discussion Paper 01393, December.

## Source for continuing information on policy and farmer decisions

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Univ. of Illinois, Urbana-Champaign <http://www.farmdoc.illinois.edu/>