

Farm Bill and Ag Policy Update

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Outline

- Farm Bill Update
- Longer term trends
 - Crop insurance update
 - Sustainability
 - Labor/Technology / AI



The Farm Bill...

- A. Is a massive spending bill
- B. Provides a safety net for hungry people AND the people that produce food
- C. Affects all Americans
- D. Doesn't make sense unless you understand history and Congressional budgeting rules
- E. Is too big to fail (???)
- F. All of the above



Farm bill history



Current issues

- Food vs farm
- Base acre update
- Government shutdown

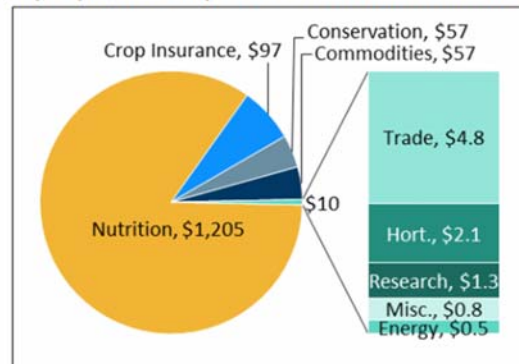
Preliminary Farm Bill “Baseline”

Congressional budgeting rules play an important role in the Farm Bill process

~84% is nutrition spending; some years nutrition debate causes delays

% VS \$\$\$\$

10-year projected outlays, FY2024-FY2033, billions of dollars



Source: Created by CRS using Congressional Budget Office (CBO) February 2023 Baseline and amounts indicated in law for programs in other titles.

The < 1%



TRADE



FSA CREDIT PROGRAMS



RURAL DEVELOPMENT



RESEARCH AND EXTENSION



FORESTRY



ENERGY



HORTICULTURE

What's the debate?



Baseline is "zero sum"



Currently not enough \$\$\$ in budget to increase reference price to a "meaningful" level or increase Title I programs generally



USDA increased SNAP \$\$\$ administratively



No obvious or easy savings

What are base acres?

- Linked to historic production of a specific commodity
- Base acres required for eligibility for ARC (Agricultural Risk Coverage) or PLC (Price Loss Coverage) payments
- Concept from 1985, allocated to specific commodities in 1996 Farm Bill
 - 1996 “contract” acres based on 1981-1985 plantings
 - Voluntary acre updates in 2002 (add oilseeds) and 2014
 - Voluntary yield updates in 2002, 2014, 2018
- Attached to tracts, but can sometimes be reallocated within a farm

Why do we have base acres?

- Desire to **decouple** farm safety net payments from current planting decisions
- General principle: planting decisions should be based on the market, not on policy
- Allows ARC and PLC to not “count” for WTO purposes



<https://www.farmlinkproject.org/stories-and-features/cheese-caves-and-food-surpluses-why-the-u-s-government-currently-stores-1-4-billion-lbs-of-cheese>

Why now?

- Push by producers who are “under-based”
- CBO savings
 - More \$\$ for higher reference prices or other farm bill priorities
- More effective risk protection

Many factors influence potential payouts

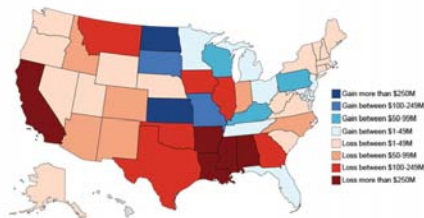
Base acres
held vs current
planting

Payment
yields vs
current yields

Likelihood of
payouts

Many considerations

Projected loss or gain under mandatory base update
FY 2024 to 2033



Source: Senate Ag COP staff

Effective risk protection

Market distortion

Are base acres permanent?

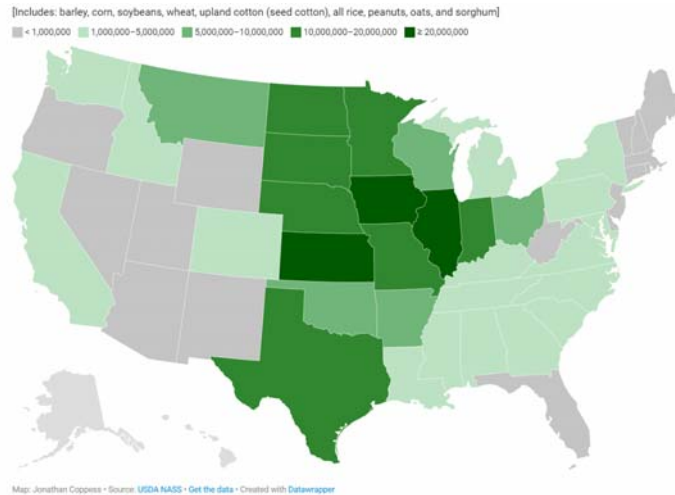
Some crops have relatively higher reference prices

What about Kansas?

Almost 21 million base acres

- Wheat 50%, 3 million acres less planted than in base
- Corn: 21%, 395,000 acres more planted than in base
- Grain sorghum: 16%, 112 acres less planted than in base
- Soybeans: 13%, 2.1 million acres more planted than in base
- Other crops less than 1% of total base (cotton has 56,000 more acres planted than in base)

Average Program Crop Acres, 1919-1923



Map: Jonathan Coppess - Source: USDA NASS - Get the data - Created with Datawrapper

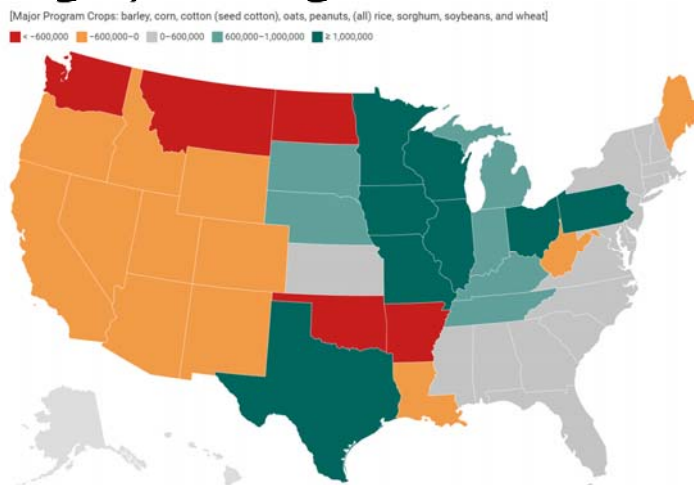


Agricultural Economics

<https://farmdocdaily.illinois.edu/2023/08/farm-bill-2023-planted-acres-and-additional-pieces-of-the-base-acres-puzzle.html>



Potential base acre changes (based on 2019-2023 average planting)

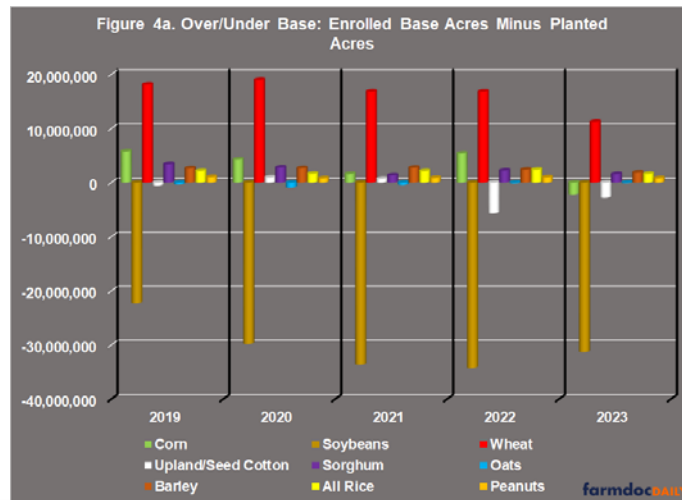


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Soybeans and wheat are most affected



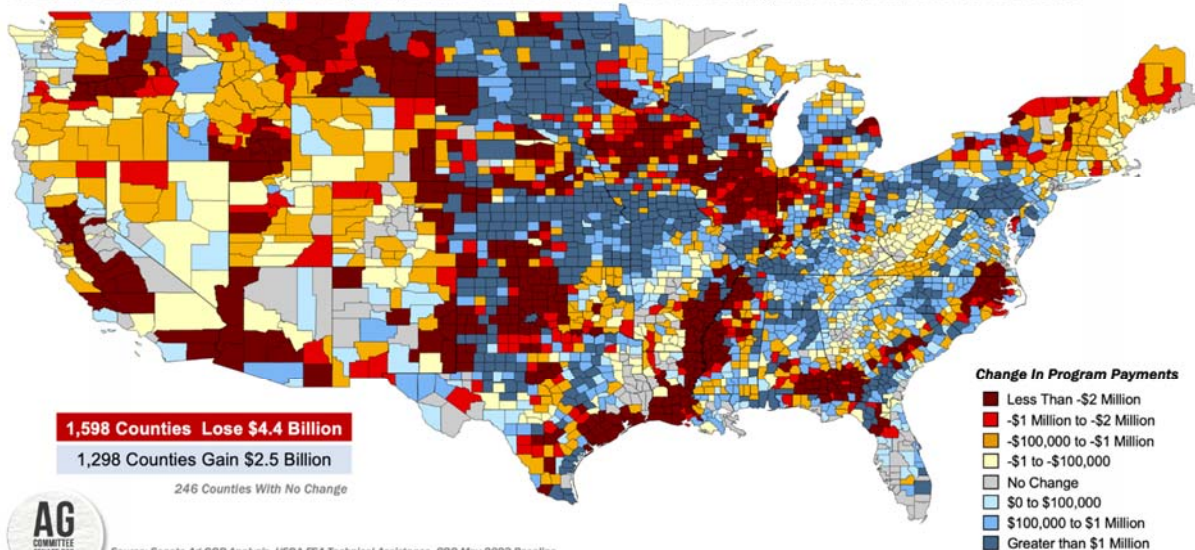
“Winners”

- Dakotas, Kansas, Missouri
- Producers who currently have no base acres and have recently been producing a “program crop”
- Risk reduction: producers with base acres and have recently been producing a different “program crop” than they have base acres for
- Income: producers with base acres and have recently been producing a different “program crop” than they have base acres for, that also happens to have higher relative reference prices
 - This can change!

“Losers”

- California, Arkansas, Louisiana, Mississippi, Alabama
- Producers who have base acres
 - But no longer produce a program crop
 - Producers with “high value” base who grow a different program crop now
 - Rice, peanuts
 - Wheat, sorghum

Estimated Change In Farm Program Payments By County Based On **Enrolled** Base Acres Due To A Mandatory Base Acre Update, Fiscal Year 2024 to 2033



Moving forward

- Senate GOP estimates a mandatory base acre update would decrease total spending by nearly \$2 billion from 2024-2033
 - This is not necessarily large savings
- Prognosis
 - Aggregate gains too small
 - Too many “losers”
 - Second or third order consideration for many producers
 - Longer-term issue

Government shutdowns

- Congress responsible for funding government
- Generally unpopular
- Shutdowns don't save taxpayer \$\$\$
 - Congressional Budget Office estimates 2018-2019 shutdown cost \$3 billion in permanent lost economic growth
- Some agencies and “essential workers” are exempt, but still disruptive

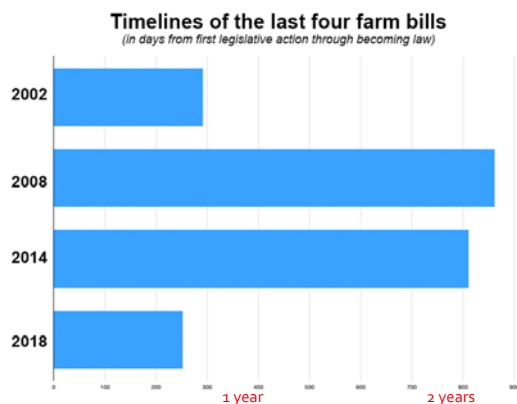
Washington and Wall Street economists are in rare unison on the economy's prospects. That could spell trouble.

A shutdown would likely cast a cloud over consumer sentiment, which has remained chilly since Covid. And business owners increasingly expect conditions to deteriorate.

What stays open and what doesn't

- USDA local offices largely closed
 - No sign-ups, acre reporting, processing, or payments.
 - Farm loan applications not processed
- Data collection
 - Agriculture Marketing Service (AMS) and National Agriculture Statistics Service de.
 - Includes WASDE
- EPA can't make rulings
- Farm Bill: CBO staff and congressional staffers

Will we get a new farm bill soon?



<https://www.agri-pulse.com/articles/19614-every-farm-bill-is-unique-so-is-the-process-to-pass-it>

Does it matter?

- Extensions are common
- Changes typically modest
- Crop insurance, SNAP are "permanent"

What are the risks?

Politics around farm bill

- Budget related issues have caused delays historically
- Many ways to slow progress
- But...no one appears to be strongly advocating something that is a "nonstarter"

Catastrophic Risk

- Reversion to 1949 Farm Bill
 - \$20 wheat and \$15 corn sound good, but....
- Many unfunded public goods

Prognosis for a new farm bill

Many (potential) roadblocks

- Potential government shutdown, ag appropriations, other battles
- Farm vs food
- Elections
 - "Deliver a farm bill"
 - Wait for a new Congress with more seats

Uncertainty



Prognosis for the next farm bill

- 99.99% -- No new farm bill by Sept 30
- 10% New farm bill in 2023 or early 2024
- 90% - 1 or 2 extensions before a new farm bill
- 100% - Political drama
- Negative impacts or major changes for Kansas farms: I'm not worried yet



5%

Long term trends

Crop Insurance Trends



2022 Payouts



Growth of livestock policies



High coverage policies



Conservation "add-ons"

2022 payouts

Corn: \$882 million indemnities, 1.98 loss ratio

Sorghum: \$436 million indemnities, 2.44 loss ratio

PRF: \$46 million indemnities, 1.52 loss ratio

Soybeans: \$526 million indemnities, 2.21 loss ratio

Wheat: \$275 million indemnities, 1.1 loss ratio
(\$695 2023 indemnities to date, 1.69 loss ratio)

Total: \$2.22 billion indemnities, 1.9 loss ratio



Index Insurance 101

- Instead of insuring farm-level production, payments are triggered by an external event that is highly correlated to yields/production
 - Rainfall
- Typically, “existence of production” must be verified



Index Insurance 101

Advantages

- Relatively simple, payouts automatic

Disadvantages

- Basis risk: index may not be correlated with farm level production

Index products in FCIP

Forage – precipitation
(rainfall) index

- Pasture, Rangeland, and Forage (PRF)
- Annual Forage

Livestock Risk
Protection

- Futures markets

Livestock Gross
Margin

- Guarantee based on difference between futures for market price and feed costs (margin)

Dairy Revenue
Protection

- Guarantee based on milk futures indexed by state-level milk yields

What are high coverage policies?



High coverage policies increase your crop insurance coverage level to up to 95% of expected revenue/gross profit margin. Any payouts on coverage levels above the underlying RP policy are based on county-level yields.

SCO & ECO - Overall concept

- County-based trigger*
- SCO increases RP coverage to 86%
- ECO (Enhanced Coverage Option)
 - 2 coverage choices: 86 to 90% **OR** 86 to 95%
 - Can be used with YP or RP
 - SCO optional
 - Can be used with ARC, *cannot* be used with ARP or AYP

Deductible (no coverage)	100-95%
ECO Coverage range	95-86%
SCO or ARC Coverage range	86-75%
MCPI coverage range	75%

Deductible (no coverage)	100-90%
ECO Coverage range	90-86%
SCO or ARC Coverage range	86-75%
MCPI coverage range	75%

Source: Deliberto 2022, <https://www.lsuagcenter.com/-/media/system/7/b/3/a/7b3ad661e8932d02460a9217f9db7ace/enhanced%20coverage%20option%20insurancepdf.pdf>

Margin Protection Insurance

When the operating margin (difference between revenue and *select costs*) *at the county level* for corn or soybeans is lower than expected, you get paid

OR

Similar to ECO (Enhanced Coverage Option) with **earlier price discovery** AND *some* adjustment for input costs

Not personalized but basic



More personalized but more complicated

The bottom line



High coverage policies may be attractive for producers who want to protect their profit margins and are willing to pay additional premium for this



Take a long-term perspective, consider all high coverage policies



Consider operation vs county yield trends

Conservation add-ons

1. New products or endorsements
 - PACE
 - Limited irrigation practice
2. "Corrections" to existing policies
 - Irrigation application during drought
 - Cover crop policies
3. Unrelated subsidies
 - Cover crop incentives
 - Organic transition incentive

Ongoing debate: FCIP and adaptation

Theory/rules

- Producers not fully “exposed” to weather shocks
- APH updates over time
- Conservation compliance

Evidence

- Generally mixed, difficult to estimate
- Small/modest increases in acreage
- No increase in input use overall, potentially lower nitrogen use

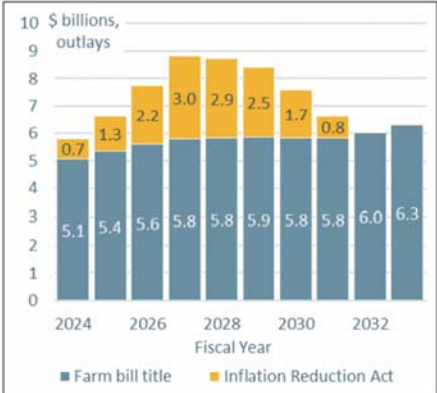
Examples:

<https://www.npr.org/2023/09/14/119952941/the-debate-over-crop-insurance-as-climate-change-drives-the-price-up>
<https://civileats.com/2023/09/20/how-crop-insurance-prevents-some-farmers-from-adapting-to-climate-change/>

“Mainstreaming” of sustainability

- Growing government programs
- Corporate investments
- Market demand
- Innovation, including at the farm level
- New requirements for lenders?

Conservation expanded through IRA



Source: Created by CRS using the February 2023 CBO baseline and CBO score of the Inflation Reduction Act of 2022 (P.L. 117-169).

Representative Davids

DAVIDS CELEBRATES HISTORIC CLIMATE LEGISLATION THAT'S LOWERING ENERGY COSTS



Senator Marshall

SEPTEMBER 22, 2023

Kansas Conservation Series: Tiffany Cattle Co.

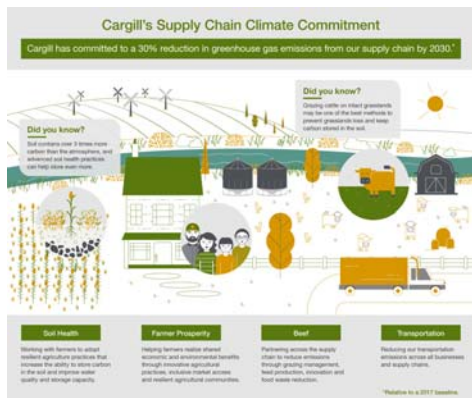
Herrington, KS – U.S. Senator Roger Marshall, M.D. is continuing his conservation series highlighting Kansans' voluntary efforts to take better care of the environment. Stories will be released throughout the 2023 Farm Bill legislative process.

"While we hold hearings for the 2023 Farm Bill, I want to highlight how hard Kansans work every day to protect our environment and conserve precious resources that our Ag economy needs to thrive. Kansas farmers, ranchers, growers, and producers are finding unique and practical ways to preserve our land and protect our water and air. Their efforts are worthy of everyone's praise," **said Senator Marshall.**



Corporate Climate Pledges

Cargill



Source



PepsiCo



Source

Microsoft

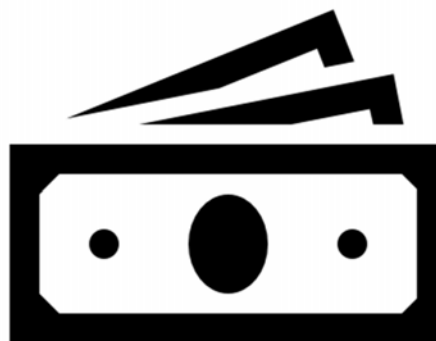


Source



Navigating sustainability

- Greenwashing/CSR, political extremism, Corporations/Silicon Valley overpromising
- Regulatory concerns
- Hype!
- Information overload



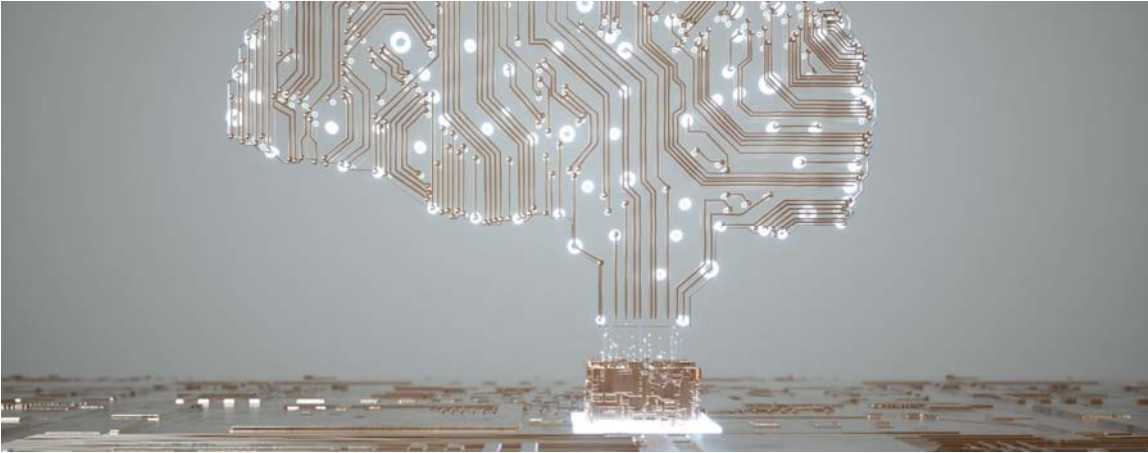
Navigating sustainability

Consensus?

Practices that address environmental challenges AND improve the long-term profitability and sustainability of agriculture

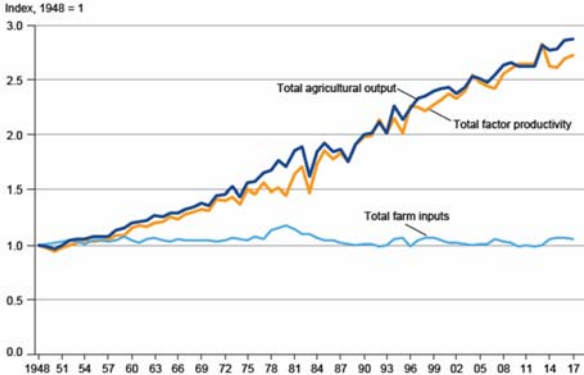


Labor/technology / AI



Long history of producing more with less

U.S. agricultural output, inputs, and total factor productivity, 1948-2017

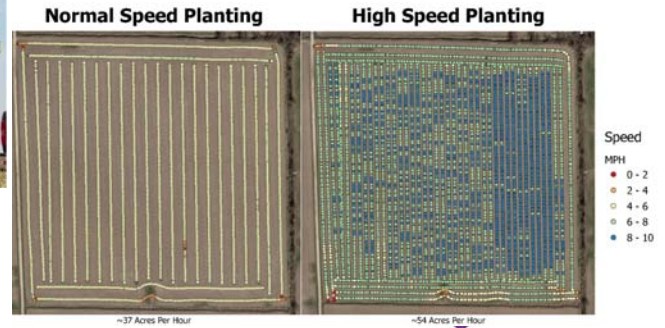


Source: USDA, Economic Research Service, Agricultural Productivity in the U.S. data series.

Labor savings drive innovation



KANSAS STATE UNIVERSITY | Agricultural Economics



What's next?



Bipartisan House Ag Committee "Agricultural Labor Working Group", USDA \$\$\$ for producers using H-2A



Politically toxic?



Research: Economic Impact of Agricultural Labor Shortages on the Kansas Economy



Major issue facing agriculture and rural America

KANSAS STATE UNIVERSITY | Agricultural Economics



Wrap up



Many shared problems



Policy issues go beyond farm bill



Complementary to good management

What I'm working on

Extension

- Enhanced hay inventory tools that incorporate insurance and disaster payments
- Farm Bill series
- Annual forage update
- Economic impact of ag labor shortages in Kansas

Research

- Drought and hay prices
- Farmland transaction rate determinants
- Theory: the cattle cycle, forage storage, and safety net payments
- Understanding how hay inventory responds to drought
- How do PRF and ELAP/LFP influence stocking rates and inventory levels?
- Are PRF and LFP substitutes or complements?
- Crop insurance and credit use, conservation practices
- Using KFMA data
 - Analysis of multiple lending / loan concentration
 - Extreme weather and farm income

Questions?
Comments?
Thank you!



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