The AFBF Board of Directors approved the following recommendations for submission to Congress on April 6, 2013. They support passing a Farm Bill that would save $23 billion over the continuation of current law, would provide program crop producers options for a safety net, and would provide equity across commodities.

The following core principles were used to draft our suggestions for the commodity and crop insurance programs in the Farm Bill:

• Offer producers a choice of program options;
• Protect and strengthen the federal crop insurance program and do not reduce its funding;
• Provide a commodity title that works to encourage producers to follow market signals rather than making planting decisions in anticipation of government payments;
• Refrain from basing any program on cost of production; and
• Ensure equity across program commodities.

A. Budget Factors and Recommendations

The Senate-approved budget resolution requires a farm bill savings reduction of $23 billion over 10 years. This matches the savings level scored last summer by the Congressional Budget Office (CBO) in their review of the Senate-passed farm bill, S. 3240.

The House-approved budget resolution requires a reduction of $31 billion, which is actually more than last year’s savings from titles and programs outside of nutrition.

In February 2013, CBO revised last summer’s score of S. 3240 to reflect new information and assumptions regarding the proposed programs. In the revised score, S. 3240 was credited with saving $13.1 billion rather than $23 billion. Chairwoman Stabenow has indicated she intends to draft a bill that continues to spread the cuts among commodities, conservation and nutrition programs. We have assumed these savings will be made in a manner similar to last year’s Senate-passed bill.
Therefore, our proposal takes into account the additional $10 billion required reduction in spending over last year’s version. For purposes of this proposal, we assume the commodity title will be targeted for $5 billion in savings and another $5 billion reduction will be divided between the conservation and nutrition programs.

**Recommendation 1:** Support the Senate budget reduction number of $23 billion and transmit a proposal to the Hill structured to achieve that level of savings.

**Recommendation 2:** Model the Farm Bureau Farm Bill proposal on achieving this level of savings in a construct that can be proportionately reduced if further reductions are necessary, rather than one that would require a total rewrite.

## B. Policy Factors and Recommendations

Farm Bureau supports the following core principles for the commodity and crop insurance programs in the Farm Bill:

- Offer producers a choice of program options;
- Protect and strengthen the federal crop insurance program and do not reduce its funding;
- Provide a commodity title that works to encourage producers to follow market signals rather than making planting decisions in anticipation of government payments;
- Refrain from basing any program on cost of production; and
- Ensure equity across program commodities.

In 2012, Farm Bureau supported passage of both the Senate Farm Bill and the House Ag Committee reported bill. While there were many similarities between the two versions, the primary difference affecting agriculture was with regard to the Title I safety net for row crops.

- The House Ag Committee commodity title included both a target price and a shallow loss program available to producers at a county level.
- The Senate did not offer a target price option. Its safety net was built around a shallow loss program, with the producer option being participation at the county or farm level.

If we had the funding to support all these programs again, we would likely do so, based largely on Farm Bureau policy 239 which states that “[i]f a catastrophic risk program is not achievable, we support producers being allowed a choice of program options.” However, with an even more limited budget available this year, we recommend the following as the basis for AFBF’s farm bill proposal.
**Recommendation 3:** Offer program crop producers a Stacked Income Protection Plan (STAX), an improved crop insurance program, target prices, and marketing loans as their new safety net. As was the case with both the Senate and House Ag Committee passed bills in 2012, we assume that direct payments, the ACRE program and the crop portion of the SURE permanent disaster program will be eliminated in the 2013 Farm Bill and the savings used to reduce the Federal budget deficit and to fund a new producer safety net.

- We envision a three-legged safety net stool. Producers will select between a STAX program and a target price program for their first safety net program.
- All program crop producers will have the marketing loan program and the crop insurance program available to them as additional risk management tools.

Target prices will be preferred by some producers who remain concerned that when farm prices decline, a revenue program like STAX will not adequately protect them. Conversely, STAX will be preferred by some producers as a more effective way to protect revenue streams rather than just price reductions. The challenge is to ensure that offering a variety of program options avoids inducing producers toward planting decisions based on farm program benefits that accrue more beneficially to a particular crop.

**C. Budget Assumptions and Detail on Title 1 Policy Recommendations**

In calculating the estimate of available funding, we worked from the February 2013 ten-year CBO baseline projections for the major commodity programs contained in S. 3240, which were:

- Agricultural Risk Coverage (ARC) = $31.0 billion;
- Supplemental Coverage Option (SCO) for all commodities except cotton = $2.9 billion; and
- STAX for cotton = $3.7 billion.

This totals $37.6 billion. Reducing this amount by the $5 billion additional reduction necessary per the February 2013 CBO scoring leaves $32.6 billion available to fund a viable safety net for producers.

**STAX Recommendation**

**Recommendation 3a:** Establish a STAX program for all program commodities and for apples, potatoes, tomatoes, grapes and sweet corn. Covering these five specialty crops will benefit fruit and vegetable producers in 44 states. These are the same five crops the AFBF Board recommended to be covered last year under our deep loss proposal. The five crops were selected based on the following criteria:

a. Crop insurance is currently available for the crop;
b. The crop ranks in the top 13 in value of production for the country and all represent at least 2 percent of the country’s value of production; and
c. The crops are all grown in at least 13 states.

Farm Bureau would like to cover all crops under a STAX program in the future.

In both the Senate and House bills last year, STAX was made available only to cotton producers as a revenue-based, area wide policy. It could have been purchased as a stand-alone policy or as an additional policy above a person’s individual crop yield or revenue insurance policy. Losses would have been indemnified if the county revenue loss was between 10 percent and 25 percent of expected county revenue if there was an underlying individual policy. If selected as a stand-alone policy, the 25 percent maximum increased to 30 percent. Premiums would have been subsidized at 80 percent and a payment rate multiplier of 120 percent was offered if producers wanted to increase the amount of protection per acre. Producers were also offered the option of a harvest price election. The House Ag Committee bill provided for a 68 cents/pound reference price, but the Senate bill did not.

Farm Bureau supported the STAX program for cotton last year. We do not recommend providing a reference price for any commodity because of compliance issues with the Brazil WTO cotton case.

However, our estimates indicate such a program would cost $82 billion, significantly more than $32.6 billion projected to be available for new safety net and risk management tools in the Farm Bill. The following chart shows the cost per commodity to do the STAX program with a breakdown for the costs associated with the inclusion of the harvest revenue option or a multiplier option.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Full STAX</th>
<th>No HRO</th>
<th>No Multiplier or HRO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$39.5B</td>
<td>$31.2B</td>
<td>$28.1B</td>
</tr>
<tr>
<td>Wheat</td>
<td>$13.1B</td>
<td>$10.3B</td>
<td>$ 9.3B</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$25.0B</td>
<td>$19.8B</td>
<td>$17.8B</td>
</tr>
<tr>
<td>Cotton</td>
<td>$ 3.2B</td>
<td>$ 2.5B</td>
<td>$ 2.3B</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$82.1B</td>
<td>$64.9B</td>
<td>$58.4B</td>
</tr>
</tbody>
</table>

Therefore, the numbers indicate the following changes be made to STAX for all commodities:

- reduce the premium subsidization to 70 rather than 80 percent;
- do not offer the multiplier option;
• do not offer a harvest price option;
• allow STAX to be based on yield or revenue at the discretion of the producer; and
• allow only as a buy-up policy with a 10-25 percent deductible rather than also providing for a stand-alone policy.

If these changes are made, our analysis suggests the program can be offered for about $28 billion over 10 years. This is based on a participation rate in the STAX program of 80 percent for corn and soybean production; 65 percent participation for wheat production; 90 percent participation for cotton production; and no participation from rice and peanut producers. We assume about 10 percent of all producers of program crops, except for rice and peanuts, will not participate in any program; we estimate that 5 percent of rice and peanut producers will not participate in any program.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Participation % in STAX</th>
<th>New STAX Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>80%</td>
<td>$13.6B</td>
</tr>
<tr>
<td>Wheat</td>
<td>65%</td>
<td>$ 4.9B</td>
</tr>
<tr>
<td>Soybeans</td>
<td>80%</td>
<td>$ 7.7B</td>
</tr>
<tr>
<td>Cotton</td>
<td>90%</td>
<td>$ 1.7B</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>$27.9B</td>
</tr>
</tbody>
</table>

**Target Price Recommendation**

**Recommendation 3b:** Provide a target price program for all program commodities with the exception of cotton.

Due to the Brazil cotton case, cotton likely cannot be provided a marketing loan at the current level or any target price. Therefore, we support continuation of the current –

(a) special marketing loan provision that imposes an import quota on cotton when the price of US cotton exceeds the prevailing world market price for 4 weeks;
(b) payment of up to 3 cents/pound economic adjustment assistance to domestic users of cotton; and
(c) special competitiveness program that provides payments to domestic users and exporters whenever the world market price is below the prevailing US price for a 4-week period.

Target price levels will be based on the marketing-year average price from the past five years (2007 through 2011) and those projected by CBO for the next five years (2012 through 2016).
To establish the actual target prices, these 2007-2016 average prices are reduced by 25 percent for corn and soybeans, 15 percent for wheat and 10 percent for rice and peanuts. Wheat has an adjustment of only 15 percent because it is produced mostly in the larger counties in the western U.S., making area yields less representative of individual producer experience in these regions so that area-based programs are less effective. The smaller 10 percent adjustment is applied to peanuts and rice as both crops lack insurance products that function as well as those available to the major grain and oilseed commodities. In addition, under the STAX program suggested by Farm Bureau, no payments would be made until the county average revenue or yield fell by 10 percent from the historic amount. We suggest the same 10 percent loss threshold be used to determine appropriate target price levels for rice and peanuts.

**Current Law Reference:** In general, under current law, target prices are to be paid on a producer's historical plantings of the crop rather than the current planted acreage of the commodity. However, they are in fact only paid on 85 percent of a farm's base production (base yield times base historical acreage). Until the 2002 Farm Bill, target prices were paid on planted acres rather than base acres. In an effort to ensure that farmers were taking planting signals from the market rather than from government payments, the 2002 law changed the target price provisions to be based on historical base acres rather than current planted acres.

While we do not want a government program to distort planting signals, we support basing target price protection on 85 percent of planted acres, but not to exceed a producer's historical base acreage. This provides a safety net more accurately addressing the risks associated with current production decisions and eliminates the present mismatch between payments and actual production or market conditions. Capping the payment acres at the historical base minimizes any potential distortion of a target price system. Many farm program opponents believe it is wrong to pay producers for something they may not be growing. This approach would resolve that issue by only providing target price protection to those that are actually growing the crop.

**CBO Planted Acres Baseline:** However, basing the payment on planted acres makes it even more important that the program does not allow a target price to be set so high as to encourage producers to take their signal on what to plant from a government program rather than the marketplace. For reference, base acres and average projected planted acres from the 2014-2023 CBO baseline are listed below.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Base Acres</th>
<th>CBO 2014-2023 Planted (Million Acres)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>84.1</td>
<td>89.3</td>
<td>5.2</td>
</tr>
</tbody>
</table>
Soybeans | 50.1 | 78.4 | 28.3
--- | --- | --- | ---
Wheat | 73.8 | 52.1 | -21.7
Rice | 4.4 | 3.0 | -1.4
Peanuts | 1.5 | 1.4 | -0.1
Cotton | 17.9 | 9.6 | -8.3

**Target Price Option Cost Projection:** The total projected cost for the target price program follows. The participation rates assumed are in Column A with 95 percent of the peanut and rice acres assumed enrolled in target prices rather than STAX. We assume that 25 percent of wheat acres will enroll the target price program and only 10% of corn and soybeans will be enrolled.

Market-based target prices calculated from the 10 year average price as discussed previously are shown in Column B in the table below. The projected cost of a target price program using the market-based target prices paid on base acres is listed in Column C. The total target price cost $7.9 billion. The projected cost using the market-based target prices and paid on 85 percent of planted acres, but not to exceed the base acres, is listed in Column D. The total target price cost is projected at $6.3 billion.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Col. A</th>
<th>Col. B</th>
<th>Col. C</th>
<th>Col. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Producers Selecting Target Prices</td>
<td>TPs Using 10-year Average Prices</td>
<td>Market-Based TPs Paid on Base Acres (in billions $)</td>
<td>Market-Based TPs Paid on Planted Acres Up to Base (in billions $)</td>
<td></td>
</tr>
<tr>
<td>Corn</td>
<td>10%</td>
<td>$3.63</td>
<td>$1.46</td>
<td>$1.46</td>
</tr>
<tr>
<td>Soybeans</td>
<td>10%</td>
<td>$8.21</td>
<td>$0.86</td>
<td>$0.86</td>
</tr>
<tr>
<td>Wheat</td>
<td>25%</td>
<td>$5.40</td>
<td>$2.78</td>
<td>$1.98</td>
</tr>
<tr>
<td>Rice</td>
<td>95%</td>
<td>$12.93</td>
<td>$2.55</td>
<td>$1.72</td>
</tr>
<tr>
<td>Peanuts</td>
<td>95%</td>
<td>$448.54</td>
<td>$0.23</td>
<td>$0.22</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$7.88</td>
<td>$6.24</td>
</tr>
</tbody>
</table>

The total budget impact of STAX and Target Price options is represented in the table below.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>STAX Part. Percent</th>
<th>STAX Cost (in billions)</th>
<th>TP Part. Percent</th>
<th>TP Cost (in billions)</th>
<th>No Part. In Either Program</th>
<th>Total Cost (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>80%</td>
<td>$13.6B</td>
<td>10%</td>
<td>$1.5B</td>
<td>10%</td>
<td>$15.1B</td>
</tr>
<tr>
<td>Commodity</td>
<td>Percentage</td>
<td>Value</td>
<td>Percentage</td>
<td>Value</td>
<td>Percentage</td>
<td>Value</td>
</tr>
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<td>------------</td>
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<td>-------</td>
<td>------------</td>
<td>-------</td>
<td>------------</td>
<td>-------</td>
</tr>
<tr>
<td>Wheat</td>
<td>65%</td>
<td>$4.9B</td>
<td>25%</td>
<td>$2.0B</td>
<td>10%</td>
<td>$6.9B</td>
</tr>
<tr>
<td>Soybeans</td>
<td>80%</td>
<td>$7.7B</td>
<td>10%</td>
<td>$0.9B</td>
<td>10%</td>
<td>$8.6B</td>
</tr>
<tr>
<td>Cotton</td>
<td>90%</td>
<td>$1.7B</td>
<td>0%</td>
<td>$0</td>
<td>10%</td>
<td>$1.7B</td>
</tr>
<tr>
<td>Rice</td>
<td>0%</td>
<td>$0</td>
<td>95%</td>
<td>$1.7B</td>
<td>5%</td>
<td>$1.7B</td>
</tr>
<tr>
<td>Peanuts</td>
<td>0%</td>
<td>$0</td>
<td>95%</td>
<td>$0.2B</td>
<td>5%</td>
<td>$0.2B</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>$27.9B</td>
<td></td>
<td>$6.3B</td>
<td></td>
<td>$34.2B</td>
</tr>
</tbody>
</table>

* Market-based target prices paid on 85% of planted acres up to base.

D. **Other Changes to Title 1 – Commodities**

- Use the resulting savings from the expected elimination of the Direct Payment, ACRE and SURE programs to help cover both savings requirements and the costs of revised safety net/risk management provisions.
- Extend the current marketing loan programs (MLGs and LDPs) for all commodities at the current loan rates, with the exception of cotton. That rate could decline from the current 52 cents per pound to 47 cents per pound to comply with the WTO Brazil Cotton Case, and was included in both the Senate and House Ag Committee bills last year.
- Continue the current sugar program, including nonrecourse loans and marketing allotments as in current law.
- Reauthorize and fund with mandatory money the four expired disaster programs. This includes the (a) Livestock Indemnity Program (LIP), (b) Livestock Forage Program (LFP), (c) Emergency Assistance for Livestock, Honey Bees and Farm-Raised Fish Program (ELAP), and (d) Tree Assistance Program (TAP).
- Oppose additional payment limits or means testing for any commodity program.
- Support the concept of a gross margin insurance program for dairy rather than the current price support and Milk Income Loss Contract.

E. **Other Changes to Title 11 – Crop Insurance**

- Mandate that USDA establish a revenue insurance program for peanuts.
- Mandate that USDA work to establish another revenue crop insurance policy for rice producers.
- Mandate enterprise unit coverage so producers will be able to purchase separately for irrigated and non-irrigated acreage.
- Mandate that beginning farmers or ranchers will receive premium assistance that is higher than provided to others.
- Mandate additional studies on insuring specialty crop producers for food safety and contamination-related losses.
• Mandate additional studies on commercial poultry production against business disruptions caused by integrator bankruptcy.

• Improve the Noninsured Assistance Program (NAP). Currently, producers must suffer at least a 50 percent crop loss or be prevented from planting more than 35 percent of intended acreage to collect. For losses above those thresholds, a producer receives 55 percent of the average market price for the commodity. Allow additional coverage at 50 to 65 percent of established yield and 100 percent of average market price. Producers would pay a premium for such coverage.

• Oppose additional payment limits and means testing on any crop insurance programs.

• Oppose linking conservation compliance with crop insurance programs.

• Support making the pilot program for higher premium subsidies for enterprise units permanent.

• Support enterprise unit coverage being available for irrigated and non-irrigated acreages of crops.

F. **Priorities for the Remainder of the Bill**

• Achieve the vast majority of necessary reductions in conservation funding from the land retirement programs rather than working land programs;

• Consolidate conservation provisions under 13 programs, rather than 23, and focus on administrative savings and simplicity in the remaining programs;

• Expand the State Block Grants for Specialty Crops program and funding for research for specialty crops as well as technical assistance at USDA;

• Authorize a public/private foundation to solicit private donations to enhance research for meeting expanding global demand for food;

• Authorize and fund the Market Access Program and the Foreign Market Development Program; and

• Support many of the 37 expiring programs subject to funding availability.