Farm Safety Net Provisions in a 2012 Farm Bill: S. 3240 and H.R. 6083

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September 28, 2012

Congressional Research Service
7-5700
www.crs.gov
R42759

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

The farm commodity provisions of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246, the 2008 farm bill) expire with the 2012 crop year. Consequently, the 112th Congress has been considering an omnibus farm bill that would establish the direction of agricultural policy for the next five years. The Senate passed its version of the new farm bill (S. 3240) on June 21, 2012, and the House Committee on Agriculture passed its version (H.R. 6083) on July 11, 2012.

Both bills would reshape the structure of farm commodity support, reauthorize several disaster programs, and expand coverage under the federal crop insurance program. These three areas of federal support for farmers are often collectively called the “farm safety net.” Commodity programs under the 2008 farm bill cover only crops harvested in 2008 through 2012, while the federal crop insurance program is permanently authorized under the Federal Crop Insurance Act of 1980. Five disaster assistance programs under the 2008 farm bill expired on September 30, 2011, which has concerned some policymakers given widespread drought in 2012.

Under both the Senate-passed (S. 3240) and the House Agriculture Committee-reported (H.R. 6083) farm bills, farm support for traditional program crops is restructured by eliminating direct payments, the existing counter-cyclical price program, and the Average Crop Revenue Election (ACRE) program. Direct payments—made to producers and landowners based on historical production and fixed payment rates for corn, wheat, soybeans, cotton, rice, peanuts, and other “covered” crops—have accounted for most farm program spending in recent years. Authority is continued for marketing assistance loans, which provide additional low-price protection at “loan rates” specified in current law (with an adjustment made to the cotton loan rate).

In both bills, more than two-thirds of the 10-year, $50 billion in savings associated with the proposed elimination of direct payments (as estimated by the Congressional Budget Office) would be used to offset the costs of revising farm programs and reauthorizing four disaster programs (Title I), and enhancing crop insurance (Title XI). The two titles account for a combined $14.7 billion savings over 10 years in the Senate bill (of $23.1 billion in total savings across all titles) and $14.1 billion in the House committee bill (of $35.1 billion total savings). Proponents are attempting to address the issue of “shallow losses”—crop losses not covered currently by crop insurance—as well as provide disaster assistance for livestock producers.

For commodity programs, H.R. 6083 retains a producer choice between two counter-cyclical programs—the price-based Price Loss Coverage (PLC) and the revenue-based Revenue Loss Coverage (RLC). Both programs are counter-cyclical in the sense that payments increase as prices or revenue fall below a reference price or historical average revenue. Some producers favor PLC because price protection is set in statute. As an alternative, RLC is considered a “shallow loss” program based on historical revenue and designed to reimburse farmers for some of the crop revenue losses not covered by federally subsidized crop insurance (i.e., an insured’s deductible).

In contrast to H.R. 6083, the Senate bill provides for a single, revenue-based Agriculture Risk Coverage (ARC) program, which is similar to RLC but offers a slightly higher guarantee, plus an option for farmers to select coverage at either the county or individual farm level. Producers absorb the first 11% of the revenue shortfall (15% in RLC); the government pays for the next 10 percentage points of loss; remaining losses are backstopped by crop insurance. The Senate bill does not contain a counter-cyclical price program because, according to critics, fixed parameters can result in acreage shifting toward crops with more attractive program benefits.

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Introduction

The farm commodity provisions of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246, the 2008 farm bill) expire with the 2012 crop year. Consequently, the 112th Congress has been considering an omnibus farm bill that would establish the direction of agricultural policy for the next five years. The Senate passed its version of the new farm bill (S. 3240) on June 21, 2012, by a vote of 64-35. The House Committee on Agriculture passed its version (H.R. 6083) on July 11, 2012, by a vote of 35-11.

This report compares the so-called "farm safety net" provisions in the two bills. The broader farming community uses the term farm safety net to refer to the combination of (1) farm commodity price and income support programs in the 2008 farm bill, (2) federal crop insurance (permanently authorized) under the Federal Crop Insurance Act of 1980, and (3) five disaster assistance programs in the 2008 farm bill, which expired on September 30, 2011.

Title I of both versions of the farm bill contains commodity and disaster program provisions, and Title XI modifies the current crop insurance program. Both bills would reshape the structure of farm commodity support, reauthorize several disaster programs, and expand crop insurance coverage. Additional background on proposals and issues that shaped the two bills appears in CRS Report R42040, *Farm Safety Net Proposals in the 112th Congress*. That report also describes current farm safety net programs authorized under the 2008 farm bill.

Overview

Under both the Senate-passed (S. 3240) and House Agriculture Committee-reported (H.R. 6083) farm bills, farm support for traditional program crops is restructured by eliminating direct payments, the existing counter-cyclical price program, and the Average Crop Revenue Election (ACRE) program. Direct payments—made to producers and landowners based on historical production and fixed payment rates for corn, wheat, soybeans, cotton, rice, peanuts, and other "covered" crops—have accounted for most farm program spending in recent years. Authority is continued for marketing assistance loans, which provide additional low-price protection at "loan rates" specified in current law (with an adjustment made to the cotton loan rate).

In both bills, more than two-thirds of the 10-year, $50 billion in savings associated with the proposed elimination of direct payments (estimated by the Congressional Budget Office) would be used to offset the costs of revising farm programs in Title I, reauthorizing four of the five expired disaster programs in Title I, and enhancing crop insurance in Title XI. The two titles account for a combined $14.7 billion savings over 10 years in the Senate bill (of $23.1 billion in total savings across all titles) and $14.1 billion in the House committee bill (of $35.1 billion). These titles address the issue of "shallow losses" (losses incurred by crop producers that are not covered currently by crop insurance) and provide disaster assistance for livestock producers.

Figure 1 summarizes major provisions in Titles I and XI of the two bills. A comprehensive, section-by-section comparison is available in CRS Report R42552, *The 2012 Farm Bill: A Comparison of Senate-Passed S. 3240 and the House Agriculture Committee's H.R. 6083 with Current Law*.

Figure 1. 2012 Farm Bill: Selected Provisions from Title I (Commodity Programs) and Title XI (Crop Insurance) in S. 3240 and H.R. 6083

Both Bills Eliminate: Direct Payments, Counter-Cyclical Payments (target prices), Average Crop Revenue Election (ACRE), and current dairy programs (except milk marketing orders and import quotas).

Commodity Programs	Marketing Assistance Loan Program	Continue interim financing and minimum prices for program crop producers with no change in loan rates, except cotton, which can decline to $0.47/lb.
	H.R. 6083 Farmer chooses between Price Loss Coverage (PLC) and Revenue Loss Coverage (RLC)	For crop years 2013-2017, retains producer choice between a counter-cyclical price program (Price Loss Coverage or PLC) and a revenue program (Revenue Loss Coverage or RLC). PLC makes payments to farmers when the actual farm price is below the reference price. Program yields may be updated. As an alternative to PLC, RLC makes payments for each planted crop when actual countywide crop revenue is below 85% of historical revenue (i.e., the producer absorbs the first 15% of the shortfall). The government then pays for the next 10% of the loss. Remaining losses are backstopped by crop insurance if purchased by the producer. Reference prices are used as minimums in revenue guarantee.
	S. 3240 Ag Risk Coverage (ARC) Farmer chooses between county and farm guarantee	For crop years 2013-2017, provides for a revised revenue program called Agriculture Risk Coverage or ARC (and no price program). ARC has a slightly higher revenue guarantee than RLC, plus offers producers an option to select coverage at either the county or individual farm level (to cover localized losses). The revenue guarantee is set at 89% of historical revenue (i.e., the producer absorbs the first 11% of the shortfall compared with 15% above). As in H.R. 6083, the government then pays for the next 10% of the loss. Any remaining losses are backstopped by crop insurance if purchased as sufficient coverage levels by producers.
	Covered commodities	Wheat, corn, grain sorghum, barley, oats, long grain rice, medium grain rice, pulse crops (dry peas, lentils, small chickpeas, and large chickpeas), soybeans, other oilseeds, and peanuts. Upland cotton is not included (see STAX below).
Crop Insurance	Supplemental Coverage Option (SCO) for all crops	Under both bills, SCO is made available to crop producers as an additional policy to cover part of the deductible under the producer's underlying policy. SCO is an area-wide (county) yield or revenue loss policy, whereby an indemnity is paid on area losses greater than 10% of normal level and not more than the deductible (e.g., 25%) selected by the producer in the underlying individual policy. County-based SCO policies are to be made available for all crops if sufficient data are available. Premium subsidized at 70%. Under H.R. 6083, SCO is not available with RLC or STAX.
	Stacked Income Protection (STAX) for upland cotton	STAX is made available in both bills to upland cotton producers as a revenue-based, area-wide policy that may be purchased as a stand-alone policy or purchased as an additional policy. Indemnifies losses in county revenue of greater than 10% of expected revenue but not more than the deductible level (e.g., 25%) in the underlying individual policy (or not more than 30% if used as stand-alone policy). Premium subsidy is 80%. H.R. 6083 specifies a minimum price of $0.6861 per pound used in the insurance guarantee calculation; none specified in S. 3240.
	Other Crop Insurance Changes	Both bills mandate revenue insurance for peanuts and research on whole farm insurance with a guarantee of 85% of gross farm revenue (up from current 80%). Require any savings under renegotiation of Standard Reinsurance Agreement to be reinvested in the program.
Sugar, Dairy, & Disaster	Sugar Program	Both bills continue sugar program, including nonrecourse loans (price guarantee for refined beet sugar/raw cane sugar) and marketing allotments (limits on sales of domestically produced sugar).
	Dairy Program	In both bills, the Dairy Margin Protection Program makes payments to participating dairy producers when the national margin (farm milk price minus feed costs) drops below $4 per hundredweight, with coverage at higher margins available for purchase. Only participating producers would be subject to the Dairy Market Stabilization Program, which reduces incentives to produce when margins are low. During program activation, producers keep between 96% and 98% of their individual market revenue if farm production exceeds a portion of farm base, with the balance used by USDA to purchase dairy products for donation or for expanding consumption.
	Disaster Program	Both bills reauthorize four expired disaster programs for FY2012-2017. Livestock Indemnity Program (LIP); Livestock Forage Program (LFP); Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP); and Tree Assistance Program (TAP). Not reauthorized: Supplemental Revenue Assistance Payments (SURE).

Source: CRS Report R42552, *The 2012 Farm Bill: A Comparison of Senate-Passed S. 3240 and the House Agriculture Committee's H.R. 6083 with Current Law.*

Farm Commodity Program Revisions

Both H.R. 6083 and S. 3240 would eliminate direct payments. They also borrow conceptually from current farm commodity programs, namely the revision (and renaming) of 2008 farm bill price and/or revenue programs designed to enhance risk protection for producers of "covered" crops. Brief descriptions of the proposed programs are below. See **Figure 2** for a detailed program payment calculation inferred from each bill. Producers would not pay any fees for participating, unlike the federal crop insurance program, which offers subsidized policies to producers of a wide variety of crops.

H.R. 6083: Choice of Price Loss Coverage (PLC) or Revenue Loss Coverage (RLC)

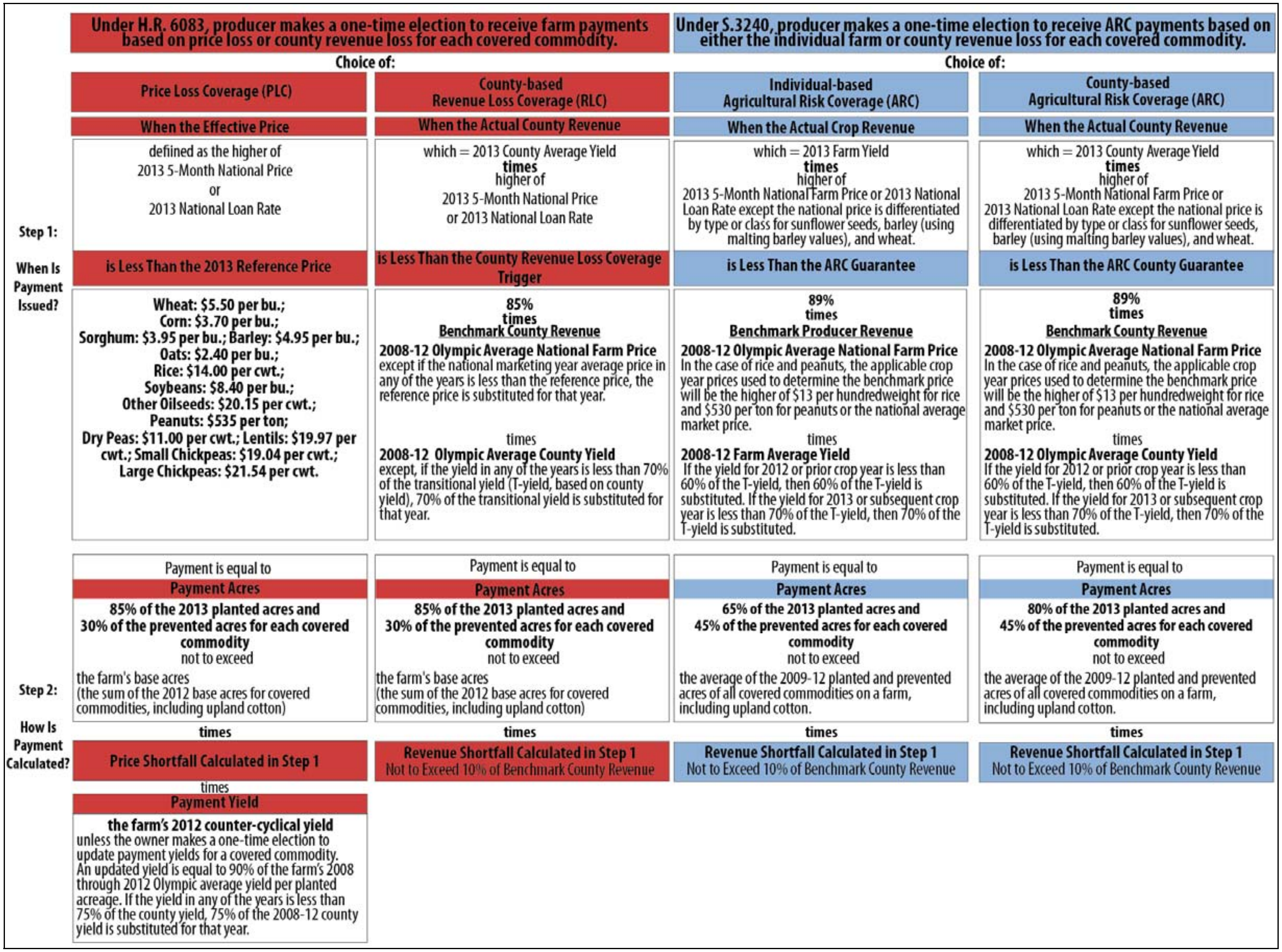
The House committee bill is similar to the current mix of farm programs for crop years 2013-2017 in that it retains a producer choice between two counter-cyclical programs—the price-based Price Loss Coverage (PLC) and the revenue-based Revenue Loss Coverage (RLC). These programs are designed to provide subsidies to producers of covered commodities when they suffer from declines in prices or revenue (price times yield). Both programs are counter-cyclical in the sense that payments increase as prices or revenue fall below a reference price or historical average revenue.

Covered commodities are wheat, oats, barley, corn, grain sorghum, long grain rice, medium grain rice, pulse crops (dry peas, lentils, small chickpeas, and large chickpeas), soybeans, other oilseeds, and peanuts. Cotton is not included as a program commodity; it is covered instead by a new insurance product (see "Stacked Income Protection Plan (STAX)").

PLC provides price protection relative to "reference prices." This program uses the same concept as the Counter-Cyclical Program (CCP) authorized in the 2008 farm bill. The payment rate is the difference between a "reference price" and the national midseason (five-month average) market price or loan rate, if higher. Commodity groups representing rice and peanut producers led efforts to retain a reference price option as part of the overall farm program because they prefer price protection by establishing statutory minimum price support rather than revenue protection (based on historical prices) that can decline over time and erode the safety net. Importantly, to better protect producers in a price downturn, the price guarantees that determine payment levels are increased from those in the current program (i.e., target prices). Also, producers may update payment yields (average yield per planted acre during 2008-2012, excluding high and low, times 90%).

Instead of PLC, producers could select RLC, which is considered a "shallow loss" farm program designed to reimburse farmers for some crop revenue losses not covered by federally subsidized crop insurance (i.e., an insured's deductible). RLC makes payments to producers for each covered commodity when actual countywide crop revenue is below 85% of historical revenue (i.e., the producer absorbs the first 15% of the shortfall). The government then pays for the next 10% of the loss. Remaining losses are backstopped by crop insurance if purchased at sufficient coverage levels by the producer. The RLC guarantee is based on county yields, possibly making local farm losses more likely to be covered than under the current Average Crop Revenue Election (ACRE) program under the 2008 farm bill. ACRE is state-based and can therefore trigger payments less frequently (large losses in one area can be offset by gains in another part).

Figure 2. Farm Programs Under H.R. 6083 and S. 3240



Source: CRS, based on diagram originally prepared by USDA.

Notes: Example is for 2013 crop year. Olympic average excludes the high and low data points. Covered commodities are wheat, corn, grain sorghum, barley, oats, long grain rice, medium grain rice, pulse crops (dry peas, lentils, small chickpeas, and large chickpeas), soybeans, other oilseeds, and peanuts.

A major distinction between RLC and producer-purchased crop insurance is that the price component for the RLC guarantee is based on deviations from five-year historical crop prices (subject to reference prices used in the PLC program, which serve as minimums), while crop insurance is based on expected market prices for the upcoming season. Consequently, RLC can provide a revenue guarantee that is higher than available through crop insurance if historical prices are high relative to expected market prices.

S. 3240: Agriculture Risk Coverage (ARC)

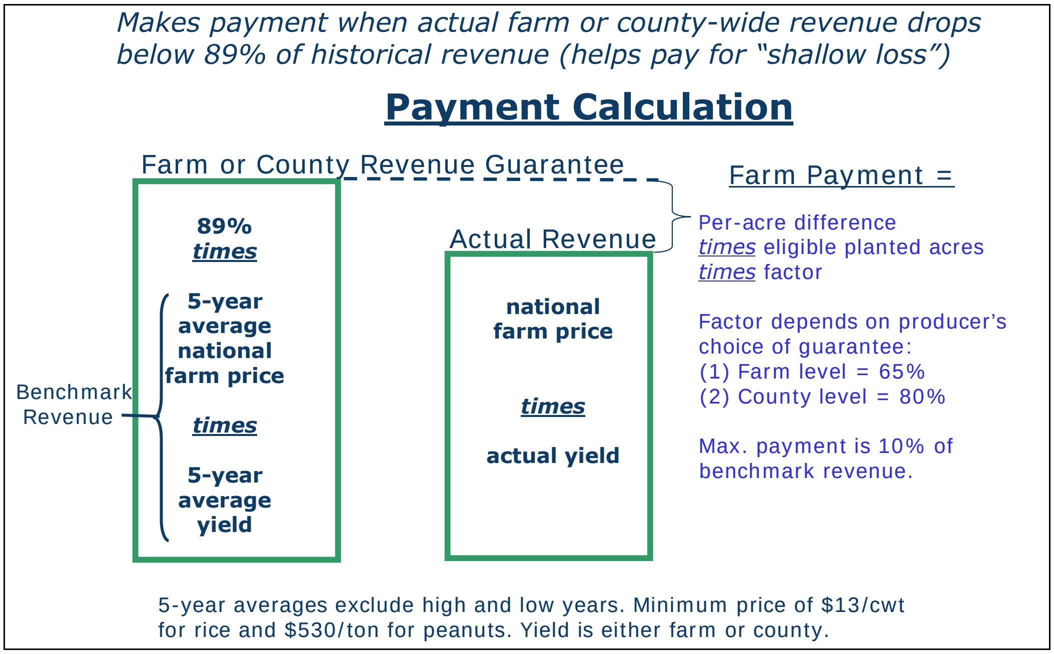
In contrast to the House committee bill, the Senate bill provides for a single, revised revenue program called Agriculture Risk Coverage (ARC). It is similar to RLC but offers a slightly higher guarantee than in the House committee bill, plus an option for farmers to select coverage at either the county or individual farm level (the House committee bill has county-level coverage). S. 3240 has no provision for a counter-cyclical "reference" price program as under current law and provided in H.R. 6083, but the benchmark price used to calculate the ARC guarantee for rice and peanuts cannot be less than $13 per hundredweight and $530 per ton, respectively.[1]

During the farm bill debate, some farmers have called for more localized coverage for the program, and thus the option for the guarantee to be based on either county or farm yields rather than state yields as provided by the Average Crop Revenue Election (ACRE) program. If enacted, ARC would be available for crop years 2013-2017 for the same crops as those under the direct payment program (except cotton). As with the House committee bill, upland cotton is not covered under ARC but is eligible for a separate newly proposed program called the Stacked Income Protection Plan (STAX).

ARC would make payments on a portion of planted acres when actual crop revenue ($ per acre) is below 89% of benchmark (historical) revenue (compared with 85% in the House committee bill). As a result, the producer absorbs the first 11% of the revenue shortfall. The government then pays for the next 10 percentage points of loss. Remaining losses are backstopped by crop insurance if purchased at sufficient coverage levels by the producer. See **Figure 3** and **Figure 4** for a conceptual illustration and hypothetical example.

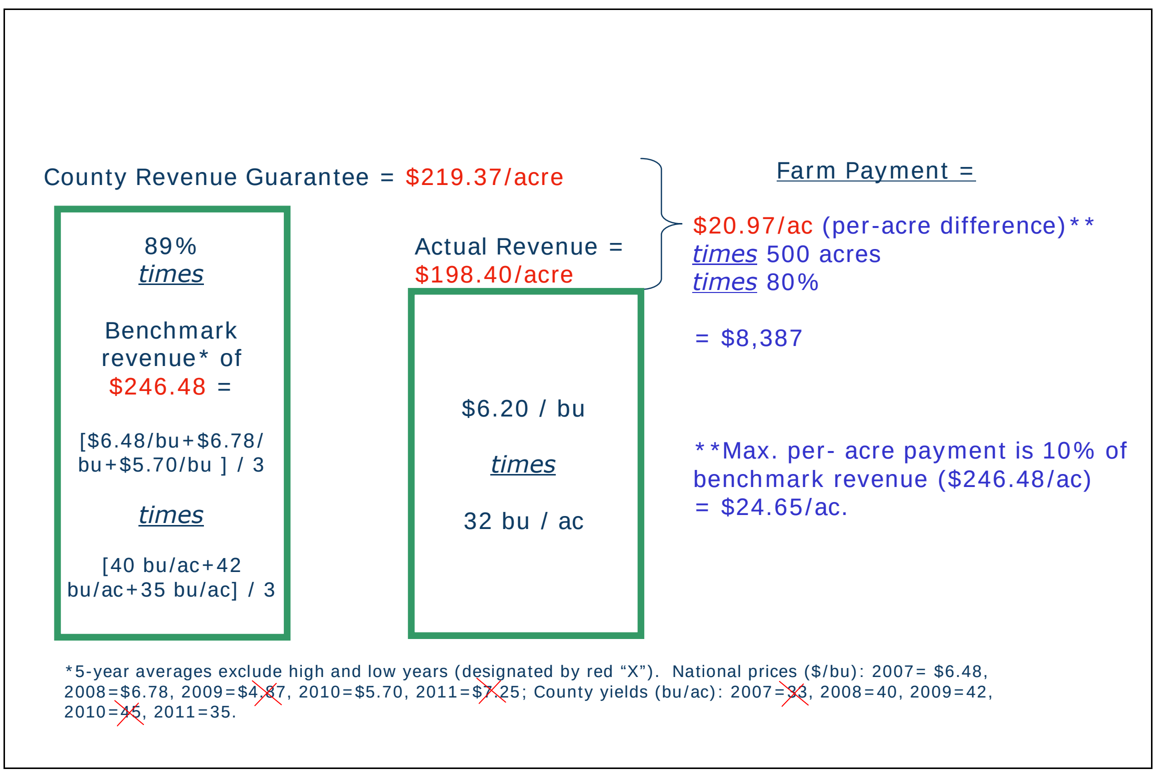
[1] The benchmark price is the five-year simple average of the most recent national average market prices, excluding the high and low prices. For rice and peanuts, the benchmark price is the higher of the national average market price or $13.00 per hundredweight for rice and $530 per ton for peanuts.

Figure 3. Agriculture Risk Coverage (ARC)



Source: CRS.

Figure 4. ARC Payment Under County Option: Kansas Wheat Example



Source: CRS.

Crop Insurance Enhancements

The federal crop insurance program makes available subsidized crop insurance to producers who purchase a policy to protect against individual farm losses in yield, crop revenue, or whole farm revenue. The program is permanently authorized by the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.) but is often modified in farm bills.

In contrast to farm programs in Title I, where spending is reduced substantially, both versions of the bill increase funding for crop insurance (Title XI) relative to baseline levels. Crop insurance baseline funding for 2013-2022 is estimated by CBO at $89.8 billion.[2] H.R. 6083 would increase spending by $9.5 billion over the period and S. 3240 would increase spending by $4.7 billion, according to CBO projections. Two new insurance products—Supplemental Coverage Option (SCO) and the Stacked Income Protection Plan (STAX) for cotton—account for most of the additional cost. (The CBO score for each major provision appears in **Table 2** below).

Many of the provisions of Title XI are very similar in both bills. A major exception is a provision in S. 3240, which was adopted as a floor amendment, that reduces crop insurance premium subsidies by 15 percentage points for producers with average adjusted gross income greater than $750,000. (The average government subsidy for crop insurance premiums was 62% in 2011.) For details on all sections, see CRS Report R42552, *The 2012 Farm Bill: A Comparison of Senate-Passed S. 3240 and the House Agriculture Committee's H.R. 6083 with Current Law*.

Supplemental Coverage Option (SCO)

Under both bills, a new crop insurance policy is authorized to address the issue of "shallow losses," or losses incurred by producers but not covered currently by crop insurance. The Supplemental Coverage Option (SCO) would be available for purchase by crop producers as an additional policy to cover part of the deductible under the producer's underlying policy. SCO is an area-wide (e.g., county) yield or revenue loss policy, whereby an indemnity is paid on area losses greater than 10% and not more than the deductible level (e.g., 25%) selected by the producer in the underlying individual policy. SCO policies are to be made available for all crops if sufficient data are available. Premium is subsidized at 70%. Coverage would begin no later than the 2013 crop year. If the farmer participates in ARC under Title I of the Senate bill, the 10% loss trigger is increased to 21%. In the House committee bill, acres covered by RLC are not eligible for SCO (i.e, producers of crops other than cotton, which would be covered by STAX, must choose RLC or SCO) .

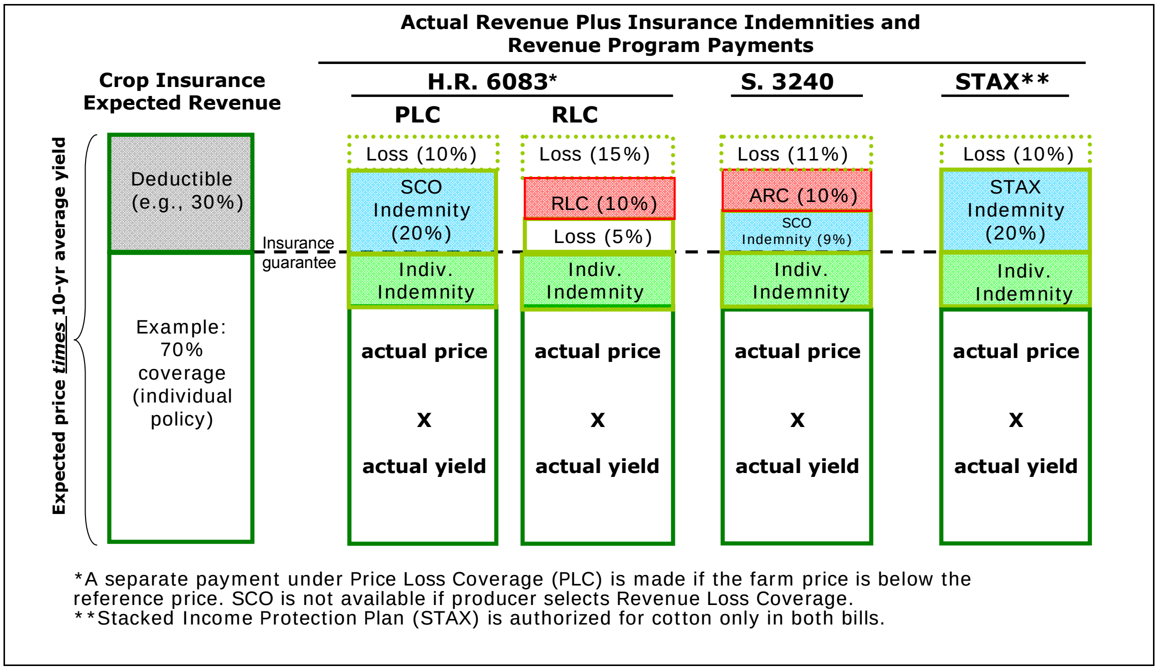
Figure 5 illustrates how crop insurance and farm programs would interact under each bill. The bar on the left depicts the expected revenue (prior to planting) under a typical crop insurance revenue policy with a 30% deductible (the farmer absorbs the first 30% of the loss). Under the House committee bill and assuming the farmer selects the PLC option, an SCO policy can be purchased to cover part of the deductible (see PLC column). If a loss occurs on the farm, an initial indemnity is triggered under the farmer's individual crop insurance policy as depicted by the green box. A second indemnity from the SCO would be paid (depicted by the blue box) if there is also a loss at the county level. Overall, the farmer incurs a loss of approximately 10% (white box

[2] Based on CBO's March 2012 baseline assuming an extension of current law.

at top). A separate PLC payment would be made if the farm price is below the reference price. If a producer selects the Revenue Loss Coverage (RLC) rather than PLC (see RLC column), the acreage is not eligible for SCO and only an RLC payment (red box) would be made if triggered.

Under the Senate bill (see S. 3240 column), which allows a producer to participate in both the ARC revenue program and SCO, the SCO indemnity (blue) would be smaller but would fill (potentially) the gap between the ARC payment (red) and the individual policy indemnity (green).

Figure 5. An Illustration of Crop Insurance Indemnities and Farm Revenue Program Payments Under 2012 Farm Bill Assuming Major Crop Revenue Loss



Source: CRS.

Note: The expected revenue for a crop insurance policy is calculated before the planting season and is based on the expected market price for that year. Maximum revenue program payment for RLC and ARC is 10% of benchmark revenue (red box in chart).

Stacked Income Protection Plan (STAX)

Both H.R. 6083 and S. 3240 would handle cotton separately from the other major program crops in an attempt to resolve a long-standing trade conflict with Brazil under the World Trade Organization (WTO).[3] In lieu of the farm revenue programs proposed in Title I, both versions of the farm bill include a new cotton program comprised of a stand-alone, county-based revenue insurance policy called the Stacked Income Protection Plan (STAX). Similar to SCO, STAX sets a revenue guarantee based on expected county revenue (but not yield). Producers could purchase this policy in addition to their individual crop insurance policy (as done for SCO) or as a stand-alone policy.

[3] For more information, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*.

As under SCO, the indemnity from STAX, if triggered by a revenue loss at the county level, might cover all or part of the deductible under the individual policy. (See far right column of **Figure 5**.) Specifically, STAX would indemnify losses in county revenue of greater than 10% of expected revenue but not more than the deductible level (e.g., 25%) in the underlying individual policy (or not more than 30% if used as stand-alone policy). A payment rate multiplier of 120% is available if producers want to increase the amount of protection per acre. The farmer subsidy as a share of the policy premium is set at 80% for STAX. In the House committee bill only, a minimum price of $0.6861 per pound is used in the calculation of the insurance guarantee if it is higher than the expected market price.

Under a STAX policy setting, which has been advanced by the U.S. cotton sector, producers would forgo benefits from a revised farm program in order to comply with the WTO cotton case. In particular, STAX participants would not be eligible for benefits available to other program crops, such as ARC, yield updating, RLC, and counter-cyclical price payments with fixed reference prices in PLC. Despite this program formulation, Brazil has yet to formally sign off on STAX as a solution to the WTO cotton case, but has instead indicated that STAX does not go far enough in resolving the dispute. Whether this signifies real intent or is simply a negotiating strategy remains to be seen. U.S.-Brazil negotiations in this case are ongoing and will likely hinge on the eventual farm bill treatment of cotton.

Crop Insurance Studies

Additional crop insurance changes in both bills are designed to expand or improve crop insurance for other commodities, including specialty crops. Provisions in both bills revise the value of crop insurance for all organic crops to reflect prices of organic (not conventional) crops. The bills also require USDA to conduct more research on whole farm revenue insurance with higher coverage levels than currently available. Additional studies are required on insuring (1) specialty crop producers for food safety and contamination-related losses, (2) swine producers for a catastrophic disease event, (3) producers of catfish against reduction in the margin between market prices and production costs, (4) commercial poultry production against business disruptions caused by integrator bankruptcy, and (5) poultry producers for a catastrophic event (House committee bill only). A peanut revenue insurance product also is mandated in both bills. A provision in S. 3240 makes payments available to producers who purchase private-sector index weather insurance, which insures against specific weather events and not actual loss.

Conservation Provisions for Crop Insurance

For conservation purposes, a "sod saver" provision in Title XI of S. 3240 reduces crop insurance subsidies and noninsured crop disaster assistance for the first four years of planting on native sod acreage. The same provision in the House committee bill would apply only to the Prairie Pothole National Priority Area (portions of Iowa, Minnesota, Montana, North Dakota, and South Dakota). In the Senate bill only, crop insurance premium subsidies are available only if producers are in compliance with wetland conservation requirements (goes into effect immediately) and conservation requirements for highly erodible land (within five years). For more information, see CRS Report R42459, *Conservation Compliance and U.S. Farm Policy*.

Noninsured Crop Disaster Assistance Program (NAP)

Producers who grow a crop that is currently ineligible for crop insurance may be eligible for a payment under USDA's Noninsured Crop Disaster Assistance Program (NAP). NAP has permanent authority under Section 196 of the Federal Agriculture Improvement and Reform Act of 1996 (7 U.S.C. 7333). To be eligible for a NAP payment, a producer first must apply for coverage under the program. Like catastrophic crop insurance, NAP applicants must also pay an administrative fee ($250 per year). In order to receive a NAP payment, a producer must experience at least a 50% crop loss caused by a natural disaster, or be prevented from planting more than 35% of intended crop acreage. For any losses in excess of the minimum loss threshold, a producer can receive 55% of the average market price for the covered commodity.

In order to improve coverage for crops covered under NAP, both bills provide additional coverage at 50% to 65% of established yield and 100% of average market price. Premium for additional coverage is 5.25% times the product of the selected coverage level and value of production (acreage times yield times average market price). The premium for additional coverage is reduced by 50% for limited resource, beginning, and socially disadvantaged farmers. In the Senate bill only, for producers with fruit crop losses in 2012, payments associated with additional coverage are made retroactively (minus premium fees) in counties declared a disaster due to freeze or frost.

Disaster Programs Reauthorized

Five disaster programs were established in the 2008 farm bill for weather-induced losses in FY2008-FY2011. Both S. 3240 and H.R. 6083 reauthorize the four programs covering livestock and tree assistance for FY2012-FY2017. The crop disaster program from the 2008 farm bill (i.e., Supplemental Revenue Assistance, or SURE) is not reauthorized in either bill, but elements of it have been folded into the new ARC in the Senate bill by allowing producers to protect against farm-level revenue losses (the House committee bill has only a county-based revenue program). S. 3240 also provides disaster benefits to tree fruit producers who suffered crop losses in 2012 (see above). The following four programs would be reauthorized:

1. Livestock Indemnity Program (LIP), which would compensate ranchers for a portion of market value for livestock mortality caused by a disaster (65% in Senate bill, 75% in H.R. 6083);
2. Livestock Forage Disaster Program (LFP), which would compensate for grazing losses due to qualifying drought conditions or fire on rangeland managed by a federal agency (the Senate bill increases the payment amount from the 2008 farm bill in some cases);
3. Emergency Assistance for Livestock, Honeybees, and Farm-Raised Catfish (ELAP), which would provide annual funding of $5 million (Senate bill) and $20 million (House committee bill) to compensate producers for disaster losses not covered under other disaster programs; and
4. Tree Assistance Program (TAP), which would provide payments to eligible orchardists and nursery growers to cover 65% of the cost of replanting trees or nursery stock and 50% of the cost of pruning/removal following a natural disaster (in excess of 15% mortality in both cases).

Payment Limit Changes

Farm commodity programs have certain limits that cap payments (currently $105,000 per person) and set eligibility based on adjusted gross income (AGI, currently $500,000 per person for nonfarm AGI and $750,000 for farm AGI). The two bills diverge from current law and each other, with S. 3240 reducing the farm program payment limit to $50,000 per person for ARC and adding a $75,000 limit on loan deficiency payments (LDPs). The program payment limit under H.R. 6083 is $125,000 for PLC and RLC, with no limit on LDPs. In both the House committee and Senate bills, peanuts have a separate but identical payment limit as all the other covered commodities combined. The Senate bill changes the threshold to be considered "actively engaged" and to qualify for payments, by effectively requiring personal labor in the farming operation.

Both bills also change the limits on AGI, with a combined AGI limit of $750,000 in S. 3240 and $950,000 in H.R. 6083. Proponents of the changes to AGI assert that the new provisions represent a tightening of the limit. However, some high-income individuals who have been disqualified under the 2008 farm bill might be restored to eligibility under a 2012 farm bill, primarily because the proposed combined limit in both bills is higher than the current nonfarm AGI limit.[4]

For disaster programs, S. 3240 retains the combined $100,000 per person payment limit for LIP, LFP, and ELAP and retains the separate limit of $100,000 for TAP. H.R. 6083 contains a combined payment limit of $125,000 per person for LIP, LFP, and ELAP and a separate limit of $125,000 for TAP.

Dairy and Sugar

For dairy policy, both bills contain similar, significant changes, including elimination of the dairy product price support program, the Milk Income Loss Contract (MILC) program, and export subsidies. These are replaced by a new program, which makes payments to participating dairy producers when the national margin (average farm price of milk minus average feed costs) falls below $4.00 per hundredweight (cwt.), with coverage at higher margins available for purchase. Another provision makes participating producers subject to a separate program, which reduces incentives to produce milk when margins are low. Federal milk marketing orders have permanent statutory authority and continue intact. However, S. 3240 (but not H.R. 6083) includes two provisions that require more frequent reporting of dairy market information and studies on potential changes to the federal milk marketing order system. For more information on dairy policy in the two bills, see CRS Report R42736, *Dairy Policy Proposals in the 2012 Farm Bill*.

The sugar program is left unchanged in both bills, with an exception in the Senate bill that advances the date (to February 1 from April 1) that USDA can increase the import quota. For more information, see CRS Report R42551, *Sugar Program Proposals for the 2012 Farm Bill*.

[4] CRS Congressional Distribution Memorandum, *Unintended Consequences of Returning to a Single AGI Limit for Farm Program Eligibility*, September 10, 2012.

Cost Estimates

Funding to write the next farm bill is based on the Congressional Budget Office's (CBO's) baseline projection of the cost of mandatory farm bill programs, and on varying budgetary assumptions about whether programs will continue. The CBO baseline projection is an estimate at a particular point in time of what federal spending on mandatory programs likely would be under current law. The March 2012 CBO baseline projection is the "scoring baseline" against which S. 3240 and H.R. 6083 have been measured.

According to the March 2012 baseline, total budget authority for all mandatory farm bill programs under current law is $995 billion during FY2013-FY2022 (**Table 1**). Of this amount, budget authority for farm safety net programs is $153 billion over the 10-year period, including $63 billion for commodity programs and $90 billion for crop insurance. Disaster programs do not have baseline funding, since they expired ahead of other farm support programs. From a budget perspective, programs with a continuing baseline are assumed to go on under current law. These amounts can be used to reauthorize the same programs, reallocated among these and other programs, used as savings for deficit reduction, or used as offsets to help pay for other provisions.

Table 1. Baseline for Mandatory Farm Bill Programs, FY2013-FY2022

(budget authority in millions of dollars)

2008 Farm Bill Title and Program	FY2013-FY2017	FY2013-FY2022
Title I and XII – Farm Safety Net Programs	**74,476**	**152,761**
Title I – Commodity Programs	*31,143*	*62,944*
Title XII – Crop Insurance	*43,333*	*89,817*
Title II – Conservation	**30,956**	**65,275**
Title IV – Nutrition	**399,567**	**771,773**
All other titles	**2,423**	**4,819**
Total	**507,422**	**994,628**

Source: CRS analysis based on the CBO baseline (March 2012). For more information, see CRS Report R42484, *Budget Issues Shaping a 2012 Farm Bill.*

Notes: Crop insurance appears in Title XI of the S. 3240 and H.R. 6083. Nutrition includes only the Supplemental Nutrition Assistance Program (SNAP) and related programs, because both House and Senate Agriculture committees have jurisdiction.

Compared to the March 2012 baseline, CBO estimates that S. 3240 (all titles) would reduce spending by $23.1 billion over 10 years, a reduction of 2.3% from the 10-year baseline. H.R. 6083 would reduce spending by $35.1 billion over 10 years, a reduction of 3.5%. **Table 2** shows the CBO scores of both versions of the farm bill, with a detailed breakout for their respective farm safety net provisions. For more information on the overall farm bill score and budget situation, see CRS Report R42484, *Budget Issues Shaping a 2012 Farm Bill*.

Table 2. CBO Estimated Change to Baseline: Farm Safety Net Programs, 2013-2022

(change in outlays in millions of dollars)

2012 Farm Bill Title	Description	S. 3240	H.R. 6083
All Titles		**-23,140**	**-35,144**
Titles I, XI, and Non-insured Crop Disaster Assistance Program (NAP)		**-14,738**	**-14,061**
Commodity Programs (Title I)		**-19,428**	**-23,584**
End Direct Payments	Fixed payments	-44,622	-44,622
End Counter-cyclical Payment	Variable payment (price)	-1,008	-1,008
End Average Crop Revenue Election Payments	Variable payment (revenue)	-4,613	-4,615
Price/Revenue Program(s)	ARC (S. 3240); PLC/RLC (H.R. 6083)	+28,536	+24,544
Dairy Program	Margin insurance/market stabilization	-59	-38
Disaster Programs	Livestock and tree assistance	+2,212	+2,022
Other Commodity Provisions	Miscellaneous	+125	+131
Crop Insurance (Title XI)		**+4,690**	**+9,523**
Supplemental Coverage Option	Additional crop insurance policy for shallow losses	+3,001	+3,998
Catastrophic Policy Premiums	Reduce premiums	-437	-437
Enterprise Units	Units for irrigated/nonirrigated land	+506	+506
Adjustment in APH Yields	Increase yields for guarantees	+855	+1,127
Stacked Income Protection for Cotton (STAX)	New insurance policy for cotton	+3,224	+3,851
Peanut Revenue Crop Insurance	New insurance policy for peanuts	+239	+239
Beginning Farmer Provisions	Increase benefits to new farmers	+193	+192
Crop Production on Native Sod	No payments on converted land	-168	-102
Participation Effects of Commodity Programs	New commodity program reduces demand for crop insurance	-2,469	-639
Other Crop Insurance Provisions	Miscellaneous/Implementation/Livestock Pilot Program	+93	+324
Equitable Relief for Specialty Crop Producers	Increase delivery cost reimbursement to insurance companies	not applicable	+205
Coverage Level by Practice	Allow coverage level to vary	not applicable	+166
Noninsured Crop Disaster Assistance Program (NAP)	Increase coverage levels	-346[a]	+96

Source: CRS, using CBO cost estimates of S. 3240 (July 9, 2012, at http://cbo.gov/publication/43417), and H.R. 6083 (July 26, 2012, at http://cbo.gov/publication/43486).

Notes: - = savings, + = additional costs. PLC/RLC cost is reduced by shifting some payments beyond 10-year scoring window. Figures may not add due to rounding.

a. In the Senate bill, NAP appears in Title XII (Miscellaneous) and not Title XI (Crop Insurance).

For just the farm safety net programs, the 10-year savings amount is $14.7 billion in S. 3240 and $14.1 billion in H.R. 6083 (**Table 2**). More than two-thirds of the 10-year, $50 billion in savings from eliminating current commodity programs in Title I in both bills would be used to offset new commodity programs and to enhance crop insurance in Title XI. The savings from commodity programs in the House committee bill is about $4 billion more than in the Senate bill, in part because outlays under the new counter-cyclical program in H.R. 6083 do not begin until FY2015, while timing of farm payments under the Senate bill begin in FY2014. In contrast to scoring savings under Title I, expenditures for crop insurance in both bills increase relative to baseline levels. The increase is about $4.8 billion lower in the Senate bill, in part because the new revenue program contains an option for a farm-level guarantee that is expected to reduce demand for crop insurance and offset some costs associated with the crop insurance changes.

Potential Impacts of S. 3240 and H.R. 6083

A number of researchers have analyzed the proposed changes made to the farm safety net by the House committee and Senate farm bills. The Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri concludes in an August 2012 sector-wide study that the economic consequences of the two bills would be similar in many respects, with reduced federal spending and relatively small effects on commodity markets.[5] Comparing the two bills, FAPRI's analysis indicates that the House committee bill, given its parameters and structure, would provide substantially more support than the Senate bill to producers of wheat, rice, barley, and peanuts, while corn and soybean producers would benefit relatively more under the Senate bill. Actual program benefits will be sensitive to market conditions and producer participation, with government costs depending in part on eventual enrollment in the Supplemental Coverage Option (70% subsidy rate) and other factors. Under each bill, average net farm income and real estate values would decline slightly as the sector would receive somewhat less federal support. According to the study, impacts on food prices for consumers would be very small.

A separate analysis by the Agricultural and Food Policy Center (AFPC) at Texas A&M University concludes that all 64 of the representative farms that it models would receive greater financial benefits (i.e., higher average net cash farm income) under the House committee bill relative to the Senate bill over the life of the farm bill.[6] The study reports that under a baseline price scenario, the average difference in net cash farm income as a result of policy parameters would be $44,200 per farm, in favor of the House committee bill. Under a declining price scenario, the average difference widens to $125,800 per farm (ranging from $98,700 for wheat to $175,500 for rice). A major driver is the attractive combination of reference prices (increased from 2008 farm bill levels) in the House committee bill—which provide support when farm prices decline through the Price Loss Coverage program—combined with the Supplemental Coverage Option (SCO) to address shallow losses beyond a 10% deductible. In the Senate bill, the SCO deductible is expanded from 10% to 21% if the farmer also participates in Agriculture Risk Coverage (ARC).

Other researchers have concluded that the SCO approach combined with the new revenue programs (ARC in the Senate bill and RLC in the House committee bill) could create situations of

[5] Pat Westhoff and Scott Gerlt, *Impacts of Selected Provisions of the House Agriculture Committee and Senate Farm Bills*, Food and Agricultural Policy Research Institute (FAPRI), FAPRI-MU Report #05-12 (revised), Columbia, MO, August 2012, http://www.fapri.missouri.edu/outreach/publications/2012/FAPRI_MU_Report_05_12_Rev.pdf.

[6] Joe L. Outlaw et al., *Economic Impacts of the Safety Net Provisions in the 2012 Senate and House Farm Bills on AFPC's Representative Crop Farms*, Agricultural and Food Policy Center, Texas A&M University, AFPC Working Paper 12-2, College Station, TX, July 2012, http://afpc.tamu.edu/pubs/0/573/WP%2012-2.pdf.

overcompensation for shallow losses (out-of-pocket cost absorbed by producers), while SCO alone is likely to result in fewer such concerns because it is integrated more closely with existing crop insurance coverage.[7] Multi-year price declines are another major policy concern. The researchers point out that in the Senate bill, the ARC program guarantees will decline over time if market prices drop, which lengthens the adjustment period for producers. This is in contrast to the House committee bill, which sets fixed minimum prices in PLC (and RLC). The House committee bill increases these parameters differently for each crop relative to their respective (and recent) market values, which the authors say could create planting incentives that differ from market signals, thereby shifting acreage toward crops that have more attractive program benefits.

Some have expressed concern that costs of farm programs could be sharply higher than CBO estimates. An analysis by university researchers, sponsored by the American Enterprise Institute, estimates that the cost of H.R. 6083 will be relatively modest if farm prices remain historically high.[8] However, it also concludes that the annual cost could exceed $18 billion if farm prices drop to a 15-year average level. Others have criticized the analysis, calling it "an improbable price scenario," and citing CBO's use of stochastic scoring, which considers the probability of various price scenarios that result in either very high or low costs.[9]

Additional Resources

Agriculture Reform, Food and Jobs Act (S. 3240**)**

U.S. Congress, Senate Committee on Agriculture, Nutrition, and Forestry, report to accompany S. 3240, S.Rept. 112-203, 112th Cong., 2nd sess., August 28, 2012. http://www.ag.senate.gov/download/?id=5d91a4e4-d805-4623-ae71-8402bd6b912e

Committee summary information: http://www.ag.senate.gov/issues/farm-bill

Federal Agricultural Reform and Risk Management Act of 2012 (H.R. 6083**)**

U.S. Congress, House Committee on Agriculture, report to accompany H.R. 6083, H.Rept. 112-669, 112th Cong., 2nd sess., September 13, 2012, http://www.congress.gov/cgi-lis/cpquery/R?cp112:FLD010:@1(hr669)

Committee summary information: http://agriculture.house.gov/farmbill

7 Carl Zulauf and David Orden, *US Farm Policy and Risk Assistance*, International Centre for Trade and Sustainable Development (ICTSD), Issue Paper No. 44, Geneva, Switzerland, September 2012, http://ictsd.org/downloads/2012/09/us-farm-policy-and-risk-assistance.pdf. Additional analysis is available at http://farmdocdaily.illinois.edu/areas/policy/.

8 Vincent H. Smith, Bruce A. Babcock, and Barry K. Goodwin, Field of Schemes Mark II: The Taxpayer and Economic Welfare Costs of Price Loss Coverage and Supplementary Insurance Coverage Programs, American Enterprise Institute, Draft working paper (#2012-03), September 2012, http://www.aei.org/papers/economics/field-of-schemes-mark-ii-price-loss-coverage-and-supplementary-insurance-coverage-programs/.

9 National Crop Insurance Services, *Response to American Enterprise Institute Claims*, September 13, 2012, http://www.cropinsuranceinamerica.org/wp-content/uploads/AEI-Response-to-Claims-9-13-12.pdf.

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