Congressional Research Service

Farm Safety Net Proposals and the Joint Select Committee on Deficit Reduction

Dennis A. Shields
Specialist in Agricultural Policy

Randy Schnepf
Specialist in Agricultural Policy

November 28, 2011

Congressional Research Service
7-5700
www.crs.gov
R42040

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

Budget deliberations by the Joint Select Committee on Deficit Reduction in fall 2011 generated concerns that a farm bill to reauthorize farm programs expiring in 2012 might be written by budget negotiators rather than by the House and Senate Agriculture Committees. Various proposals emerged that recommend lower federal spending, including cuts to agriculture programs ranging from $10 billion to more than $80 billion over 10 years.

In response, Members of Congress, the Administration, and a number of farm groups put forward proposals to reduce government expenditures on farm subsidies and revise farm programs. Many of these farm program proposals were unveiled in September 2011 as the Joint Select Committee on Deficit Reduction began its deliberations on government-wide budget cuts.

Ultimately the joint committee failed to reach a bipartisan consensus on deficit reduction. As a result, it is likely that the 2012 farm bill will now follow a more traditional legislative process starting sometime in 2012. However, the joint committee process generated substantial movement toward reshaping the policy framework underlying the farm safety net and other major farm bill issue areas, such as conservation and nutrition.

Many proposed cuts and policy changes have been directed at commodity programs and crop insurance because these programs account for the bulk of agricultural funding (excluding conservation and nutrition programs, which are also considered part of the agricultural budget). Commodity programs, crop insurance, and the recently expired farm disaster programs comprise the so-called "farm safety net"—the federal government's suite of programs designed to support farm income and help farmers manage risks associated with variability in crop yields and prices.

To generate budget savings and provide funding for proposed changes to the farm safety net, nearly all of the proposals either reduce or eliminate direct and counter-cyclical payments. Most proposals either leave the marketing loan program unchanged or retain it with modest modifications; however, it would be eliminated under two proposals. To facilitate comparisons, the various proposals are loosely grouped into five categories: (1) minor policy changes, (2) revised revenue programs, (3) enhanced crop insurance, (4) whole-farm insurance, and (5) other. The major policy features of each proposal are highlighted and briefly discussed.

These proposals and the work of Congress related to the joint committee might serve as a starting point for the farm policy debate that is expected in 2012, prior to expiration of the 2008 farm bill.

Contents

Introduction ... 1
Joint Select Committee on Deficit Reduction ... 1
Current Farm Safety Net Programs ... 2
Commodity Programs ... 3
Crop Insurance ... 3
Disaster Assistance ... 5
Policy Issues for Current Programs ... 6
Farm Bill Safety Net Issues ... 7
Farm Bill Safety Net Proposals ... 9
Group I: Downsize Current Policy ... 12
American Farm Bureau Federation's Recommendations ... 12
The Administration's Deficit Reduction Plan ... 12
Senator Coburn's Deficit Reduction Plan ... 13
Growing Opportunities (Representative Blumenauer) ... 13
Group II: Revised Revenue Program ... 14
Aggregate Risk and Revenue Management or ARRM (Senators Brown, Thune, Durbin, and Lugar) ... 14
REFRESH (Senator Lugar and Representative Stutzman) ... 15
Crop Revenue Guarantee Program (Senator Conrad) ... 15
Risk Management for America's Farmers or RMAF (American Soybean Association) ... 16
Group III: Enhanced Crop Insurance ... 17
Stacked Income Protection Plan or STAX (National Cotton Council) ... 17
Crop Risk Options Plan or CROP (Representative Neugebauer) ... 18
Farm Financial Safety Net (Crop Insurance Company) ... 18
Group IV: Whole Farm Revenue Insurance ... 20
U.S. Agriculture and Nutrition Policy Statement (Chicago Council on Global Affairs) ... 20
Local Farms, Food, and Jobs Act (Representative Pingree and Senator Brown) ... 20
Group V: Other Proposals ... 21
Farmer-Owned Reserves (National Farmers Union) ... 21
Proposed Dairy Legislation ... 22
Environmental Working Group (EWG) Proposal ... 22
California Recommendations (Coalition of CA Agricultural Interests) ... 23
Concluding Comment ... 23

Tables

Table 1. Farm Safety Net Programs ... 4
Table 2. Policy/Program Issues for Developing a Farm Safety Net ... 8
Table 3. Selected Farm Safety Net Proposals ... 10
Table 4. Baseline for Mandatory Farm Bill Programs, FY2012-FY2021 ... 11

Appendixes

Appendix. Joint Select Committee on Deficit Reduction and Agriculture Policy 24

Contacts

Author Contact Information.. 26

Introduction

Most of the provisions of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246; the 2008 farm bill) do not expire until the end of FY2012. However, during fall 2011, budget deliberations by the Joint Select Committee on Deficit Reduction[1] 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. This concern was further heightened by various federal budget proposals, which emerged from late 2010 onward, recommending lower government-wide spending, including cuts to agriculture programs ranging from $10 billion to more than $80 billion over 10 years.

During the three months prior to the joint committee's deadline of November 23, 2011, Members of Congress and several prominent commodity and agricultural interest groups released their own proposals for U.S. farm policy in general, and commodity programs in particular. The proposals range from simply extending current farm programs at reduced funding levels to program elimination and wholesale replacement. In October 2011, leadership of the House and Senate Agriculture Committees engaged in deficit reduction negotiations and sought to develop new farm policy that would fit within proposed budgetary guidelines. Many interest groups outside the process decried the "closed-door" nature of policy development, which differed from the traditional legislative process of public hearings and debate, amendments, and committee and floor votes that surrounds the development of U.S. farm policy.

Ultimately the joint committee failed to reach a bipartisan consensus on deficit reduction. As a result, it is likely that the 2012 farm bill will now follow a more traditional legislative process starting sometime in 2012. However, the joint committee process generated substantial movement toward reshaping the policy framework underlying the farm safety net and other major farm bill issue areas, such as conservation and nutrition. This work is likely to serve as a starting point for the farm policy debate that is expected to precede the 2012 farm bill debate.

This report briefly reviews the timeline of events surrounding the joint committee process as it relates to U.S. farm policy. It also provides an overview of the current U.S. farm safety net, along with a summary of farm safety net proposals that emerged during this period.

Joint Select Committee on Deficit Reduction

The Joint Select Committee on Deficit Reduction (joint committee) was established by the Budget Control Act of 2011 (BCA; P.L. 112-25) on August 2, 2011. Shortly thereafter, Members of Congress and several prominent commodity and agricultural interest groups began to release their own proposals for U.S. farm policy in general, and commodity programs in particular. These proposals were largely in response to the potential budgetary implications for U.S. commodity programs of any deficit reduction proposal produced by the joint committee. The farm policy proposals ranged from simply extending current farm programs at reduced funding levels to

[1] Hereafter referred to as the joint committee. The joint committee also is often referred to as the "super committee," a label that has been widely adopted by the news media, government watchers, and agricultural interest groups, and is intended to signify the nearly unilateral decision-making power granted to the joint committee. See CRS Report R41965, *The Budget Control Act of 2011*, for background information.

program elimination and wholesale replacement. Many proposed cuts and policy changes have been directed at commodity programs and crop insurance, because these programs account for the bulk of direct agricultural funding.[2]

Commodity programs, crop insurance, and the recently expired farm disaster programs comprise the so-called "farm safety net"—the federal government's suite of programs designed to support farm income and help farmers manage risks associated with variability in crop yields and prices. Other farm bill programs, including conservation and nutrition programs, also have been recommended for budget reductions under some proposals.

On October 14, 2011, the leadership of the House and Senate Agriculture Committees[3] submitted a letter to the co-chairs of the joint committee, Senator Murray and Representative Hensarling, recommending $23 billion in net deficit reduction from mandatory programs within their jurisdiction. In the letter, the agriculture committee leadership promised to provide a complete legislative package of farm policies that would achieve the $23 billion in deficit reduction by November 1, 2011. However, the agriculture committee leadership missed its November 1 deadline, as difficulties in fitting general policy changes to strong regional interests slowed negotiations. No formal proposal (including legislative language and CBO scores) was ever made public by the agriculture committee leadership, or submitted to the joint committee.

On November 21, 2012, co-chairs of the joint committee announced that "it will not be possible to make any bipartisan agreement available to the public before the committee's deadline."[4] As a result, the joint committee was disbanded. Although the joint committee failed, the process of attempting to produce a deficit-reduction bill generated substantial movement toward designing the next farm safety net, along with other major policy areas of the farm bill. See the **Appendix** for a further discussion of the joint committee and activities motivated by it.

Current Farm Safety Net Programs[5]

The broader farming community often refer 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

[2] See CRS Report RS22131, *What Is the "Farm Bill"?*.

[3] House Agriculture Committee Chairman Frank Lucas and Ranking Member Collin Peterson; Senate Agriculture Committee Chairwoman Debbie Stabenow and Ranking Member Pat Roberts.

[4] "Statement from Co-Chairs of the Joint Select Committee on Deficit Reduction," press release, November 21, 2011, at http://www.deficitreduction.gov/public/index.cfm/pressreleases?ID=fa0e02f6-2cc2-4aa6-b32a-3c7f6155806d.

[5] 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. 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) projects the total cost of farm safety net programs in FY2011 at $13 billion ($5.6 billion for commodity programs, $5.5 billion for crop insurance, and $1.9 billion for disaster assistance).[6]

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.[7] Types of payments include "direct," "counter-cyclical" or "Average Crop Revenue Election (ACRE)," and "marketing loan benefits," as described in **Table 1**. 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).

The 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, nonrecourse loans for domestic sugar, and 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 farm bill commodities, producers of specialty crops (e.g., fruits, vegetables, horticulture crops) and livestock 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. 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).

[6] CBO Budget Projections, March 2011.

[7] 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*.

Table 1. Farm Safety Net Programs

(authorized under the 2008 farm bill and other legislation)

Program Instrument	Commodity Coverage	Program Description and Outlays ($15.2 billion/yr.)
Commodity Programs		**Projected Avg. Outlays FY2012-FY2021: ($5.7 billion/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. ($0.4 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. Import quotas. ($0, 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)	Variable payment—varies inversely with national farm milk price (MILC); dairy product prices supported at certain minimums (DPPSP). Import quotas. ($0.1billion/yr.)
Risk Management		**Projected Avg. Outlays FY2012-FY2021: ($7.8 billion/yr.)**
7. Crop insurance	More than 100 crops, including 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. ($7.7 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: ($1.7 billion/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. Outlays are based on the March 2011 CBO baseline.

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. Additional disaster programs 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).

Federal crop insurance has grown in importance as a farm risk management tool since the early 1990s, due in large part to federal subsidy intervention.[8] 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 current crop insurance program would cost, on average, $7.7 billion per year (**Table 1**) through 2021.[9]

Crop insurance has perhaps the widest commodity and regional coverage of any agricultural program. In 2010, crop insurance policies covered 256 million acres, or approximately 74% of acres planted. Major crops are covered in most counties where they are grown. Policies for less-widely produced crops are available in primary growing areas. In total, policies are available for more than 100 crops, including coverage on fruit trees, nursery crops, 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 authorization and 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, funding for these programs 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. The program departs from both traditional disaster assistance and crop yield insurance by calculating and reimbursing losses 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. The Livestock Indemnity Program (LIP) compensates ranchers for livestock mortality caused by a disaster. The Livestock Forage Disaster Program (LFP) assists ranchers who graze livestock on drought-affected pastureland or grazing land. The Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP) compensates producers for disaster losses not covered under other disaster programs. Finally, the Tree Assistance Program (TAP) assists growers with the cost of replanting trees or nursery stock following a natural disaster.

[8] 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. Separately, the Noninsured Crop Disaster Assistance Program (NAP) attempts to fill in the gaps in catastrophic coverage in counties where crop insurance policies are not offered. The program is administered by the USDA's Risk Management Agency (RMA) and financed through USDA's Federal Crop Insurance Corporation (FCIC).

[9] CBO Budget Projections, March 2011.

Policy Issues for Current Programs

The current tight federal budget situation and the general global economic recession since 2008 contrast sharply with the economic success experienced by the U.S. farm sector in recent years.[10] 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 U.S. farm bill.[11]

Effectiveness of the Current Farm Safety Net. From a farmer perspective, commodity programs have generated criticism that they are not well integrated, are too slow to respond to disasters, or do not provide adequate risk protection. In contrast, others have long questioned the need for 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 Row 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 adding commodities to the program mix or by developing a whole-farm program.

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

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

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

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.

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.[12] 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.[13]

Farm Bill 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 goal of

> 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.[14]

Several specific policy directions, issues, and questions appear to have emerged from the brief but intense farm policy negotiations associated with the short lifespan of the joint committee.

1. Crop insurance emerges as the primary safety net policy.
2. Farm payments should be based on planted acres, not historical base acres.
3. Multiple commodity programs (i.e., different programs for different commodities) raise the issues of fairness and equity for payment distribution.
4. Using target/reference prices might alter producer behavior, with implications for shifts in planted area.
5. Conservation compliance would disappear if direct payments are eliminated. Would it be attached to crop insurance?
6. The level and applicability of payment limits remain contentious.

[12] 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*.

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

[14] 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.

7. Under sequestration, cuts of approximately $15 billion might be required for mandatory farm programs. Will legislators retain the $23 billion previously announced?
8. Will sequestration overlay any new farm bill, such that the $15 billion in cuts will be on top of any cuts contained within a new farm bill?

More generally, several basic policy questions will likely continue to shape the discussion for revising the farm safety net (**Table 2**). One is the extent to which government should help offset risks inherent in farming. The problem of "shallow losses" (losses in excess of a crop insurance deductible) has received considerable attention in policy discussions. Some policymakers and producers are concerned about the level of deductible and the cost of purchasing additional coverage to reduce it. Several entities have proposed alternatives to address shallow losses, either through a new revenue program (similar to ACRE) or through enhanced crop insurance.

Table 2. Policy/Program Issues for Developing a Farm Safety Net

Policy/Program Question	Issue	Producer Concern	Program Design and Cost Issues
To what extent should government help offset risks inherent in farming?	Covering shallow loss v. 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).
Given current relatively high price levels, should the government provide additional downside price risk protection?	Multi-year price protection	Crop insurance covers only intra-season price risk; current program parameters for most farm programs are at levels that generally do not provide much protection at current price levels.	Current market conditions could be incorporated into program parameters by using average prices, either in a revenue program (as ACRE does now) or through crop insurance. Using recent prices could increase producer protection while possibly increasing outlays.
Is a crop or income loss necessary to trigger a payment? If so, how/where should the loss be determined?	An area-wide trigger can result in payments to farms with no losses. Protect against individual crop revenue loss at farm level OR at a more aggregate level (county, district, state, or national). Protect against revenue loss at the whole-farm level (i.e., total revenue for all crops)	A trigger at a more aggregated level (above farm level) may not result in payments to producers with losses. Historically, producers think about farm subsidies, indemnities, and disaster payments on a crop basis. Also, whole-farm payments may be less due to offsetting crop revenues on the farm.	Triggers set only at the farm level can be more expensive because risk of payout is higher. Farmers might take actions that increase their indemnities (moral hazard problem). Whole-farm approach would address farm loss directly and perhaps cost less but it might encourage more risky practices such as monoculture (moral hazard problem) because farm diversification may reduce likelihood of payment to farmer.

Source: CRS.

Given current relatively high price levels, another question raised during the debate is, should the government provide additional downside price risk protection? 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 references could increase program outlays and lead to potential WTO disputes.

The issue of where the covered crop loss is determined (at the farm, county, district, state, or national level) has implications for program costs and program integrity. A potential move for commodity programs to a farm-based loss program (rather than a payment trigger based on a national or otherwise aggregated geographic area) would likely require attention to moral hazard issues—farmers deliberately taking actions that might increase their indemnities—because farmers could directly affect program payments.

Farm Bill Safety Net Proposals

In advance of the joint committee's anticipated recommendation, 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. Nearly all of the proposals summarized below and listed in **Table 3** either reduce or eliminate direct and counter-cyclical payments to generate savings and provide funding to change the farm safety net so it better addresses farm revenue risk for producers. Most proposals either leave the marketing loan program unchanged or retain it with modest modifications; however, two proposals—the Farm Financial Safety Net (FFSN) and REFRESH Act—would eliminate the marketing loan program.

To facilitate comparisons, the various proposals are loosely grouped into five categories: (1) minor policy changes, (2) revised revenue programs, (3) enhanced crop insurance, (4) whole-farm insurance, and (5) other.

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 is $915 billion during FY2012-FY2021, according to the CBO March 2011 baseline (**Table 4**). Budget authority for farm safety net programs is $146 billion over the 10-year period, including $65 billion for Title I (including commodity programs) and $80 billion for Title XII (crop insurance). (Disaster programs do not have baseline funding.)

Separately, CBO projects average outlays for safety net programs for FY2012-FY2021 at about $135 billion over the 10-year period, or $13.5 billion/year, excluding combined outlays of $3 billion in 2012 and 2013 from disaster programs that expire in 2011 and interest/operating expenses. (For crop insurance, outlay projections differ slightly from budget authority.) This compares to average farm safety net program outlays of $15.7 billion/year during FY2003-FY2010, with a high of $20.5 billion in FY2006 and a low of $12.2 billion in FY2008.

Table 3. Selected Farm Safety Net Proposals

Proposal	Description	Eliminations / Net savings
Group I. Downsize Current Policy		
American Farm Bureau Federation Proposal	No major program changes; continue direct payments, CCPs, ACRE, loans, and crop insurance. Add Systemic Risk Reduction Program (SRRP) to address multi-year price declines.	Eliminate SURE; reduce direct payments and ACRE.
Administration: Deficit Reduction Plan	Reauthorize CCPs, ACRE, SURE, and the marketing loan program; reduce crop insurance expenditures by reducing producer subsidies and payments to insurance companies for expenses and risk-sharing.	Eliminate direct payments. $33 billion savings over 10 years (including conservation savings).
Senator Coburn: Deficit Reduction Plan	Maintain crop insurance and guaranteed farm loans.	Eliminate all farm commodity programs; do not reauthorize disaster programs; end direct ownership and operating loans. Saves $80+ billion over 10 years.
Representative Blumenauer	Two new limits on combined CCP, ACRE, and marketing loan benefit payments: Eligibility restricted to annual adjusted gross income < $250,000; and cap on total annual payments of $250,000.	Eliminate direct payments and cotton and peanut storage payments.
Group II. Revised 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) when two triggers are met: (1) farm revenue is below guarantee level, and (2) crop revenue at the crop reporting district level is below guarantee. Both use historical crop insurance prices.	Eliminate direct payments, CCPs, ACRE, and SURE. Congressional Budget Office (CBO) estimates savings of $20 billion over 10 years.
S. 1658/H.R. 3111, Rural Economic Farm and Ranch Sustainability and Hunger Act (REFRESH) by Senator Lugar and Representative Stutzman	Five titles: I-Producer Safety Net (ARRM), II-Cons., III-Nutrition, IV-Energy, and V-Research. Expands whole-farm revenue insurance. Eliminates sugar program. Adds Dairy Security Act. Reduces CRP.	Eliminate direct payments, CCPs, ACRE, SURE, and marketing loan. All titles: $40 billion savings over 10 years.
Crop Revenue Guarantee Program by Senator Conrad	Whole-farm revenue program (for program crops only)—makes payments when total revenue declines below guarantee. Payment is 60% of difference between guarantee and actual revenue. Price guarantee is higher of target price or five-year Olympic farm price. Disaster programs for other commodities.	Reduce direct payments by 50%, eliminate CCPs, ACRE, and SURE (for program crops only).
Risk Management for America's Farmers (RMAF) by American Soybean Association	Crop revenue program—makes payments (by program crop) when revenue on farm is below guarantee based on APH or county yields and national farm prices.	Eliminate direct payments, CCPs, ACRE, and SURE.
Group III. Enhanced 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 direct payments, CCPs, ACRE, and SURE. Modify marketing loan (two-year average of Adjusted World Price within 47 to 52 cents/lb. range).
H.R. 3107, Crop Risk Options Plan (CROP) by Representative Neugebauer	Enable producers to supplement farm-level with area-wide insurance to cover shallow losses. Change APH yield from 10-year average to 7-year Olympic average.	

Proposal	Description	Eliminations / Net savings
Farm Financial Safety Net (FFSN) by private crop insurance company	Crop insurance coverage would include a market-based minimum harvest price (e.g., five-year average of crop insurance projected prices times 80%); add 5% coverage (paid by government) to the farmer's purchased coverage for shallow losses.	Eliminate direct payments, CCPs, marketing loans, and SURE.
Group IV. Whole-Farm Insurance		
U.S. Agriculture and Nutrition Policy Statement by Chicago Council on Global Affairs	Protects against declines in whole-farm revenue, not individual crop revenues. Loss payment is triggered when the gross income for an entire farm (all crop and livestock revenue) is less than guarantee.	For Council, eliminate current farm programs and current crop insurance premium subsidies; it estimates savings of $2.5 bil/yr.
H.R. 3286/S. 1773, Local Farms, Food, and Jobs Act, by Representative Pingree and Senator Brown	Same as above.	
Group V. 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 direct payments and CCPs. Modify marketing loan.
H.R. 3062, Dairy Security Act of 2011 by Representative Peterson and others	Voluntary margin insurance program and market stabilization (to reduce incentive to produce milk).	Eliminate current dairy programs. CBO estimates savings of $131 million over 10 years.
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.
California Proposal	Recommends a more-diversified farm bill refocusing away from row crops and encompassing specialty crops, human plant and animal health, food safety, health and nutrition, research, and other less-traditional facets of agriculture policy.	No specific program eliminations cited; however, includes numerous funding expansion and new project requests.

Source: Compiled by CRS from proposal statements, news reports, and other sources.
Notes: Excludes proposals for changing the sugar program. If not indicated, costs estimates provided by authors of proposals.

Table 4. Baseline for Mandatory Farm Bill Programs, FY2012-FY2021

(budget authority in millions of dollars)

2008 Farm Bill Title and Program	FY2012-FY2016	FY2012-FY2021
Title I and XII - Farm Safety Net Programs	**70,790**	**145,513**
Title I - Commodity Programs	31,814	65,267
Title XII - Crop Insurance	38,976	80,246
Title II - Conservation	**30,238**	**64,221**
Title IV - Nutrition	**371,553**	**699,849**
All other titles	**2,982**	**5,487**
Total	**475,563**	**915,070**

Source: CRS, using the CBO baseline (March 2011).
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 $247 billion over 10 years.

Group I: Downsize Current Policy

American Farm Bureau Federation's Recommendations

The American Farm Bureau Federation (AFBF) supports continuation of the current farm safety net, preferring to maintain all existing programs with the exception of SURE.[15] AFBF's view is that the current "multi-legged stool" for commodity programs is the best approach. Moreover, it has concluded, based on its diverse membership, that a combination of direct payments, counter-cyclical payments (CCPs), ACRE, the marketing assistance loan program, and crop insurance will provide a better safety net than only relying on one or two of those options. AFBF wants Congress to avoid adopting any safety net program that only works well for one or two commodities, and is willing to make changes in them to fit into the current budget environment. AFBF says the SURE program does not work, and assigns a low priority to any revision of it. As for cutting costs, AFBF proposes that among safety net programs, only direct payments and the ACRE programs should be reduced, and that this should be accomplished through lower payment acres.

In response to proposals for revised revenue programs (below) designed to address multi-year price declines and "shallow losses" (i.e., losses stemming from producer's crop insurance deductible), AFBF has proposed the Systemic Risk Reduction Program (SRRP).[16] Its aim is to protect against multi-year price declines but not shallow losses. AFBF has criticized "shallow loss" programs, saying that they would encourage producers to take more risk knowing that the government will cover a large share of it. The SRRP would function like a county-wide crop insurance policy that is currently available called Group Risk Income Protection (GRIP). GRIP indemnifies producers when county crop revenue drops below a guarantee level based on prices at planting time. It would differ from GRIP, though, by using three- or five-year price averages instead of planting prices to protect against multi-year price declines. Coverage would be provided at a minimal fee to producers and contain a deductible of 20% to 30% (thus, not necessarily a shallow loss program, according to AFBF). Under SRRP, should producers wish to protect against shallow losses or cover individual farm yield risk, they could purchase individual policies with higher coverage (lower deductibles). 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 SRRP coverage, and hence have less liability and potential for indemnities.

The Administration's Deficit Reduction Plan

The Administration in September 2011 put forward its Plan for Economic Growth and Deficit Reduction.[17] Among suggestions for savings across the government, the Administration proposes a net reduction in farm safety net programs of $33 billion over 10 years (including $2 billion from conservation). The plan would continue most farm commodity programs except for direct

[15] American Farm Bureau Federation , "Policy Recommendations for the 2012 Farm Bill," as submitted to Congress on September 29, 2011, at http://www.fb.org/issues/FarmBureauRecommendations110928.pdf.

[16] 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.

[17] 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.

payments, which would save about $30 billion. Another $8 billion in savings would be generated from changes to the crop insurance program, including reduced producer subsidies (by 2 percentage points) and lower payments to insurance companies for administrative expenses and risk-sharing. The Administration proposes that the suite of disaster programs, including SURE, that expired September 30, 2011, be reauthorized for a cost of roughly $7 billion over five years.

On October 24, 2011, in response to the emergence of farm policy proposals from the various advocacy groups, Secretary Vilsack described USDA's priorities for the 2012 farm bill based on three principles: maintain a strong safety net, support sustainable development, and promote vibrant markets.[18] Vilsack also listed four keys elements that should be a feature of any safety net—first, it should provide assistance quickly in response to a natural disaster; second, it should reflect the diversity of U.S. agriculture and not just focus on the major row crops; third, it should be simple and easy to understand; and finally, it should be accountable and justifiable to the 98% of Americans that do not farm. Vilsack described USDA's role in sustaining agricultural productivity as investing in agricultural research and creating ways to incent the private sector to invest in conservation. Finally, Vilsack stressed that USDA has an important role with respect to nutrition, rural development, and renewable energy programs.

Senator Coburn's Deficit Reduction Plan

In July 2011, Senator Coburn issued a broad plan to reduce government spending.[19] Among its many government-wide provisions, the plan would maintain crop insurance and guaranteed loans but eliminate all farm commodity programs. It also would end direct ownership and operating loans and not reauthorize disaster programs. Total safety net savings would be more than $80 billion over 10 years.

Growing Opportunities (Representative Blumenauer)

On October 26, 2011, Congressman Blumenauer, supported by environmental, taxpayer, and free-enterprise advocacy groups, introduced a proposal for new farm policy entitled "Growing Opportunities: Family Farm Values for Reforming the Farm Bill."[20] The report outlines policy changes in six specific areas: commodity programs, conservation, research and development, beginning farmer programs, crop insurance, and nutrition. With respect to commodity programs, the proposal would eliminate direct payments and peanut and cotton storage payments. It would also place two limits on combined payments under the counter cyclical payment (CCP), marketing assistance loan (MAL) benefits, and ACRE programs—first, combined payments would be limited to entities with an adjusted gross income of under $250,000 per year, and second, total payment receipts would be limited to $250,000 per entity per year. Concerning crop insurance, it would link conservation compliance to participation in federally supported crop insurance, and would cut "administrative burden" and eliminate "perverse incentives." Funding increases are proposed for conservation (which would be reoriented to a performance-based

[18] "Agriculture Secretary Vilsack on Priorities for the 2012 Farm Bill," USDA News Transcript, Release No. 0458.11, October 24, 2011; at http://www.usda.gov/wps/portal/usda/usdahome?navid=TRANSCRIPTS_SPEECHES.

[19] 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.

[20] Office of Representative Blumenauer, *Growing Opportunities: Family Farm Values for Reforming the Farm Bill*, October 26, 2011; at http://blumenauer.house.gov/images/stories/2011/documents/growing%20opportunities%20farm%20report.pdf.

program), nutrition, and research. Several measures intended to aid beginning farmers are also recommended. Specific legislative language has not yet been produced for this proposal.

Group II: Revised Revenue Program

Aggregate Risk and Revenue Management or ARRM (Senators Brown, Thune, Durbin, and Lugar)

The Aggregate Risk and Revenue Management (ARRM) Act of 2011 (S. 1626) was introduced in September 2011 by Senators Brown, Thune, Durbin, and Lugar.[21] It would eliminate commodity programs (except the marketing assistance loan program) and replace them with a revised crop revenue program.[22] 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.[23] ARRM is similar in concept to a proposal by the National Corn Growers called the Agriculture Disaster Assistance Program (ADAP).

The 2008 farm bill included the Average Crop Revenue Election (ACRE) program 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. ACRE payments for an eligible crop require meeting two separate price triggers: first, state-level revenue must fall below a state-level guarantee, and second, actual crop revenue on the individual farm must fall below the farm-level guarantee. While the revenue aspect has been conceptually attractive for many, some have criticized the current program's use of *state* crop yields to determine guarantee and payment levels. They point out that a crop 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[24] 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 triggers: a CRD-level revenue trigger and a farm-level revenue trigger. If both triggers are met, the per-acre payment is the difference between the actual revenue and the CRD revenue guarantee (90% times CRD revenue), subject to maximum payment (15%

[21] "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.

[22] "ARRM: Overview and Background," at http://www.agri-pulse.com/uploaded/ARRM_Background_FINAL.pdf; "ARRM: Program Specifications," at http://www.agri-pulse.com/uploaded/ARRM_Specifications_FINAL.pdf.

[23] Office of Senator Richard G. Lugar, "Lugar, Stutzman Target $40 billion in USDA Cuts to Help Meet Federal Deficit Reduction Goals ," press release, October 5, 2011, http://www.lugar.senate.gov/record.cfm?id=334391&.

[24] Throw out the high and low years, then average the remaining three years of data.

of the guarantee). Losses below 75% of the guarantee (i.e., 90% minus 15%) are expected to be covered by crop insurance polices.

Payments would be made on 85% of planted acreage, with an adjustment for farm yields relative to CRD yields. ARRM would also eliminate restrictions on planting fruits and vegetables on program acres.

Under ARRM, several existing programs would be eliminated, including direct payment, counter-cyclical payments, and ACRE payments. The Congressional Budget Office has scored $20 billion in net savings over 10 years for ARRM (which itself would cost $28 billion over 10 years).[25]

REFRESH (Senator Lugar and Representative Stutzman)

The Rural Economic Farm and Ranch Sustainability and Hunger (REFRESH) Act of 2011 (S. 1658 and H.R. 3111) proposes more comprehensive changes to current U.S. farm policy, as it includes five distinct titles broadly spanning the range of USDA activities. According to the bill summary, the REFRESH Act would result in savings of $40 billion over 10 years.

Title I (Producer Safety Net) would eliminate direct payments, CCPs, and ACRE payments as well as marketing loan benefits, and replace them by incorporating the ARRM proposal (see above), the Dairy Security Act proposal (see below), and expanded whole-farm revenue insurance. In addition, REFRESH's Title I would repeal the U.S. sugar program. According to the bill summary, Title I changes would save $16 billion over 10 years.

Title II (Conservation) would shift conservation funding away from land set-aside/retirement and toward working lands. Maximum enrollment in the Conservation Reserve Program (CRP) would be lowered from 32 million acres to 24 million acres by 2014, with no penalty for early opt-out. Title II would also consolidate various easement programs into a single easement program, and various working lands programs into a single working lands program.

Title III (Nutrition) would close SNAP eligibility loopholes and eliminate apparent overlap to score $14 billion in savings over 10 years. Title IV (Energy from Rural America) would preserve the Biobased Markets Program, the Biorefinery Assistance Program, the Rural Energy for America Program (REAP), and the Biomass Crop Assistance Program (BCAP); however, for most programs funding emphasis would be shifted away from grants and towards loans and loan guarantees. Title V (Technical Improvements to Research) would move the Biomass Research and Development Initiative (BRDI) from the energy title to the research title. In addition, it would offer new flexibility to federally funded research institutions to attract private funding in lieu of matching funds for research and extension activities.

Crop Revenue Guarantee Program (Senator Conrad)

Press reports have highlighted a proposal by Senator Conrad called the "Crop Revenue Guarantee Program."[26] Patterned after the SURE program, the proposal is designed to protect against

---

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

[26] Jim Wiesemeyer, "How SURE Supporters Want to Change the Program via New Farm Bill," *Pro Farmer*, September 30, 2011.

declines in whole farm revenue. It would cut direct payments by 50% and eliminate CCPs, ACRE, and SURE. It would not require a county to receive a disaster designation to trigger producer eligibility. Also, unlike SURE, payments would not be based on the amount of crop insurance purchased by the producer. However, producers would still be required to purchase at least catastrophic crop insurance (or a policy under the Noninsured Crop Disaster Assistance Program—NAP).

The primary program is limited to current program crops. For other commodities, a new disaster program would be developed for specialty crop production, and the recently expired livestock and fruit tree disaster programs would be re-authorized with slightly lower payment percentages to reduce overall costs.

The Crop Revenue Guarantee Program would provide payments to producers when their whole farm revenue (including net crop insurance indemnities) for all program crops falls below their revenue guarantee level calculated for the entire operation. The farm payment would be 60% of the difference between the guarantee and the actual farm revenue (a maximum per-acre payment applies). Total eligible acres could not exceed historical program crop base acres.

The guarantee level would be 90% (i.e., a 10% deductible) times the sum of all program crop revenue. Each crop revenue would be the product of the farm-level (1) planted acreage (subject to a base acre limitation), (2) crop insurance yield (higher of the actual production history (APH) or the five-year Olympic average APH), and (3) 2010 target price or five-year Olympic average farm price, whichever is higher.

Actual revenue for each crop would be the farm's actual yield times the national farm price calculated by USDA for the first four months of the market season (or the loan rate if it is higher) plus net indemnities. (The national price could be adjusted for quality losses.) This would speed up payments compared to the SURE program, which requires using full marketing-year average prices. Focusing the new revenue program on only program crops would reduce the administrative resources needed to calculate whole farm revenue for crops other than program crops.

Risk Management for America's Farmers or RMAF (American Soybean Association)

The American Soybean Association (ASA) has proposed a revenue-based program designed to improve farm risk management as a complement to crop insurance.[27] As a replacement for current commodity programs, the Risk Management for America's Farmers (RMAF) program would make payments for each program crop when crop revenue on-farm is below a guarantee level that is based on producer's APH or county yields and national farm prices. In other words, there is a single revenue trigger to release payments.

For each program crop, the revenue guarantee would be 90% (95% for irrigated crops) times a producer's revenue benchmark, which is the five-year Olympic average national farm price times the farm yield (higher of the producer's APH yield, the producer five-year Olympic average APH yield, or 80% of county yield). A producer's actual revenue for a commodity is the national

[27] 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.

average farm price for the first four months of the market year times the farm's actual yield, plus net crop insurance indemnities received. The payment amount would equal 85% of the difference between the producer's revenue guarantee and actual revenue for the commodity. Payments would not be made on losses below 75% of the benchmark (i.e., losses typically covered by crop insurance).

Group III: Enhanced Crop Insurance

Stacked Income Protection Plan or STAX (National Cotton Council)

The National Cotton Council (NCC) recommends that the current U.S. upland cotton programs—including direct payments (DPs), CCPs, and ACRE—be replaced with an area-wide, revenue-based crop insurance program that would supplement existing crop insurance products.[28] In addition, and unlike most other proposals, the NCC proposes adjustments to the upland cotton marketing loan program that would make it compatible with World Trade Organization (WTO) domestic support commitments.

The NCC policy proposal, which is directed exclusively toward U.S. upland cotton programs, appears to respond to two factors. The first factor involves current federal budget issues. The second factor motivating the NCC to propose new cotton policy is trade retaliation authority granted to Brazil against the United States by the WTO in a long-running WTO dispute settlement case (DS267) against specific provisions of the U.S. cotton program.[29] Among other things, a WTO dispute settlement panel ruled that U.S. payments to cotton producers under the marketing loan and CCP programs were inconsistent with WTO commitments and should be brought into compliance. To avoid retaliation, the United States signed (June 17, 2010) a framework agreement—the *Framework for a Mutually Agreed Solution to the Cotton Dispute in the WTO (WT/DS267)*—with Brazil. As a result, Brazil has suspended trade retaliation pending U.S. compliance with the framework agreement measures. A key aspect of the framework agreement is quarterly discussions on potential limits of trade-distorting U.S. cotton subsidies (recognizing that actual changes will not occur prior to the 2012 farm bill). These U.S. commitments are intended to delay any trade retaliation until after the 2012 farm bill, when potential changes to U.S. domestic cotton subsidies will be evaluated.

The NCC refers to their proposed revenue-based insurance program as the Stacked Income Protection Plan (STAX).[30] 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.[31] Area-wide policies such as GRIP are generally cheaper than farm-level policies since the risk of

---

[28] "National Cotton Council 2012 Farm Policy Statement," NCC, August 26, 2011, at http://www.cotton.org/news/releases/2011/farmstrat.cfm.

[29] For details of the dispute, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*.

[30] Forest Laws, "NCC advocates change in course on farm policy direction," *Delta Farm Press*, September 6, 2011.

[31] 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.

loss is pooled at a more aggregate level. However, unlike crop insurance, which uses a projected price based on pre-planting time prices for harvest-time futures contracts, the NCC proposal would also include a minimum "fixed reference" price to act as a floor price guarantee when the projected harvest price falls below the fixed reference price.[32] Participation in STAX would be voluntary; however, the NCC proposes that producer premiums be offset to the maximum extent possible by using available upland cotton program spending authority under the DP, CCP, and ACRE programs.

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)[33] 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.[34] The current marketing loan rate for upland cotton is set at 52 cents/lb.

According to the WTO retaliation authority granted Brazil under case DS267, and under the terms of the agreement reached between the United States and Brazil, Brazil retains substantial privileges in determining whether any proposed changes to the U.S. cotton program (including the NCC's proposed changes) would bring U.S. cotton programs into compliance with WTO commitments. A key measure will likely be the extent to which the proposed changes bring the U.S. cotton programs into line with market conditions—a key criterion cited by the WTO dispute settlement panel.

Crop Risk Options Plan or CROP (Representative Neugebauer)

Similar to STAX, the Crop Risk Options Plan (CROP) Act (H.R. 3107) would amend the Federal Crop Insurance Act to enable producers to supplement existing insurance coverage on farm-level yield and loss with additional coverage that uses a county-level trigger to insure crops against shallow losses that are not covered by the individual policies (i.e., the deductible portion). The CROP Act would also change the way RMA determines yield histories, moving from a 10-year average to a 7-year Olympic average.

Farm Financial Safety Net (Crop Insurance Company)

A U.S. crop insurance company has proposed the Farm Financial Safety Net (FFSN).[35] The proposal would eliminate all government commodity programs (except possibly ACRE) and is designed to turn the federal crop insurance program into a more complete farm safety net,

[32] In the examples presented in their proposal, the NCC used a "fixed reference price" of 65 cents per pound.

[33] As part of the upland cotton marketing assistance loan program, USDA calculates and publishes a loan repayment rate, on a weekly basis, known as the adjusted world price. The AWP is the prevailing world price for upland cotton, adjusted to account for U.S. quality and location. Producers who have taken out USDA marketing assistance loans may choose to repay them at either the lesser of the established commodity loan rate for upland cotton, plus interest, or the announced AWP for that week.

[34] According to CRS calculations, during the 15-year period from August 1997 through August 2011, the monthly market price received for upland cotton was below the NCC's proposed marketing loan 38% of the time.

[35] Proposal developed by NAU Country Insurance Company.

primarily by enhancing revenue insurance and offering revenue products for all commodities where feasible.

Revenue insurance is the most popular form of crop insurance. Under revenue insurance programs, participating producers are assigned a target level of revenue for a particular crop based on market (futures) prices immediately prior to planting season and the producer's yield history. A farmer who opts for revenue insurance receives an indemnity payment when his actual farm revenue (typically crop-specific) falls below a certain percentage of the target level of revenue, regardless of whether the shortfall is caused by low harvest prices or low production levels.[36] As such, revenue insurance protects against revenue losses *within* the crop season (i.e., between planting and harvest) and not across seasons. Risk protection across multiple seasons is currently provided by the CCP and ACRE programs.

To protect against more than just within-season price declines, the FFSN would introduce a minimum price into the crop insurance program. The minimum price (e.g., five-year average of crop insurance projected prices times 80%) would substitute for the projected price in an insurance guarantee when the projected price is below the minimum. The additional cost of this liability would be paid with higher insurance premiums (paid by farmers and the government). Proponents of the proposal suggest that such minimums could replace the need for loan rate (and marketing loan benefits) or counter-cyclical payments. They say the impact on premiums would be minimal because potential losses for the government and insurance companies would be kept in check by the possibility that farm revenue may be little changed if higher yields offset lower prices.

The FFSN would also alter how individual farmers' APH yields are determined so that they better reflect expected yields, a change proponents say is needed for crop insurance to become a true safety net. Currently, the APH calculation uses 10 years of historical data, which may include multiple years of poor weather, possibly overstating the likelihood of re-occurrence and depressing protection levels. The new approach would exclude some low-yield years in the calculation when certain conditions are met.

As a replacement for SURE and to address the issue of "shallow losses" (those paid by the producer through the policy deductible), farmers would be given added revenue coverage on each policy that is 5% greater than their purchased coverage. For example, a farmer who purchases 75% coverage (i.e., 25% deductible) and pays the premium rate for 75% coverage level would be given an additional coverage of 5%, or 80% total coverage.

In an attempt to make crop insurance more affordable in all areas and for crops where it is not popular, the proposal would limit the farmer-paid premium to only 15% of total dollars of coverage for an enterprise unit (i.e., an insured area covering all land of a single crop farmed by a producer in a specific county). Producer subsidy levels would increase only for those producers affected by the 15% maximum. The proposal would essentially shift the entire farm safety net to the crop insurance program.

[36] Another major type of crop insurance is the yield-based policy, whereby a producer receives an indemnity if there is a yield loss relative to the farmer's historical yield (actual production history or APH).

Group IV: Whole Farm Revenue Insurance

Several proposals advocate the use of whole farm insurance, which protects against declines in a farm's entire revenue and not individual crop revenues. For example, an expansion of whole-farm insurance is included in S. 1658/H.R. 3111, the Rural Economic Farm and Ranch Sustainability and Hunger Act of 2011 (see section on "REFRESH (Senator Lugar and Representative Stutzman)").

Currently, USDA offers whole farm revenue insurance in selected states through the Adjusted Gross Revenue (AGR) and AGR-Lite policies. A loss payment is triggered when the gross income for an entire farm (all crop and livestock revenue) is less than the approved income (based on the five-year average and the current year farm plan). Coverage is available for up to 80% of guaranteed income.[37]

U.S. Agriculture and Nutrition Policy Statement (Chicago Council on Global Affairs)

The Chicago Council on Global Affairs, an independent international affairs organization, recommends merging all farm commodity support programs and crop insurance subsidies into a single whole-farm revenue insurance program.[38] The council states that whole-farm revenue plans are less expensive to taxpayers than traditional support programs. Researchers have pointed out, though, the difficulty in developing whole-farm insurance products, including complexity in measuring and classifying risks that underlie the insurance contracts.[39] The data needs can also be substantial, which can hamper farmer participation. According to the organization, the proposed changes to the safety net would save $2.5 billion per year.

Local Farms, Food, and Jobs Act (Representative Pingree and Senator Brown)

The Local Farms, Food, and Jobs Act of 2011 (H.R. 3286/S. 1773) was introduced in early November 2011 by Representative Pingree and Senator Brown. The bill would require the Federal Crop Insurance Corporation to offer nationwide a whole farm revenue risk plan that allows a producer to qualify for an indemnity if actual gross farm revenue is below 85% of the average gross farm revenue of the producer. Producers of any type of agricultural commodity would be eligible. In addition, coverage is to include the value of any packing, packaging, labeling, washing or other on-farm activities needed to facilitate sale of the commodity. The bill also would eliminate premium surcharges on insurance policies for organic crops and offer insurance at actual price levels received by growers for all organic crops produced in compliance with standards issued by USDA.

---

[37] USDA/Risk Management Agency, *Adjusted Gross Revenue-Lite*, Program Aid 1907, Washington, DC, November 2010, http://www.rma.usda.gov/pubs/rme/agr-lite.pdf.

[38] The Chicago Council on Global Affairs, *U.S. Agriculture and Nutrition Policy Statement: Transforming American Food and Agriculture Policy*, September 23, 2011, http://farmpolicy.com/wp-content/uploads/2011/11/FarmBill-ChicagoCouncil.pdf.

[39] Robert Dismukes and Ron L. Durst , *Whole-Farm Approaches to a Safety Net*, USDA/Economic Research Service, EIB-15, Washington, DC, June 2006, http://www.ers.usda.gov/publications/EIB15/.

Group V: Other Proposals

Farmer-Owned Reserves (National Farmers Union)

On September 13, 2011, the National Farmers Union (NFU) unveiled a study by the University of Tennessee of an alternative farm policy proposal that would replace the existing farm programs—direct payments, counter-cyclical payments, and the marketing loan benefits program—with a combination of farmer-owned reserves, increased loan rates, and set-asides.[40] The stated goal of the proposed program is to provide an effective safety net for family farmers, improve the efficiency of existing programs, and reduce overall costs.

In the newly released study, the NFU proposal is analyzed for the major program crops—for example, corn, soybeans, wheat, rice, barley, sorghum, and oats—over the recent 13-year period of 1998 through 2010. Key elements of the NFU proposal include the following. Direct payments, along with the marketing loan and counter-cyclical payment programs, are eliminated. A farmer-owned reserve (FOR) is established for each of the major program crops. Producers may elect to place their holdings in a crop's FOR whenever the market price falls below the loan rate for that crop.

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, facilitating the arbitrage of crops to the most profitable mix for each farm, with minimal influence from the loan rate. Farmers are free to select their mix of crops based on the profitability of the crops.

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. Commodity payments would only be paid for quantities actually placed in the reserve and not for every bushel produced, as in the case of the current marketing loan program. As a result, the level of government payments is significantly reduced.

Each crop's FOR is capped: corn at 3 million bushels, wheat at 800 million bushels, soybeans at 400 million bushels, etc. A crop placed in the FOR must remain there until its market price exceeds 160% of its loan rate (referred to as the FOR release trigger), when it is released to the market. 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.

[40] NFU News Release, "NFU Unveils Study to Present Policy Options to Reduce Farm Bill Costs," September 13, 2011, at http://nfu.org/news/current-news. Key study findings and URL links to the study are available at http://www.nfu.org/study.

The farm-level set-aside is based on whole-farm acreage and not allocated crop-by-crop as in the past. Set-asides would be allocated at the county level, and farmers would have the opportunity to bid acreage into the set-aside. Participation in the set-aside by any given farmer would not be mandatory, but all farmers would have the opportunity to offer a bid on acreage they would be willing to put in the set-aside. As in the past, farmers would be required to maintain an appropriate cover crop on the land.

According to the study results, 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. Study results found that government payments for crops during the 13-year study period (1998 to 2010) would have been $95.8 billion under the FOR program proposal—40% less than the actual $152.2 billion spent under existing programs; the value of U.S. crop exports would have been $4.9 billion higher, and crop prices would have averaged substantially higher including $0.26 per bushel for corn, $0.48 for wheat, and $1.09 for soybeans. The value of crop production would have averaged slightly lower by about $2.6 billion annually.

Proposed Dairy Legislation

In the 112th Congress, several Members have introduced legislation for alternatives to current federal dairy programs, which expire in 2012. Proposed dairy legislation has the potential to eliminate some dairy programs, modify others, or replace them with a new approach to dairy farm support. For example, the Dairy Security Act of 2011 (H.R. 3062) was introduced in September 2011 by Representative Peterson and others.[41] The bill parallels a concept developed by the National Milk Producers Federation as an alternative to current dairy programs that critics say have not provided an adequate safety net for dairy producers. Alternative proposals were subsequently introduced, including S. 1714, S. 1715, S. 1682, and S. 1640. These bills are described in CRS Report R42065, *Dairy Farm Support: Legislative Proposals in the 112th Congress*.

Environmental Working Group (EWG) Proposal

The Environmental Working Group (EWG), a nonprofit advocacy group that has long sought changes in U.S. farm policy, issued a set of recommendations in early November 2011.[42] 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

---

[41] House Committee on Agriculture Press Release, "Peterson, Simpson Introduce The Dairy Security Act of 2011," September 23, 2011, at http://democrats.agriculture.house.gov/press/PRArticle.aspx?NewsID=1126. The bill consists of three components—a Dairy Producer Margin Protection Program, a Dairy Market Stabilization Program, and reforms to the Federal Milk Marketing Order system. Dairy producers would have the option to sign up for the margin program, which would make payments to producers when the gap ("margin") between milk prices and feed costs drops below certain levels. Producers that sign up for the margin program would then automatically be enrolled in the stabilization program, which is designed to discourage milk production for program participants (and raise overall milk prices). When the stabilization program is activated during times of low margins, participating producers receive payment on only a portion of their base (historical) milk marketings. Under the bill, current dairy programs would be eliminated, including the Dairy Product Price Support Program (DPPSP), Milk Income Loss Contract (MILC) program, and Dairy Export Incentive Program (DEIP).

[42] 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.

such as bad weather, which is unique to agriculture. EWG proposes replacing current farm commodity programs and crop insurance subsidies with a free crop insurance policy that covers yield losses of more than 30%. Revenue insurance policies and additional yield coverage would be available from private companies, but would not be federally subsidized. EWG expects a total savings of $80 billion over 10 years.

California Recommendations (Coalition of CA Agricultural Interests)

In value terms, California is the largest, most diversified agricultural producer state in the nation. As a result, California agricultural interests wanted to formally express their concern that a new farm bill should better reflect that diversity. This request for a more diversified farm bill was formally promulgated by the October 14, 2011, submission of a California farm policy proposal to the joint committee.[43] The California proposal includes over 70 specific recommendations involving funding and new program development in the areas of (1) plant and animal health and safety, (2) specialty crop promotion, (3) environment and natural resource protection, (4) improving public health and nutrition, (5) rural development, (6) research and education, (7) international market development, (8) farm and ranch safety net, (9) organic agriculture, and (10) ensuring that all farmers and ranchers have access to farm bill programs.

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 cut 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. Whole-farm revenue insurance has also been proposed.

Many of these proposals were unveiled in fall 2011 as the Joint Committee on Deficit Reduction began its deliberations on government-wide budget cuts. The proposals may represent a starting point for developing the next installment of farm programs when the 2008 farm bill expires in 2012.

[43] "California and the Farm Bill: A Vision for Farming in the 21st Century," California Department of Food and Agriculture, October 14, 2011, at http://www.cdfa.ca.gov/farm_bill/pdfs/FarmBillCof12.pdf.

Appendix. Joint Select Committee on Deficit Reduction and Agriculture Policy

The Joint Select Committee on Deficit Reduction (or joint committee) was instructed to develop a bill to reduce the federal deficit by at least $1.2 trillion over the 10-year period ending in FY2021.[44] The committee was established under the Budget Control Act of 2011 (BCA; P.L. 112-25). Because of its authority, the joint committee's budget recommendations had potential to significantly affect the development of the next farm bill.

Legislative Process and Timeline of Joint Committee

Any legislation resulting from the joint committee recommendations was to proceed under special "fast track" procedures that would prevent amendments and limit debate. The BCA allowed both chambers of Congress to pass the original legislation reported by the joint committee with no amendments on a simple majority vote. For the proposal to be considered under the special, expedited procedures, however, it had to be approved by the joint committee by November 23, 2011. Leaders of the joint committee declared an impasse on November 21, 2011, and ended their efforts without passing a bill.

A simple majority of the 12 members would have sufficed to move the bill to both chambers for an up or down vote. Ultimately, to become law, the joint committee's bill was required to be passed by both chambers of Congress by December 23, 2011. If a joint committee proposal cutting the deficit by at least $1.2 trillion was not enacted by January 15, 2012, then an automatic spending reduction process that includes sequestration (the cancellation of budgetary resources) would ensue. Congressional committees whose jurisdiction was likely to be impacted by a joint committee proposal—for example, the House and Senate Agriculture Committees—were free to submit their own recommendations to the joint committee. However, no specific policy restrictions or requirements were placed on the joint committee. Hence, it was under no formal obligation to incorporate any recommended actions.

House and Senate Agriculture Committees' Letter to the Joint Committee

On October 17, 2011, the leadership of the House and Senate Agriculture Committees[45] offered a letter to the joint committee recommending $23 billion in net deficit reduction from mandatory programs in the agriculture committees' jurisdiction.[46] The unofficial consensus of those claiming to have knowledge of committee intentions was that the $23 billion would be allocated by cutting $13 billion from commodity support, $6 billion from conservation, and $4 billion from nutrition programs.[47] The leadership's letter also said that they were finalizing the specific farm policies

[44] See CRS Report R41965, *The Budget Control Act of 2011*.

[45] House Agriculture Committee Chairman Frank Lucas and Ranking Member Collin Peterson; Senate Agriculture Committee Chairwoman Debbie Stabenow and Ranking Member Pat Roberts.

[46] "Senate and House Agriculture Committees Offer Bipartisan, Bicameral Recommendations for Deficit Reduction to the Joint Committee," October 17, 2011; at http://ag.senate.gov/newsroom/press/release/senate-and-house-agriculture-committees-offer-bipartisan-bicameral-recommendations-for-deficit-reduction-to-the-joint-committee.

[47] "Conrad: Farm Bill Content Now Moving Target," *Hagstrom Report*, Vol. 1, No. 206, November 8, 2011, at http://www.hagstromreport.com.

that would achieve the $23 billion in deficit reduction and that a complete legislative package would be provided by November 1, 2011. However, no legislative package was forwarded by the agriculture committee leadership to the joint committee. According to news sources, regional differences over the potential "farm safety net" design appeared to be the most prominent obstacle to an agreement among agricultural policymakers.[48] On November 21, 2011, the chairs of the House and Senate Agricultural Committees announced that they had developed a package to save $23 billion, but because the Joint Committee failed to reach an overall agreement, their effort on the package had ended. The agriculture committee leadership is expected to continue the process of reauthorizing the farm bill through the agriculture committees.[49]

Concerns with the Joint Committee Fast-Track Process

Given the 10-year time frame of the joint committee's budget recommendations, many within the broader U.S. agricultural community were concerned that the joint committee's budget recommendations (whether influenced by the agriculture committee leadership's proposal or not) would have provided the framework for the next farm bill, thus precluding the full congressional debate that traditionally underlies the development of U.S. farm policy. As a result, certain agriculture-related interest groups—such as nutrition, agricultural research, renewable energy, rural development, and conservation—feared that they would be shut out of the process.

After the House and Senate Agriculture Committee leadership issued its October 17 letter to the joint committee, Members of Congress, the news media, and several issue-specific advocacy groups spoke out against the "secret nature" of the leadership's policy recommendations and the joint committee's fast-track process, which they said circumvented the traditional open debate of farm policy legislation. On November 3, 2011, Congressman Kind delivered a letter to the joint committee—co-signed by 26 other members of Congress and endorsed by several advocacy groups—urging it to "resist any attempt to use the expedited deficit reduction process to create new farm bill programs and entitlements that have not been reviewed by the Congress."[50]

Draft Proposal

On November 18, 2011, the press reported on a draft proposal of farm bill recommendations.[51] The document was subsequently described in the press as a preliminary draft under discussion by some but not all members of the agriculture committees' leadership. In the absence of action by the joint committee, proposals in draft might be considered in farm bill deliberations in 2012.

---

[48] "Still No Farm Bill Language for Lawmakers," Chris Clayton, DTN Ag Policy Editor, November 8, 2011.

[49] House & Senate Agriculture Committee Leaders , "Statement from House & Senate Agriculture Committee Leaders on Super Committee's Announcement," press release, November 21, 2011, http://agriculture.house.gov/press/PRArticle.aspx?NewsID=1481.

[50] Available at http://kind.house.gov/uploads/11.3.11_%20Letter%20to%20SC_farm%20programs.pdf.

[51] Senator Debbie Stabenow, Chairwoman, Senate Committee on Agriculture, Nutrition, and Forestry, draft paper on "Recommendations to the Joint Select Committee on Deficit Reduction." The paper was widely circulated by the press on November 18, 2011.

The draft borrowed heavily from proposals by Members of Congress and others. The draft contained multiple titles, including a proposal for the farm safety net. Legislative language was not released, which precludes a detailed description of the plan.

In broad terms, the proposal would have eliminated most of the current farm programs (except marketing loans) and replaced them with the Ag Risk Coverage (ARC) program as a free supplement to subsidized crop insurance coverage. Producers of most program crops (except cotton) would select one of the following two options.

- The revenue option is designed to protect against both yield and price declines at the farm level (compared with the state level under the current ACRE program). A payment would be made on 60% of planted acreage when a producer's farm revenue (yield times price) drops below 87% of the farm's five-year average (excluding the high and low years). Losses below 75% of farm revenue would not be covered (crop insurance, if purchased by producers, would cover these losses). Reportedly, the revenue option would be attractive to producers in the Midwest and Plains because it would build on what many consider favorable benefits from the crop insurance program for corn, soybeans, and wheat.
- The price option would make payments on planted acreage to producers when the national average price during the first five months of the marketing year drops below a reference (target) price. This option is similar to counter-cyclical payments under the 2008 farm bill, except that price protection would be higher than current levels. Reportedly, the price option is designed to be attractive to rice, peanut, and sorghum producers because crop insurance has been viewed as less attractive for these crops.

Cotton would be handled separately in an attempt to resolved a long-standing trade conflict with Brazil under the World Trade Organization. The draft described the new cotton program as a stand-alone revenue protection program. Cotton producers have been advocating a separate county-based insurance program (see "Stacked Income Protection Plan or STAX (National Cotton Council).")

For specialty crops, crop insurance coverage would be expanded. For dairy, current programs would be replaced with a new margin-based payment program, combined with provisions to reduce farm output when margins (milk price minus feed costs) decline.

Author Contact Information

Dennis A. Shields
Specialist in Agricultural Policy
dshields@crs.loc.gov, 7-9051

Randy Schnepf
Specialist in Agricultural Policy
rschnepf@crs.loc.gov, 7-4277