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# **Risk Management for America's Farmers and Meeting Agriculture's Share of Deficit Reduction**

September 29, 2011

## **Introduction**

The American Soybean Association (ASA) supports changes to the Farm Bill that will help farmers manage the risks they face from adverse weather, crop disease, and volatile commodity markets. ASA believes the current farm program safety net can be made more effective, efficient, and defensible by reallocating baseline funding to a revenue-based program that improves risk management and complements crop insurance. The current crop insurance program should be protected from cuts that would reduce its effectiveness as a risk management tool.

ASA supports efforts to address our Nation's debt through a comprehensive and balanced approach to deficit reduction that includes cuts to all areas of Federal spending. Farmers are willing to do their fair share to contribute to these efforts, but cuts to agricultural spending should not be disproportionate.

ASA represents U.S. soybean farmers on domestic and international issues of importance to the soybean industry. ASA's efforts are made possible through the voluntary membership in ASA by soybean farmers in 31 states where soybeans are grown.

## **Background**

Soybeans are the second largest U.S. crop in terms of acreage and value and the top U.S. agricultural export. U.S. farmers plant an average of 75 million acres of soybeans annually. The value of the 2010 crop was \$45.5 billion, of which over one-half was exported.

In addition, soybeans are grown by farmers over a broad area in the U.S. and in rotation with every other program crop. This gives ASA a unique perspective as we consider changes in current farm programs that will impact all program crops.

The agriculture budget baseline under the 2008 Farm Bill has declined sharply in recent years as a result of historically high prices. This reduced baseline was already going to be a major constraint on the flexibility of the Congressional agriculture committees in responding to changes in the U.S. farm economy as they prepare to write the 2012 Farm Bill. This task has been made even more difficult by the requirement that agriculture contribute to deficit reduction under the Budget Control Act.

The federal crop insurance program is the foundation of the farm income safety net for producers of soybeans and most other commodities. There may need to be adjustments in the program to encourage participation by producers of some crops in some regions of the country, but any changes should not be included in the 2012 Farm Bill. In addition, the Standard Reinsurance Agreement negotiations with companies participating in the crop insurance program in 2010 resulted in a reduction in the crop insurance baseline of \$6.0 billion, including \$4.0 billion for deficit reduction. ASA strongly believes the crop insurance baseline should not be further reduced to meet deficit reduction requirements under the Budget Control Act.

ASA supports making the farm program safety net more effective, efficient, and defensible by reallocating baseline funding to improve risk management and complement crop insurance. Currently, marketing loan rates and target prices are too low to provide effective price and income support. The ACRE program has too many disincentives to participation. The SURE disaster program has not made timely payments and is expiring, and there is concern about how to protect against shallow losses. Direct Payments are increasingly difficult to defend as farm prices remain at historically high levels.

In recent weeks, proposals for changes in current farm programs have been advanced that address the needs of producers of individual commodities, but not others. The suggestion has also been made that individual program crops should have their own programs. This idea does not account for the fact that, when the value of a program is tied to the production of a specific crop, it will directly impact production decisions, both for that crop and for others that a producer grows. For this reason, current farm programs are available to producers of all program crops. Providing separate programs with different incentives would likely cause major distortions in soybean production, and would be strongly opposed by ASA.

The proposal set forth below is the result of months of work by soybean producers from across the country, analysis of various concepts, sharing of ideas with other producer groups, and consultation with Senate and House Agriculture Committee members and staff.

### **Risk Management for America's Farmers (RMAF)**

ASA supports enacting a program in the 2012 Farm Bill that provides meaningful protection against shallow revenue losses for producers of all program crops in all regions, and that complements the federal crop insurance program. The Risk Management for America's Farmers (RMAF) program suggested by ASA includes the following provisions:

- Provide a revenue guarantee to a producer of non-irrigated commodities against losses below 90 percent of the producer's revenue benchmark down to 75 percent of the revenue benchmark (a 10 percent revenue loss is required before the program is applicable). For irrigated commodities, provide a revenue guarantee against losses below 95 percent of the producer's revenue benchmark down to 80 percent of the revenue benchmark (a 5 percent revenue loss is required before the program is applicable).

- A producer's revenue benchmark for a commodity is calculated based on the higher of the producer's APH yield, the producer's five-year Olympic average APH yield, or 80 percent of the county yield, times the five-year Olympic average of NASS season average prices.
- A producer's actual revenue for a commodity is calculated based on actual yield times the national average price received by farmers for the commodity during the first four months of the marketing year, plus net crop insurance indemnities received.
- Payments to a qualifying producer equal 85 percent of the difference between the producer's revenue guarantee and actual revenue for the commodity.
- Payments are based on a producer's revenue for each commodity and on actual planted and prevented planted acres.

### **Payment Limitation**

Any limit on payments under the revenue-based RMAF or similar program should be established taking into account the amount of risk farming operations face from low prices and reduced yields. Payments would also be subject to the Adjusted Gross Income (AGI) caps in the 2008 Farm Bill, and to conservation compliance.

### **Budget Offsets**

To offset the cost of a revenue-based RMAF program that includes these provisions, ASA supports eliminating Direct Payments, Counter-Cyclical Payments (CCPs), the existing ACRE program, and the SURE program. Any additional offset required would come from reducing the payment percentage under the RMAF program from the proposed 85 percent to a lesser percentage. The existing marketing loan program would be continued.

### **Meeting Agriculture's Share of Deficit Reduction**

ASA supports achieving comprehensive reduction in federal deficits and in the growth of the national debt. Agriculture should take a fair, proportionate share of spending cuts, and all discretionary and mandatory programs should be included.

ASA urges the Congressional agriculture committees to use the following guidelines in making recommendations to the Joint Select Committee on Deficit Reduction:

Approximately 75 percent of all farm bill spending is for nutrition programs. The bulk of the remaining 25 percent of farm bill spending is split nearly evenly between commodity programs and conservation programs. ASA strongly supports the role that conservation programs play in supporting the land and water stewardship plans of producers of soybeans and other crops. However, given the cost of these programs, we believe they should be included in helping to meet agriculture's share of deficit reduction.

For that portion of spending cuts that does not come from other farm bill titles, ASA recommends that 50% of required spending reductions should come from commodity programs (program and non-

program crops, dairy, and other commodities in proportion to their baseline spending) and 50% from conservation programs, with the total not to exceed CBO's estimated reduction in the baseline for mandatory agriculture programs that would be required in the event sequestration is imposed under the Budget Control Act. Any further cut should be made by reducing baselines for other farm bill titles.

Program crop spending reductions would come from savings after eliminating current programs (DPs, CCPs, ACRE and SURE) that exceed the cost of the new revenue-based RMAF program that ASA is proposing. Any further cuts required from program crops would come from reducing the payment percentage under the RMAF program from the proposed 85 percent to a lesser percentage.

Conservation program reductions would come from proportionate reductions in baselines for the Conservation Reserve Program (CRP), Conservation Stewardship Program (CSP) and Environmental Quality Incentive Program (EQIP). The CRP cut should be achieved by reducing the acreage cap.

No reduction should be made in the baseline for the federal crop insurance program.