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Why is the Farm Bill so Complicated?¹

Many of the Farm Bill proposals focused on a risk management tool to cover shallow losses. These proposed tools are all derivatives of put options and insurance. Therefore, there are only two variables, price and yield in these revenue guarantees. This paper provides a brief overview of four different approaches to cover risk. Other plans will follow but are likely variations of these four types of policies.

Yield can be measured by national, district, county, whole farm (all crops), enterprise unit, basic unit (by ownership), optional unit (by "field"), and further subdivided by practice. Price is being measured both historically and currently by futures/crop insurance prices, RMA determined price for non-traded commodities, NASS prices, and Posted County Prices.

Aggregate Risk Revenue Management. ARRM guarantee is 90% times a 5-year Olympic average revenue with revenue defined as district yield times the crop insurance harvest price (futures) by crop. District revenue counts against the guarantee and pay the difference. No crop insurance requirement.

Cost to farmers: Crop production value must be below farm level benchmark to collect an ARRM payment. Effectively has a 15% co-pay because payment is made on 85% of the planted acres. ARRM replaces all commodity programs but the loan. Farm losses greater than \$65,000 are not covered.

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Crop Revenue Guarantee Program. CRGP equals 90% times the APH with some modifications times the 5 year Olympic average Posted County Price and summed for each crop to generate a whole farm guarantee. Farm revenue is equal to the sum of all crop production times the appropriate first 4 months of the marketing year average of the PCP. CRGP replaces all commodity programs.

Cost to farmers: Requires a CAT contract and all net indemnity payments count against the CRGP guarantee, therefore high levels of crop insurance and/or diversification will likely reduce or eliminate CRGP payments. Effectively has a 40% co-pay because it pays 60% of the loss and only on base acres. Farm losses greater than \$100,000 are not covered.

Total Coverage Option (Neugebauer). TCO allows farmers to add county triggered area coverage to an APH based crop insurance contract equal to the APH's deductible dollars. For example if the expected revenue is \$400 then 75% RP would insure \$300 and TCO would insure \$100 with a county trigger. TCO has a 10% deductible that disappears. In the above example if the county revenue loss reaches 25% then the entire \$100 coverage would be paid. Farmers with multiple year losses will have an APH below their expected yield and they could shift more of their coverage away from an APH to a county triggered coverage, while their APH recovers. TCO is a crop insurance improvement policy and not a commodity program replacement.

Cost to farmers: Requires an APH crop insurance contract and farmers pay a share of the TCO premium costs. There is no co-pay, no payment limit and covers all insurable planted acres by crop.

5% Added Crop Insurance Coverage. Added CI would allow farmers to buy coverage and then USDA would add 5% more coverage. For example a farmer could buy 75% RP coverage and pay premium for 75% coverage but this farmer's guarantee would be 80%.

Cost to farmers: Requires farmers to purchase crop insurance and the 5% added coverage would be provided "free". There is no co-pay, no payment limit and covers all insurable planted acres by crop.