

2018 Farm Bill Outlook

Bradley D. Lubben, Ph.D.
Extension Associate Professor, Policy Specialist, and
Director, North Central Extension Risk Management Education Center

Department of Agricultural Economics
University of Nebraska-Lincoln



Web information – farmbill.unl.edu or agecon.unl.edu/lubben
North Central Extension Risk Management Education Center – ncerme.org

E-mail – blubben2@unl.edu



Farm Bill Development

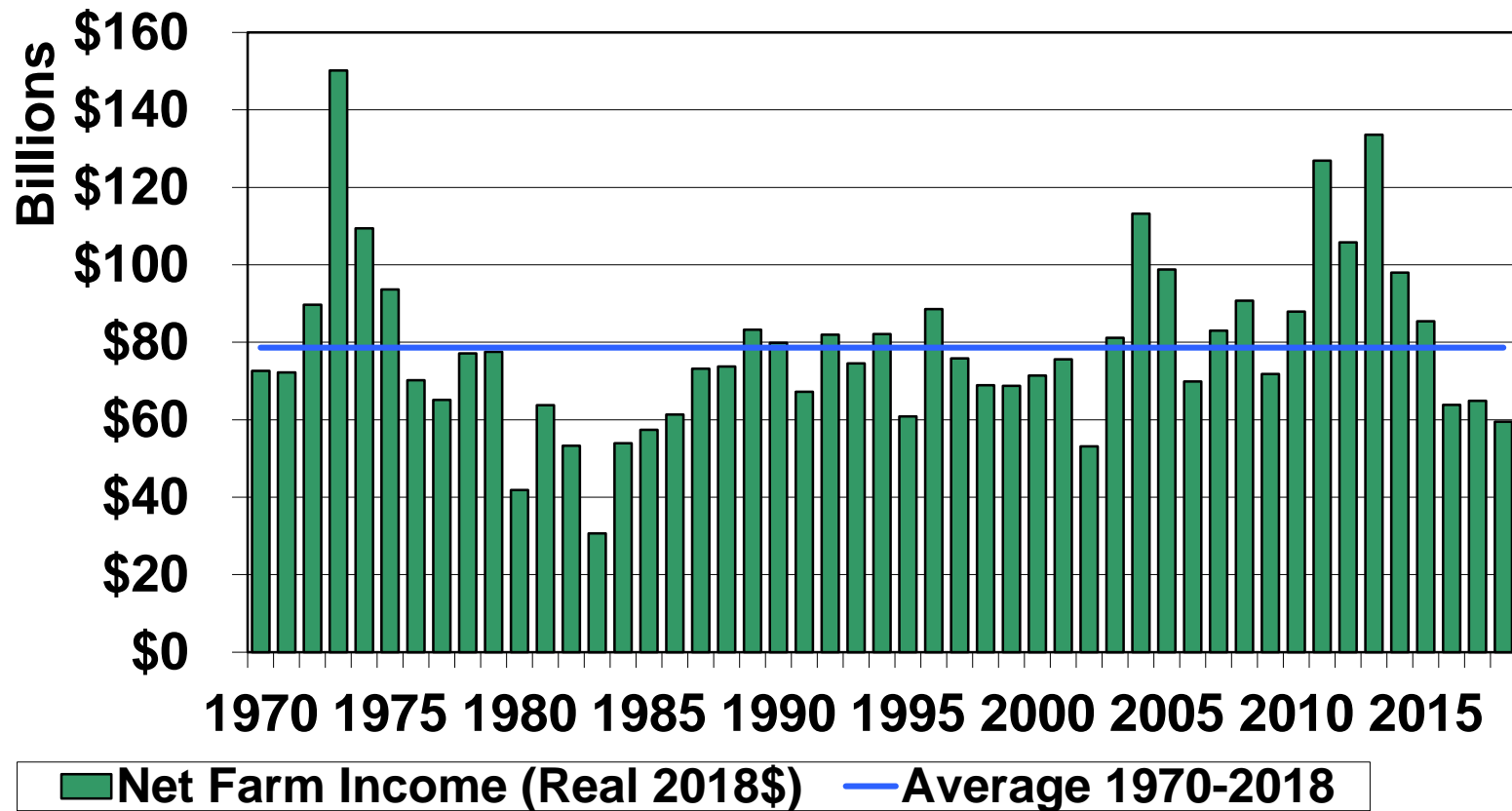


◆ Policy Drivers

- Economics
- Budget
- Trade
- Politics

U.S. Net Farm Income

Real 2018\$, 1970 to 2018



Farm Bill Budget Outlook

◆ Big 4 account for 99% of spending

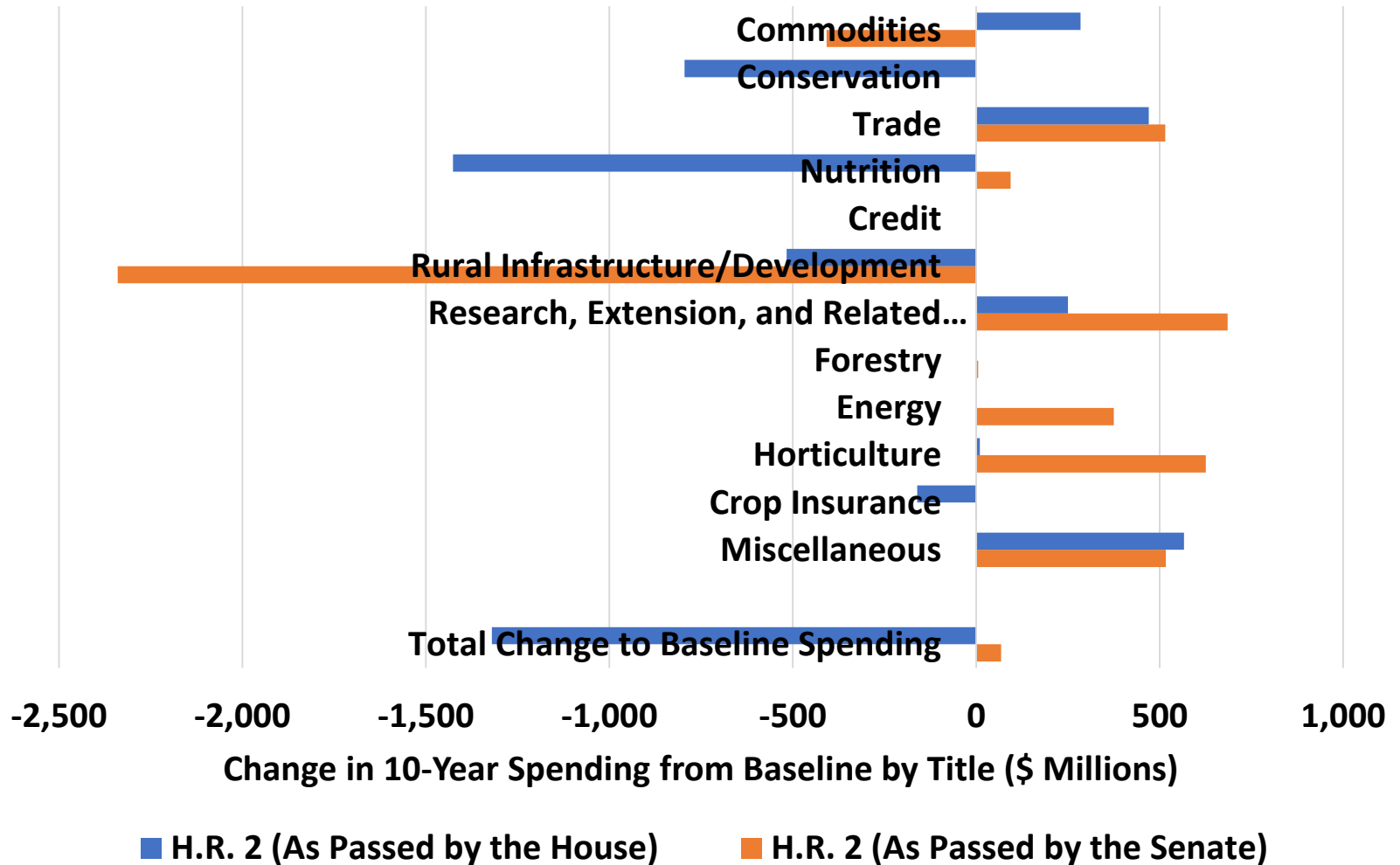
- Commodities
- Crop Insurance
- Conservation
- Nutrition
(Supplemental Nutrition Assistance Program)

◆ Everything else fits in the 1%

- Trade
- Credit
- Rural Infrastructure/Development
- Research, Extension, and Related Matters
- Forestry
- Energy
- Horticulture
- Miscellaneous

2018 Farm Bill Comparison

H.R. 2 (as passed by the House and by the Senate)



Note: Analysis by CBO of legislation as passed by the House and by the Senate. Changes in 10-year baseline relative to projected April 2018 baseline of \$867.2 billion for farm bill programs for FY2019-2028.

2018 Farm Bill Comparison

H.R. 2

- ◆ Reported by committee on partisan vote – April 18
- ◆ Failed on House vote – 198-213 – May 18
- ◆ Reconsidered in House – passed 213-211 – June 21

S. 3042

- ◆ Reported by committee on bi-partisan vote – June 18
- ◆ Passed in Senate – 86-11 – June 28

Farm Bill Issues

◆ Commodity programs

- ARC mechanics
 - Yield data and history
- Reference prices
- ARC v. PLC decision
- Dairy and cotton

◆ Crop insurance programs

- Program features
- Eligibility limits
- Premium subsidy

◆ Conservation

- CRP
 - Acreage enrollment cap
 - CRP rental rates
- Working lands programs
 - EQIP and CSP funding

◆ Nutrition (Supplemental Nutrition Assistance Program)

- Supports and eligibility levels
- Not a source of funds for farm program spending

Commodities

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
ARC v. PLC	Fixed reference price for PLC (and ARC) Moving average revenue guarantee at 86% for ARC	Increased reference price (higher of reference or 85% of 5-year OAP, max of 115% of reference price) Eliminate ARC-IC	Thune/Brown amendment to reduce reference prices and strengthen ARC not considered	Role of safety net? Price v. revenue? Fixed vs. moving average protection? Responsiveness to low prices/income? ARC v. PLC decision in 2019 and 2019-23 price projections?

Commodities

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
ARC-CO Yields	5-year OAY – based on NASS/RMA/committee Plug yield at 70%	Shift to RMA data first Yield update for drought-affected counties Plug yield remains at 70%	Shift to data with greatest national coverage first (RMA?) Plug yield from 70% to 75% Trend-adjusted 5-year OAY	Most representative yield history and calculation to protect production?
ARC-CO Payments	Based on administrative county – opportunity for reconstitution to split combined counties		Shift to geographic county	

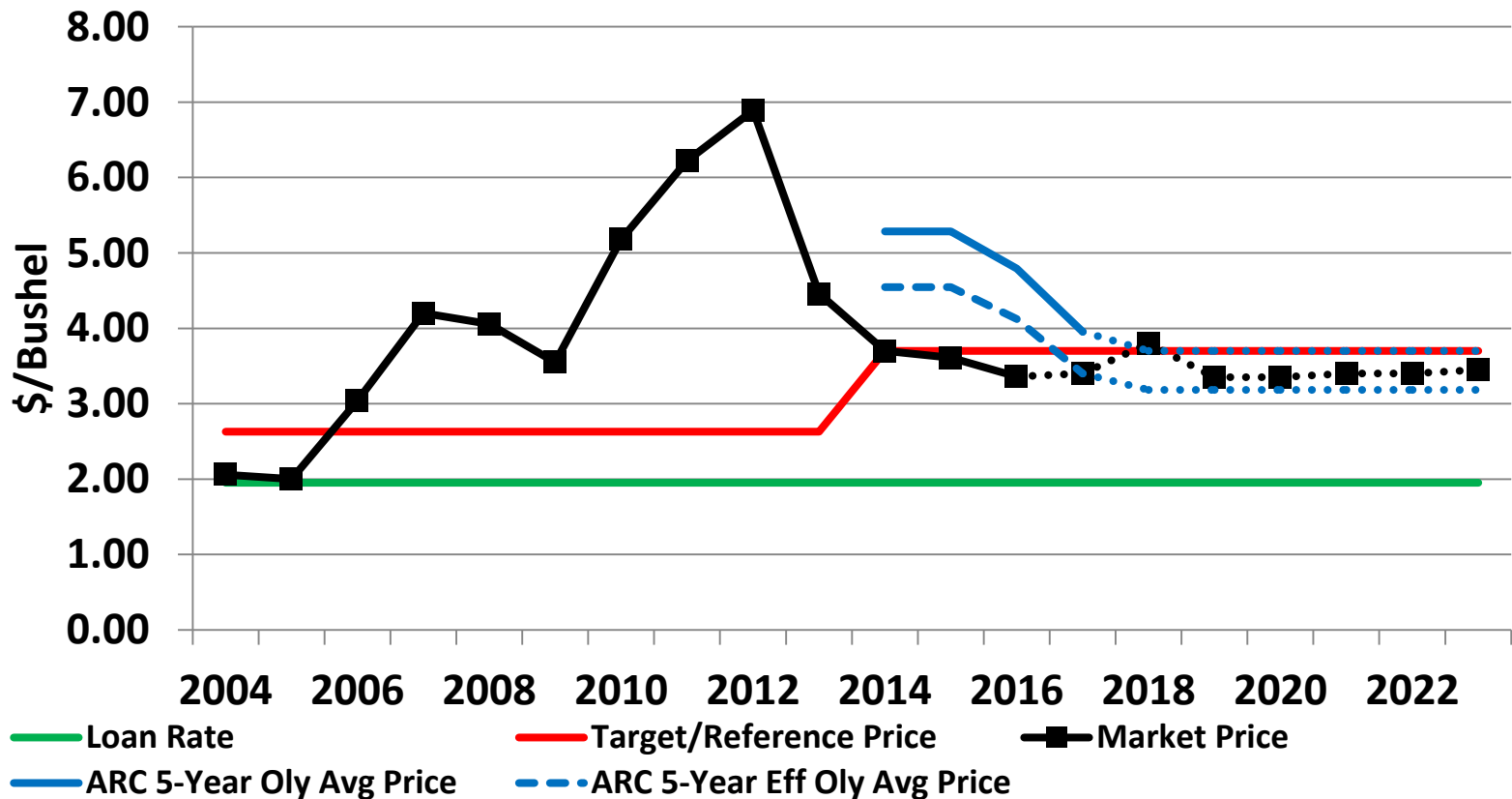
Payment Limits

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Program Payment Limits	\$125,000 per person or per entity			
AGI Eligibility Limits	\$900,000		Reduces AGI cap from \$900,000 to \$700,000	Supports tied to production or to farms?
Direct Attribution and Entity Rules	Payments attributed to individuals for payment limit purposes regardless of entities, subject to 4 levels of entities Entities also limited to single payment limit	Relaxes entity rule - unlimited payments to qualified pass-through entities Expands familial definition – nieces, nephews, cousins		Entities vs. individuals? What defines/limits active engagement?
Active Engagement	Left hand contributions – land, labor, capital Right hand contributions – active labor and management		Grassley amendment to tighten eligibility rules added into bill	

Farm Income Safety Net

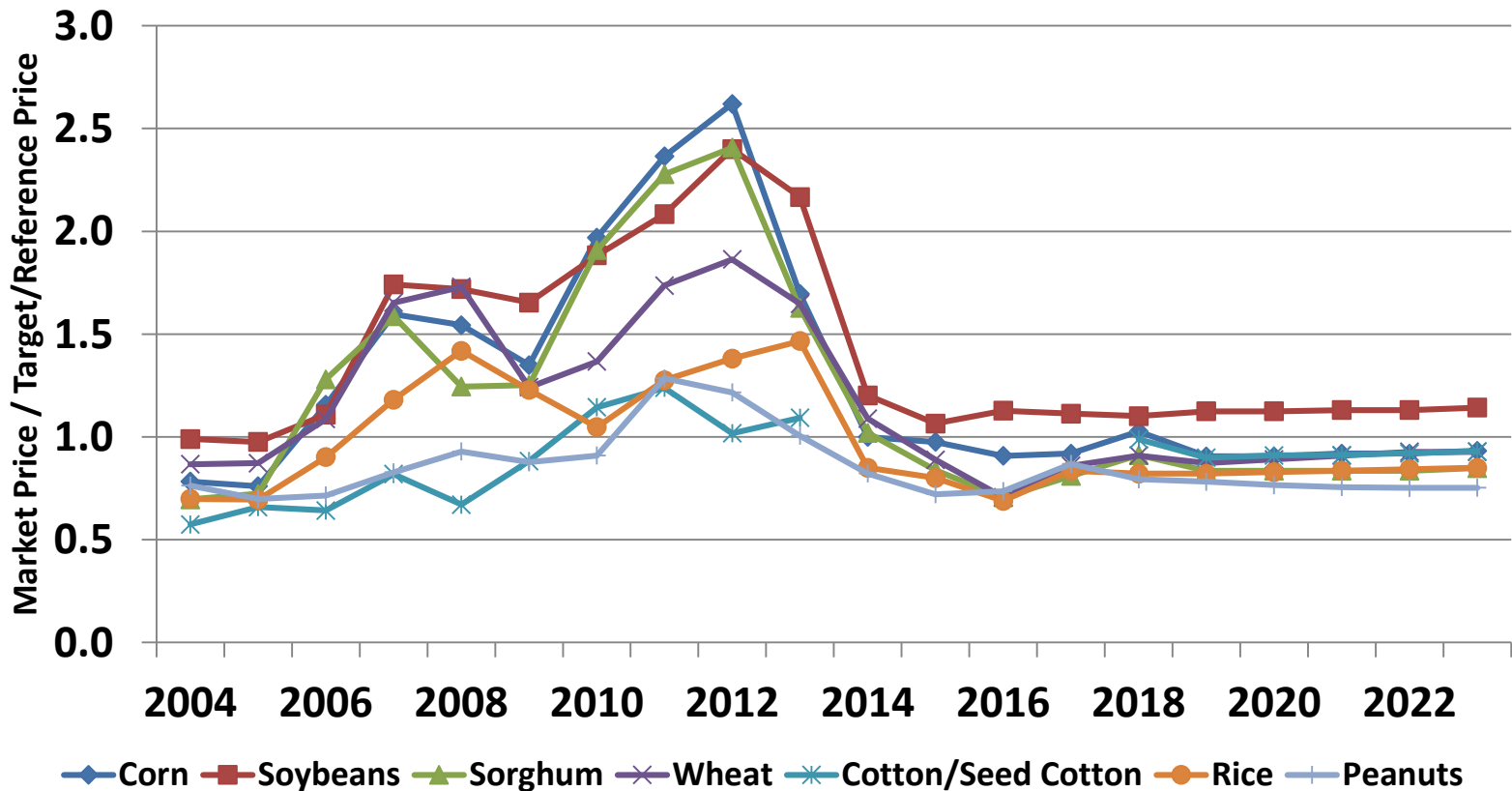
Corn Prices, PLC, and ARC Price Protection*



* Price projections for 2017-2018 from USDA-WAOB and USDA-FSA as of July 2018. Price projections for 2019-2023 from USDA-OCE as of February 2018. ARC 5-year effective Olympic average price based on 86% of ARC 5-Year Olympic average price for illustration only as ARC protection is tied to revenue. Sources: USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.

Farm Income Safety Net

Market Price Levels Relative to Safety Net Levels*



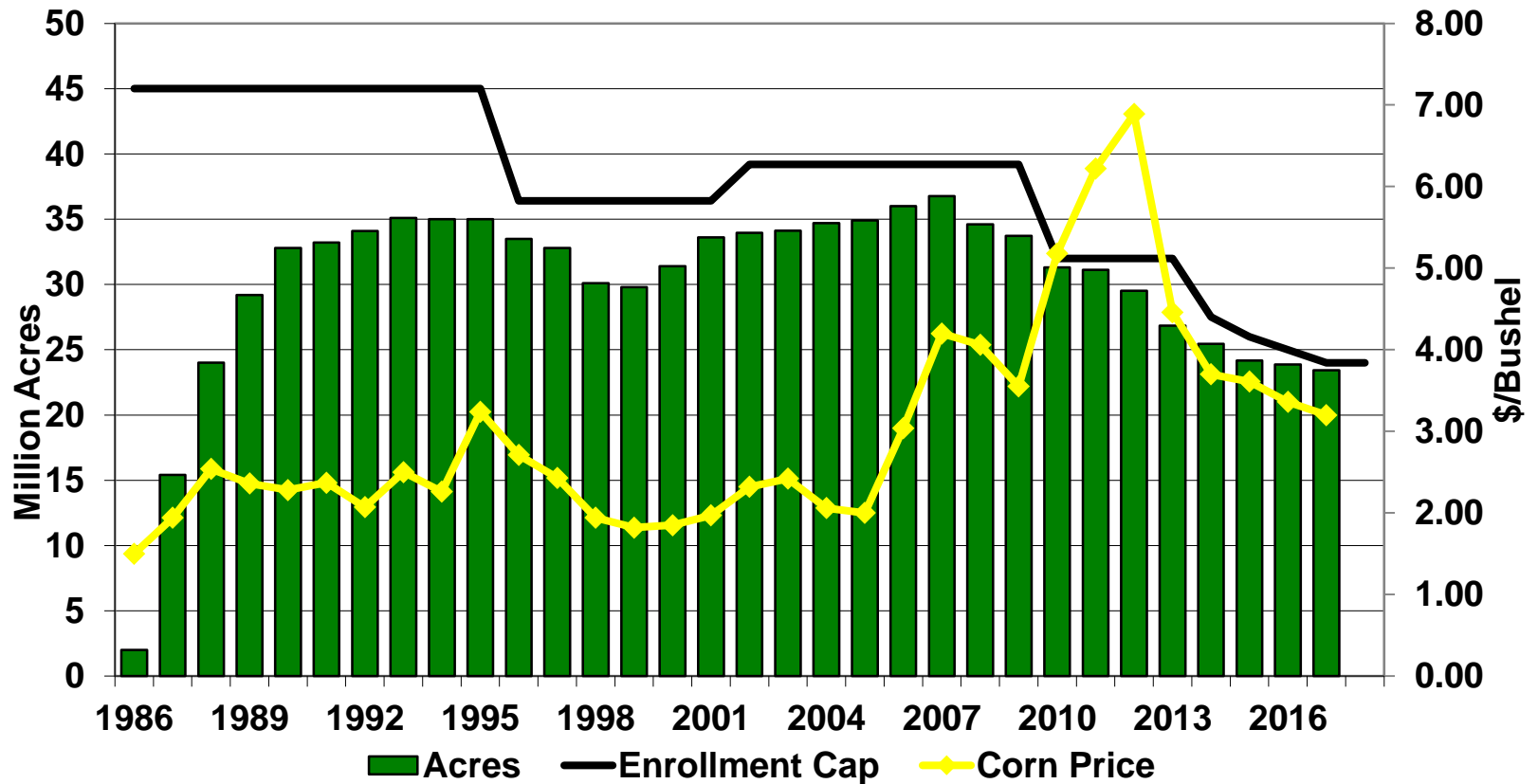
* Price projections for 2017-2018 from USDA-WAOB and USDA-FSA as of July 2018. Price projections for 2019-2023 from USDA-OCE as of February 2018 and CBO as of March 2018. Sources: CBO, USDA-FSA, USDA-NASS, USDA-WAOB and USDA-OCE.

Conservation

Major Components

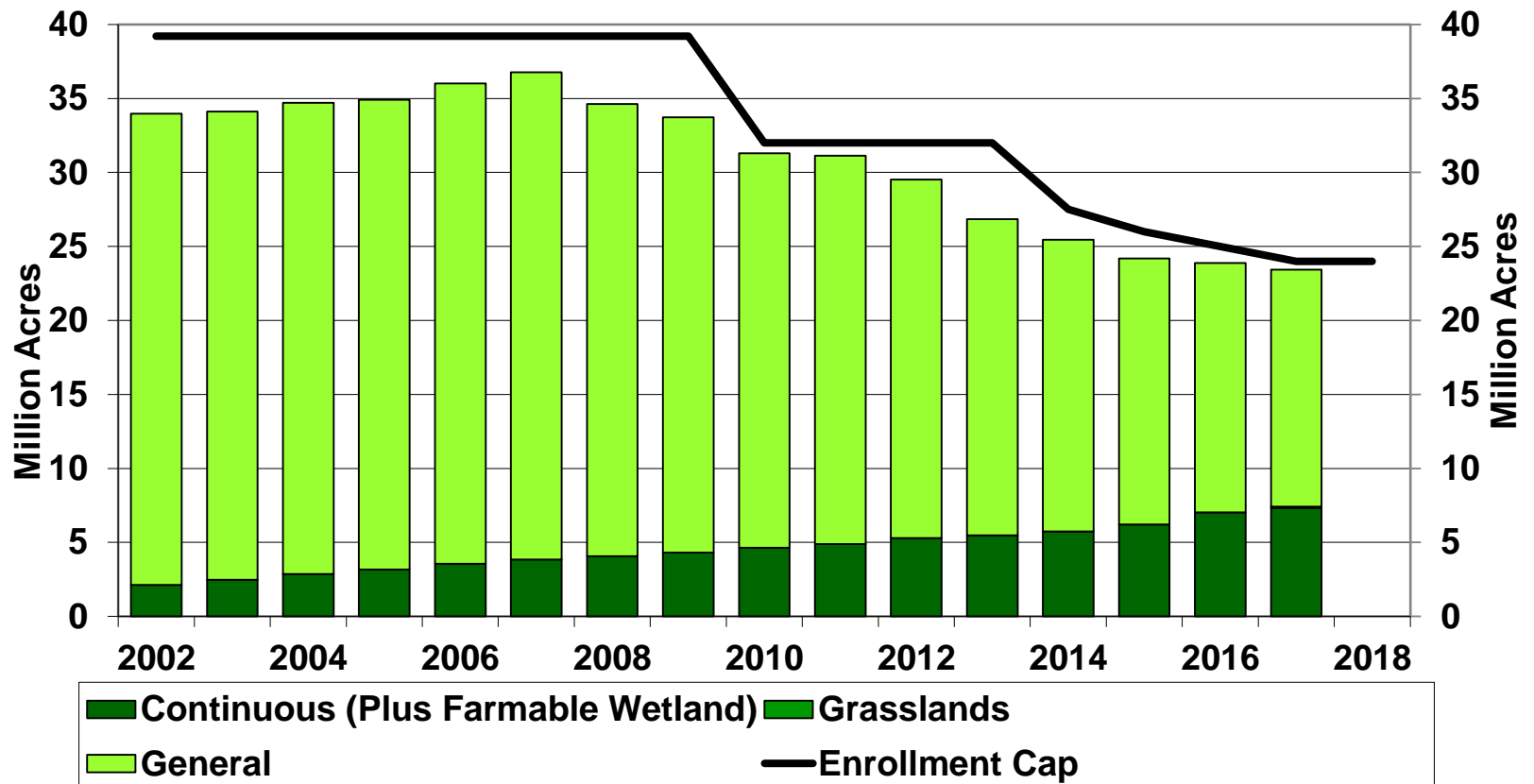
Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
CRP	Enrollment cap – 24 M acres	Expand cap to 29 M acres	Expand cap to 25 M acres	Budget-neutral cap and rental rate shift?
	Rental rate – max of 100% of county average rental rate	Reduce maximum rental rate to 80%	Reduce maximum rental rate to 88.5%	Willingness-to-accept for CRP re-enrolment?
		Reduced rental rate cap for re-enrollment	Establishes Conservation Reserve Easements	
			Thune amendment language added to create separate Soil Health and Income Protection Program for short-term land retirement	

Conservation Reserve Program Enrolled Acreage and Corn Prices



Source: USDA-FSA and USDA-NASS

Conservation Reserve Program Enrolled Acreage by Category



Source: USDA-FSA and USDA-NASS

Conservation

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Working Lands	<p>EQIP up to \$1.75 B/yr, projected outlays of \$1.5-1.7 B/yr over 2019-2023</p> <p>EQIP livestock share of 60%</p> <p>CSP up to 10 M ac/yr, projected outlays of \$1.6-1.8 B/yr over 2019-23</p>	<p>Eliminates CSP, shifts stewardship payments to EQIP, raises EQIP by \$2.1 B, but cuts CSP by \$3.6 B over 2019-23</p> <p>Eliminates EQIP livestock share</p>	<p>Reduces EQIP authority to \$1.5-1.6 B/yr, projected outlays reduced by \$626 M over 2019-23</p> <p>Reduces EQIP livestock share to 55%</p> <p>Reduces CSP authority to 8.8 M ac/yr, projected outlays reduced by \$229 M over 2019-23</p>	<p>Reduced funding for working lands programs?</p>

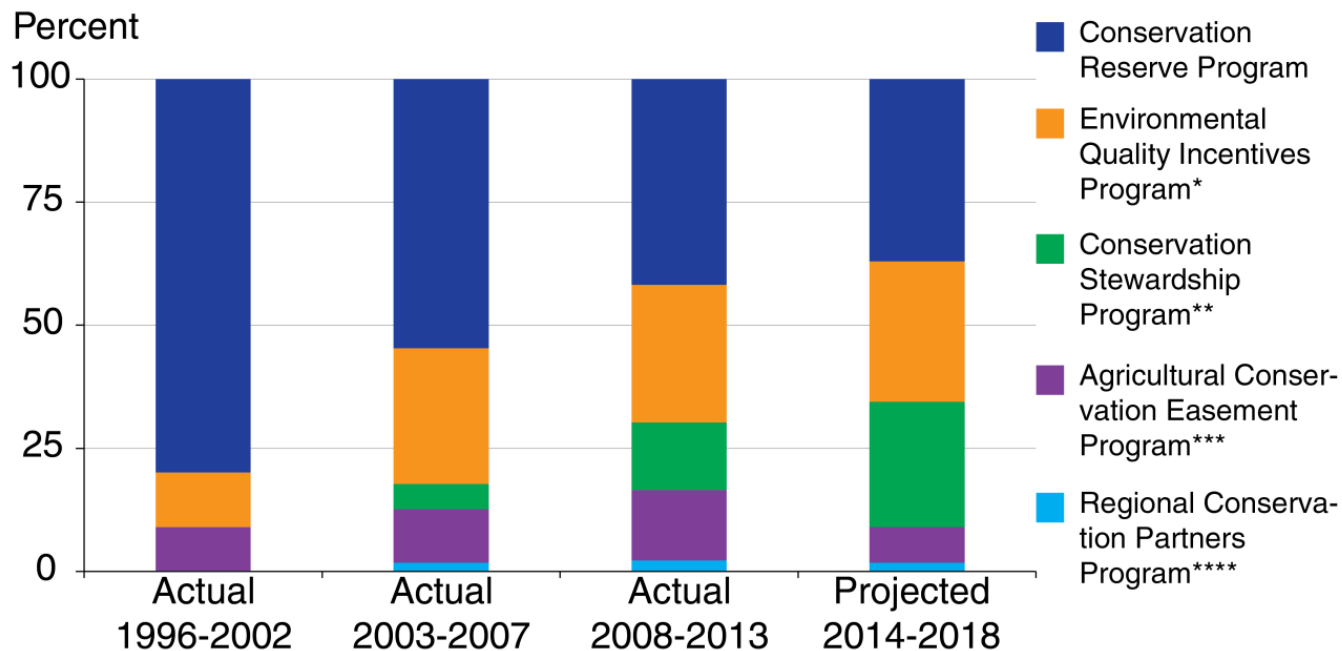
Conservation

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Easement Programs	Budget authority of \$250 M/yr, projected outlays of \$1.347 B over 2019-23	Increases budget authority to \$500 M/yr, increases projected outlays by \$979 M over 2019-23	Increases projected outlays by \$629 M over 2019-23	Role for easement programs?
Regional Conservation Partnership Programs	Budget authority of \$100 M/yr, projected outlays of \$578 M over 2019-23	Increases budget authority to \$250 M/yr, increases projected outlays by \$558 M over 2019-23	Increases budget authority to \$200 M/yr, increases projected outlays by \$374 M over 2019-23	Role for partnership programs?

Conservation Program Spending

Share of conservation spending by major programs and predecessors in the 2014 and previous farm acts



*Includes EQIP and the Wildlife Habitat Incentives Program for 1996-2013.

**Includes the Conservation Security Program for 2002-2007.

***Includes the Wetland Reserve Program, Farmland Protection Program, and Grassland Reserve Program (easement portion) for 1996-2013.

****Includes the Agricultural Water Enhancement Program, Chesapeake Bay Watershed Program, Cooperative Conservation Partnership Initiative, and Great Lakes Basin Program for 1996-2013.

Sources: ERS analysis of Office of Budget and Policy Analysis data on actual expenditures for 1996-2013; spending levels provided in the 2014 Farm Act and Congressional Budget Office estimates for 2014-2018.

Crop Insurance

Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Means Test	No limit		Durbin amendment to add \$700,000 AGI cap withdrawn	Impact on large operations/participation Impact on remaining operations, portfolio performance, and actuarially-sound rates
Premium Subsidy Limit	No limit			
Harvest Price Coverage	RP (w/ harvest price) – covers revenue based on higher of base or harvest price RP (w/o harvest price) – covers revenue based on base price			Role of harvest price with marketing/hedging activity Economic rationale for RP w/harvest price vs. RP w/o harvest price
Premium Subsidy Rate	Variable rate – average of 62% on full portfolio			Producer willingness-to-pay Systemic v. idiosyncratic risk, role of subsidy
Standard Reinsurance Agreement	Renegotiated regularly – outside of farm bill			Company support and returns

Food Assistance (SNAP)

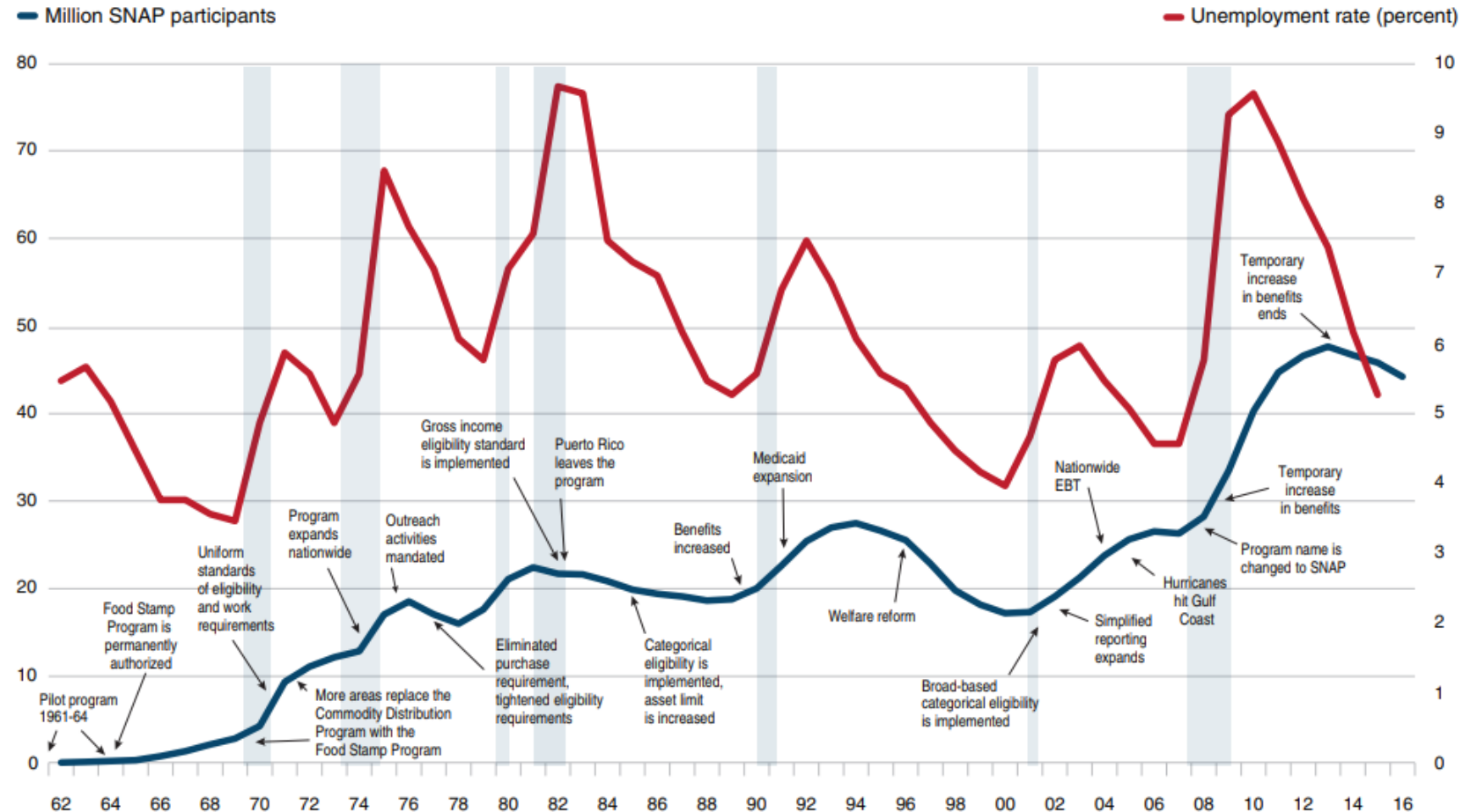
Major Components

Issue	Current Law	House (H.R. 2)	Senate (S. 3042)	Economic Issues/ Questions
Categorical Eligibility	Broad-based categorical eligibility	Tightens rules, reduces projected outlays by \$2.3 B over 2019-23, \$5.0 B over 2019-28		Participation and support levels? Eligibility rules?
Standard Utility Deduction	Standard utility deduction in budget for benefit calculation	Tightens rules, reduces projected outlays by \$2.4 B over 2019-23, \$5.3 B over 2019-28		Benefit calculations? Benefit delivery?
Work Requirements and Education/Job Training	Current work requirements of 20 hours/week, but also existing waivers	Tightens rules, expands training, projected outlays increase by \$910 M over 2019-23, decrease by \$1.5 B over 2019-28	Kennedy/Cruz amendment to tighten work requirements defeated	Work requirements? Education/job training assistance?

Nutrition – Food Assistance

SNAP and the Economy

Food stamp participation and the unemployment rate, 1962-2016



Notes: The number of Supplemental Nutrition Assistance (SNAP) participants is reported in fiscal years, and the unemployment rate is reported in calendar years. There is often a lag between the time a legislative act is passed and its implementation. There can be an additional lag between implementation of an Act and measurable effects on participation. Gray vertical bars indicate recessions. EBT = electronic benefit transfer.

Source: USDA, Food and Nutrition Service data and U.S. Department of Labor, Bureau of Labor Statistics data.

2018 Farm Bill Outlook

- ◆ House and Senate bills in conference negotiations – Conference Committee report in early September?
- ◆ Path to Farm Bill completion
 - Vote before current farm legislation expires on September 30?
 - Vote after election in lame-duck session before end of the year?
 - Permanent legislation for dairy programs would take effect on January 1, 2019 if no new/extended legislation
- ◆ New producer ARC/PLC enrollment decision in 2019 under new/extended legislation

Other Ag Policy Issues and Risks

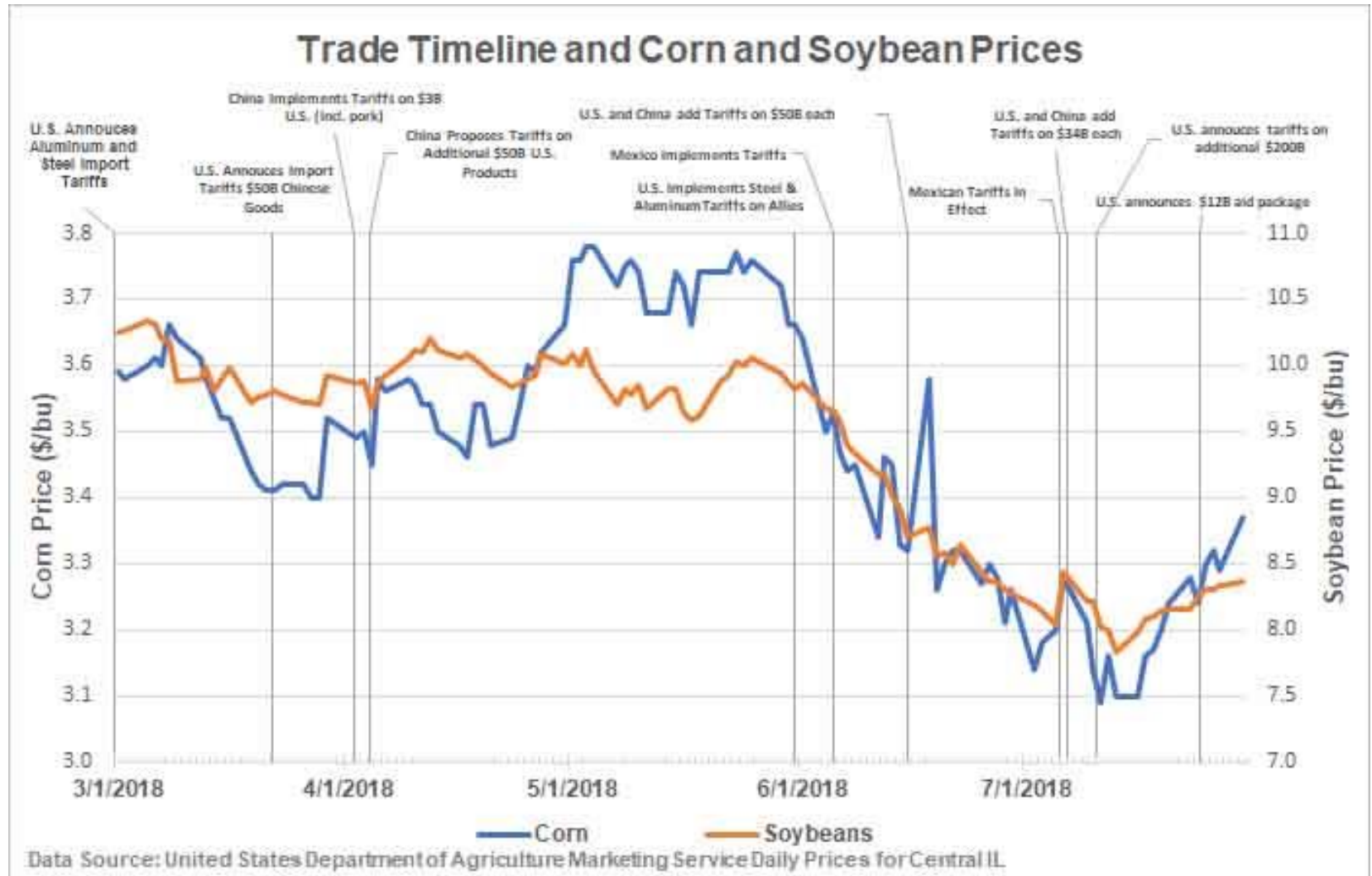
- ◆ Trade
- ◆ Bioenergy
- ◆ Technology
- ◆ Consumer demand
 - Consumer expectations
 - Interest group pressure
 - Supply chain requirements

U.S. Trade Issues and Conflicts

A Partial Timeline

- ◆ Jan 2017 – **U.S. withdraws from TPP**
- ◆ Feb 2017 – **EU and Canada ratify trade agreement reached in 2014**
- ◆ May 2017 – **U.S. announces intent to renegotiate NAFTA**
- ◆ April 2017
 - U.S. begins national security investigation into steel and aluminum imports
 - **U.S. threatens to end U.S.-Korea trade agreement**
- ◆ Aug 2017
 - U.S. begins investigation of Chinese treatment of U.S. IP
 - **NAFTA renegotiations begin**
- ◆ Jan 2018 – U.S. imposes tariffs on washing machine and solar cell imports under Sect. 201 (Safeguard)
- ◆ Feb 2018 – China starts anti-dumping investigation of sorghum imports from U.S.
- ◆ Mar 2018
 - U.S. announces steel and aluminum tariffs under Sect. 232 (National Security) against China, Japan, Russia, India, and Turkey with delay for other countries (EU, Australia, Argentina, Brazil, South Korea, Canada, and Mexico)
 - U.S. complains to WTO about Chinese protection of IP and releases Sect. 301 (Countervailing duties) report
 - China announces tariffs on \$3 billion of U.S. exports (including fruits, nuts, wine, and pork) in retaliation for steel and aluminum tariffs
 - EU announces potential tariff list on U.S. exports in retaliation for steel and aluminum tariffs
 - **TPP-11 (sans U.S.) trade agreement signed**
- ◆ Apr 2018
 - **U.S. and South Korea reach deal on changes to trade agreement**
 - U.S.-China talks break down
 - U.S. proposes tariffs on \$50 billion of high-tech imports from China pursuant to Sect. 301 investigation and report
 - China complains to WTO about U.S. Sect. 301 tariffs and announces tariffs on \$50 billion of imports of U.S. agricultural products and automobiles in response
- ◆ Apr 2018 (cont.)
 - U.S. announces plans to consider additional tariffs on \$100 billion of Chinese imports in response to Chinese tariffs
 - U.S. says it may consider re-joining the TPP
 - China announces anti-dumping tariffs on sorghum imports from U.S.
 - U.S. penalizes Chinese company ZTE for business with Iran and North Korea and looks at Huawei Technologies
- ◆ May 2018
 - China ends anti-dumping investigation and stops collecting tariffs on sorghum imports from U.S.
 - U.S. – China trade talks produce reported agreement, including settlement of ZTE dispute, but agreement is short-lived
 - U.S. complains at WTO about Chinese technology and IP practices
 - U.S. announces plans to move forward with tariffs on \$50 of Chinese imports
- ◆ Jun 2018
 - Mexico imposes tariffs on \$3 billion of U.S. exports in response to U.S. steel and aluminum tariffs
 - EU imposes tariffs on \$3.3 billion of U.S. exports in response to U.S. steel and aluminum tariffs
 - U.S. and China each announce tariffs on \$50 billion of imports from each other
 - U.S. considers tariffs on another \$200 billion of imports from China and another \$200 billion after that if China retaliates
- ◆ Jul 2018
 - Canada imposes tariffs on \$13.3 billion of U.S. exports in response to U.S. steel and aluminum tariffs
 - U.S. and China each impose tariffs on \$34 billion of imports from each other (Chinese tariffs include agricultural products, including soybeans)
 - U.S. and China poised to impose tariffs on \$16 billion of additional imports from each other
 - **EU and Japan reach trade agreement**
 - **U.S. and EU announce plans for trade talks**

Trade and Price Timeline



Announced U.S. Trade Aid for Agriculture

- ◆ \$12 billion in federal assistance for agriculture
 - Market Facilitation Program (~\$8 billion)
 - Direct payments to producers for 2018 production of soybeans, sorghum, cotton, corn, wheat, dairy, and hogs
 - Food Purchase and Distribution Program (~\$4 billion)
 - USDA purchases of surplus commodities (lost exports) for food, feeding, and donation programs
 - Trade Promotion Program (~\$200 million)
 - Leveraging private sector dollars to develop new foreign markets

Implications

- ◆ Federal farm income safety net has evolved over time
 - Price support and supply control
 - Income support tied to price and revenue
 - Risk management
- ◆ Farm income safety net is complex
 - Farm programs integrate with, complement, and substitute for crop insurance
 - Decisions
 - ARC-IC vs. ARC-CO vs. PLC
 - ARC/PLC and crop insurance
- ◆ Producers need to manage policy risks, not just policy tools
 - Uncertainty and volatility of policy developments have economic implications for both the short and long-term
- ◆ Risk management decisions are complex
 - Risk management decisions need to be based on portfolio analysis, not program-by-program decisions
 - Producer decision tools and education are a critical need