Background

- Prices rallied almost immediately after the 2002 Farm Bill was passed.
- Then prices began to drop in late 2004 through the early part of the debate on what should have been the 2007 Farm Bill.
- In late 2006, however, farm prices began to increase rapidly.
- Policy problem: Should farm policy be left alone or is it a good time to change to less costly programs? Protracted debate delayed passage of a new Farm Bill until 2008.

![Graph showing PPI: Farm products; NSA, with markers for 1996 Farm Bill (6 years) and 2002 Farm Bill (5 years).](http://www.Economagic.com/)
Let’s Look at What Happened to Government Costs Under the 2002 Farm Bill

- As prices increased, government payments declined (2002 – 2004) and then began to increase again as prices dropped (2004-2006).
- Then payments dropped again as prices began to rise in 2006.

- **PFC/AMTA** payments ended
- **Direct Payments** largely replaced **Marketing Loss Assistance (MLA) payments**
- **CCPs and LDPs** worked as designed to maintain farm income when prices drop (see 2005 as example)
- 2002 Farm Bill worked to reduce total government costs when prices were high. Compare 2002 costs (high prices) with 2005 costs (low prices).
Food Conservation and Energy Act of 2008

TITLES

• Title I - Commodity Programs
• Title II - Conservation
• Title III - Trade
• Title IV - Nutrition
• Title V - Credit
• Title VI - Rural Development
• Title VII - Research and Related Matters
• Title VIII - Forestry
• Title IX - Energy
• Title X - Horticulture and Organic Ag
• Title XI - Livestock
• Title XII - Crop Insurance & Disaster Assistance Programs
• Title XIII - Commodities Futures
• Title XIV - Miscellaneous
• Title XV - Trade and Tax Provisions
Main Title I Provisions (FCEA of 2008) with Comparisons to FSRIA of 2002
(For more details, go to http://www.ers.usda.gov/farmbill/2008/)

• **Direct Payments (DPs)**
  - Continued except payments made on ________ of base acres rather than 85%.
  - Direct payment rates unchanged from 2002 Farm Bill.
  - Payment yields and base acreage calculations unchanged from 2002 Farm Bill.
  - Participants can still plant 100% of their base acreage to any crop except with some limitations on fruit vegetables, and wild rice.

• **Counter-Cyclical Payments (CCPs)**
  - Continued with payments still on 85% of base acreage.
  - Target price levels unchanged from 2002 Farm Bill.
  - Payment yields and base acreage calculations unchanged from 2002 Farm Bill.
  - Participants can still plant 100% of their base acreage to any crop except with some limitations on fruit vegetables, and wild rice.

• **Non-Recourse Loans**
  - Continued with marketing loan provisions (that is, no loan defaults).
  - No change in loan rates for 2008-2009 and then small increases for 2010-2012

• **Marketing Loans (MLG/LDP Payments)**
  - Continued with some flexibility by Secretary to modify payment rates in event of severe disruption to marketing, transportation, or infrastructure.
Little Change in Program Payment Calculations in 2008 Farm Bill

Direct (Decoupled) Payments:
\[ DP = DPR \times (\text{base acres} \times 0.833) \times \text{farm program yield} \]

Counter Cyclical Payments (Partially Decoupled):
\[ CCP = (P_T - \max(P_M \text{ or } P_L) - DP \text{ payment rate}) \times (\text{base acres} \times 0.85) \times \text{farm program yield} \]

MLG/LDP Payments (Coupled):
\[ MLG/LDP = (P_L - P_M) \times \text{actual acreage} \times \text{actual yield} \]

Total Payments to Farmer:
\[ TP = DP + CCP + MLG/LDP \]

Market Sales Revenue of Farmer:
\[ MR = P_{\text{Market}} \times \text{Quantity Sold} \]

Total Revenues of Farmer:
\[ TR = TP + MR \]

The ONLY difference from the 2002 Farm Bill calculations is the 0.833 factor in the Direct Payment calculation.
• Average Crop Revenue Election (ACRE) – most important change
  - Optional, revenue-based counter-cyclical program.
  - Farmers could choose to enroll in ACRE but there was a cost:
    1. They were no longer eligible for counter-cyclical payments (CCPs) over the remainder of the 2008 Farm Act (2009-12).
    2. Their direct payments and marketing loan payments were reduced.
       » ________________________ reduced by 20%.
       » ________________________ cut by 30%.
    3. Could not enroll for just ONE crop. They had to enroll ALL covered commodities (wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, other oilseeds, peanuts, dry peas, lentils, small chickpeas, and large chickpeas) they produced.

  - What did participating producers get for enrolling in ACRE?
    They got a revenue per acre guarantee each year based on market prices and average yields for the respective commodities.
• Why Revenue-based CCP rather than a Price-based CCP?

» Price-based:
  ▪ When prices go up, farm payments ______________ and vice versa.
  ▪ But if prices are up because of a drop in yields (for example, drought), then production and farm sales go down at the same time that farm payments go down!

» Revenue-based:
  ▪ When prices go up and yields go down, then farm revenue doesn’t change so no farm payment.
  ▪ And when prices go down but yields are up, then again farm revenue doesn’t change so no need for payment.
  ▪ Payments made only when _______________ are down and, therefore, farm revenue is down.
  ▪ Protects farmer against revenue drop but little or no payment if just prices or yields are down.

- Program was so complicated with severe penalties and high uncertainty about when payments would be made that relatively few farmers signed up for ACRE.
Main Title I Provisions of FCEA of 2008 (cont’d)

- Payment Limits
  - No farm program payments to anyone whose average adjusted gross non-farm income for the previous 3 tax years is greater than $500,000.
  - No _____________ to anyone whose average adj. gross farm income for the previous 3 tax years is greater than $750,000.
  - Husband and wife generally can receive payments as separate individuals.
  - Retains payment limits per person on individual parts of the commodity programs: $40,000 limit for direct payments, $65,000 limit on CCP AND ACRE.
  - NO personal limit on MLG/LDP payments.
Provisions of Other FCEA of 2008 Titles

• Title XII - Crop Insurance and Disaster Assistance
  - Congress first authorized Federal crop insurance in 1938 to help agriculture recover from the combined effects of the Great Depression and the Dust Bowl.
  - The ________________________________ was created at that time to carry out the program. Crop insurance was limited to major crops in the main producing areas. FCIC is an agency of the USDA.
  - The crop insurance program expanded in 1980 to many more crops and regions of the country.
  - To encourage participation in the expanded crop insurance program, the 1980 Crop Insurance Act authorized a subsidy equal to 30% of the crop insurance premium at 65% coverage.
  - Participation has grown rapidly since the 1980 Crop Insurance Act. About 16% annual growth in acreage enrolled.
Provisions of Other FCEA of 2008 Titles

- **Title XII - Crop Insurance and Disaster Assistance (cont’d)**
  - Federal Crop Insurance Reform Act of 1994 made participation in the crop insurance program _________ for farmers to be eligible for deficiency payments under target price programs, certain loans, and other benefits.
  - Premium subsidies were increased in 2000 to encourage producers to purchase higher insurance coverage levels and to make crop insurance more attractive to producers.

*Figure 3. Total Insured vs. Total Planted Acres*
Provisions of Other FCEA of 2008 Titles

- Title XII - Crop Insurance and Disaster Assistance (cont’d)
  - Federal Crop Insurance Reform Act of 1994 made participation in the crop insurance program __________ for farmers to be eligible for deficiency payments under target price programs, certain loans, and other benefits.
  
  - Premium subsidies were increased in 2000 to encourage producers to purchase higher insurance coverage levels and to make crop insurance more attractive to producers.
  
  - Under the 2008 Farm Bill, crop insurance was made available under several plans and coverage levels for a wide variety of crops.
  
  - Crop insurance policies sold and serviced by private insurance companies under premium rates and contract terms set by Federal Crop Insurance Corporation (FCIC) and administered by USDA's Risk Management Agency (RMA).
  
  - Premiums and delivery costs are federally subsidized.
  
  - Over 90% of all U.S. farmland is now covered by crop insurance.
Provisions of Other FCEA of 2008 Titles

- Title XII - Crop Insurance and Disaster Assistance (cont’d)
  - Cost of crop insurance subsidies increased dramatically to about $8 billion per year from about $3 billion in 2003.
  - Crop insurance accounted for only 10% of Farm Bill costs (including nutrition programs) BUT it was the largest single farm commodity ____________ under the 2008 farm bill:
    » Crop Insurance: 38.4% of farm subsidies
    » Other subsidies (CCP, MLG/LDP, DP): 28.4% of farm subsidies
  - Crop insurance most popular in the Great Plains States and in the Midwest (Why?)
  - Two main types of crop insurance:
    » Yield insurance - the only type before 1995 and now about 15%
    » Revenue insurance - Increasingly popular among farmers.
Provisions of Other FCEA of 2008 Titles

- Title XII - Crop Insurance and Disaster Assistance (cont’d)
  - Crop insurance works by paying farmers an “__________” in the case of a crop loss from bad weather or even low prices.
  - The _____________ covers only some percentage of the value of the lost revenue. Farmers choose the percentage up to 85%. The higher the percentage, the greater the cost (premium) paid by the farmer.
Provisions of Other FCEA of 2008 Titles

- **Title XII - Crop Insurance and Disaster Assistance (cont’d)**
  - Crop insurance works by paying farmers an “__________” in the case of a crop loss from bad weather or even low prices.
  - The ________________ covers only some percentage of the value of the lost revenue. Farmers choose the percentage up to 85%. The higher the percentage, the greater the cost (premium) paid by the farmer.
  - Federal government subsidizes crop insurance ________________.
    » Farmers only pay a portion of the premiums.
    » The government pays the remainder.
    » The portion paid by the government declines as the level of coverage chosen by a farmer increases.

<table>
<thead>
<tr>
<th>Crop Insurance Coverage Level:</th>
<th>50%</th>
<th>55%</th>
<th>60%</th>
<th>65%</th>
<th>70%</th>
<th>75%</th>
<th>80%</th>
<th>85%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Subsidy:</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>77%</td>
<td>68%</td>
<td>53%</td>
</tr>
</tbody>
</table>
Provisions of Other FCEA of 2008 Titles

- **Title XII - Crop Insurance and Disaster Assistance (cont’d)**
  - **Supplemental Agricultural Disaster Assistance (SADA)**
    Provided disaster assistance payments to producers of eligible commodities (crops, farm-raised fish, honey, and livestock) in counties declared by Secretary of Agriculture to be "disaster counties" for losses incurred on or before Sept 30, 2011.
  - **Supplemental Revenue Assistance (SURE)**
    » Provides protection against production and/or quality crop losses on the entire farm (all acres in all counties) resulting from adverse weather
  - **Various Other Disaster Assistance Programs**
    1. Livestock Indemnity Payment (LIP) - weather-related payments
    2. Livestock Forage Disaster Program (LFP)
    3. Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP)
    4. Tree Assistance Program (TAP) (Nursery trees and ornamentals)
Provisions of Other FCEA of 2008 Titles

- **COOL (Country-of-Origin-Labeling) Program (Title XI)**
  - Created under 2002 Farm Bill but ________________.
  - Finally implemented under FCEA of 2008
  - Expanded to apply to:
    - Muscle and ground meats (beef, pork, goat, lamb, and chicken)
    - Peanuts, pecans, macadamia nuts, ginseng
    - “Perishable agricultural commodities” – fresh/frozen fruits, vegetables, herbs
    - Wild and farm-raised fish and shellfish (implemented 4/4/2005)
  - In December 2011, World Trade Organization (WTO) rejected the COOL program used by U.S. meat producers to brand meat “born and raised in the United States.” The WTO ruling came after ________________ complained that COOL requirements unfairly discriminated against them because it gives less favorable treatment to beef and pork imported from those countries than to U.S. meat.
  - U.S. filed an appeal but the original ruling was upheld in December 2012.
Provisions of Other FCEA of 2008 Titles

• COOL (Country-of-Origin-Labeling) Program (Title XI) (cont’d)
  - To comply with the WTO ruling, USDA issued new rules in 2013 requiring that labels show where each production step (i.e., born, raised, slaughtered) occurs.
  - Domestic opponents, including the U.S. cattle and beef industry, argued that the COOL rules continue to impose onerous recordkeeping burdens and costs on processors and retailers, and in turn, additional costs on consumers.
  - Then Canada and Mexico requested the establishment of a WTO compliance panel to determine if the new COOL rules comply with WTO findings and threatened $1 billion in tariffs on U.S. products if the COOL rules were not lifted.
  - In October 2014, WTO panel ruled that new COOL rules still violate international trade standards by treating Canadian and Mexican meat and livestock unfairly.
  - In December 2015, USDA announced that COOL requirements for beef and pork products would no longer be enforced.
EXTRA CREDIT OPPORTUNITY

(Worth up to 20 points added to your semester point total)

1. Go to at least 2 different retail grocery stores from different chains (e.g., Kroger, HEB) and determine if the foods that are SUPPOSED to be labeled with COOL labels are properly labeled. (See previous slides for list of foods to be labeled.)

2. Also determine if meats are still being labeled with COOL labels.

3. Hand in a 500-word minimum typewritten report on your research:
   - Introduction and objective of your research
   - What you did to conduct the research (which stores, which actual products, other details about how you went about your research, etc.).
   - Your findings regarding COOL labeling
   - Conclusions

4. DUE NEXT TUESDAY, April 6 by 1:30 pm. Submit through ecampus.
Provisions of Other FCEA of 2008 Titles

- **Nutrition Programs – Title IV**
  - Increases food stamp benefits and modifies food stamp eligibility rules
  - Allows “geographic preference” when buying food for schools
  - Adds money for fresh fruit and vegetable programs for schools
  - The Emergency ______________ Program (TEFAP):
    USDA buys food and ships it to State agencies to distribute to local organizations that either directly distribute to households or serve meals or to other groups that perform these functions.

- Nutrition programs accounted for 68% of FCEA of 2008 budget.
- Commodity programs accounted for only about 12% of budget.
Provisions of Other FCEA of 2008 Titles

• Nutrition Programs (cont’d)
  - Food stamps account for the ________________
    ________________________________.
  - Now called SNAP - Supplemental Nutrition Assistance Program
  - Food stamp (SNAP) participation increased by 81% from 2007 to 2013.
  - About 15% of all U.S. households participate in SNAP!
  - SNAP costs more than quadrupled between 2000 and 2013 ($17 billion to $80 billion) but dropped to $74 billion in 2015 due to improved economy.

![Graph showing USDA expenditures for food and nutrition assistance, fiscal 1980-2016.](image)

Conservation Programs - Title II of FCEA of 2008 ($4 billion in funding)
- Conservation Reserve Program continued
  » Acreage cap reduced (fewer acres in program)

- Environmental Quality Incentives Program (EQIP) continued
  » ___________________

- Conservation Security Program (CSP) was replaced by Conservation Stewardship Program (CSP)
  » Contracts with producers to improve existing conservation systems and to address additional priority resource concerns.

- Various other conservation programs:
  » Conservation of Private Grazing Land (CPGL)
  » Grassland Reserve Program (GRP)
  » Wetland Reserve Program (WRP)
  » Wildlife Habitat Incentives Program (WHIP)
  » Farmland Preservation Program

The new CSP provided two types of payments through five-year contracts: (1) annual payments for installing new conservation activities and maintaining existing practices and (2) supplemental payments for adopting a resource-conserving crop rotation.
Provisions of Other FCEA of 2008 Titles

- **Energy Programs - Title IX of FCEA of 2008**
  - Biomass Crop Assistance Program (BCAP)
    - Subsidies to producers of “advanced biofuels”.
    - “Advanced biofuels” include switchgrass, corn stover, wood chips, etc. The so-called __________________ producers.
    - “Advanced biofuels” do not include any crop under the commodity programs (e.g. corn, soybeans, wheat, cotton or cottonseed, etc.)
  - Subsidies for renewable energy projects

- **Trade Programs - Title III of FCEA of 2008**
  - Reauthorized funding for USDA’s food aid, export market development, and export credit guarantee programs
  - Addresses barriers to U.S. agriculture exports.