



Average Crop Revenue Election Program (ACRE) Represents Reform

Summary

“The ACRE program is an important element of reform that is not well understood. It represents a fundamental reform in how U.S. commodity programs operate—**reducing market distortions, cutting direct payments, reducing loan deficiency payment rates, and freeing up funding for other priorities.** This is an historic change. ACRE allows producers to choose a market-oriented, risk management tool that adjusts with market prices and pays farmers only when they need it—when they suffer a real loss in revenue.

Existing policies are based on politically set target prices and loan rates that distort the market. We know many farmers want this choice and we expect **more than 50-million acres to be enrolled in the program.** It is a small step for farmers but a giant leap forward for U.S. farm policy now—and sets the stage for future improvements.”

— Ralph Grossi, from AFT’s press release May 9, 2008

Background

In discussions over reform of commodity policy in the press as well as on Capitol Hill, proposals focus on three elements:

1. AGI or payment limits like in the Grassley-Dorgan bill or USDA proposal;
2. Cuts in direct payments to fund other critical priorities; and
3. Reducing production distortions by linking support to market indicators and only paying when farmers have a real loss like in the Durbin-Brown bill.

All three types of reform are important but much of the debate has focused solely on the first two areas. Changing how subsidy programs operate is critical to achieving real reform that has long term impact. This is especially true for having an impact on international development issues surrounding subsidies impact on farmers in developing countries. A real fundamental reform in U.S. commodity programs is a safety net that protects against unexpected losses in revenue based on actual market conditions.

ACRE incorporates two of the three elements of reform—cuts in direct payments and reducing distortions. No other program or policy change does that. It is an innovative, forward looking proposal that fundamentally changes the way commodity subsidies operate. It sets up a framework that we can build upon and improve in the future to secure even more change.

Details

The farm bill conference report contains a new Average Crop Revenue Election (ACRE) program for commodity producers. This program would provide participating producers with a new state-level revenue program in place of the current marketing loan and countercyclical programs. The new option would generate payments on a crop-specific basis whenever average per-acre revenue at the state level falls below the per-acre state guarantee.

In order to pay for the program, farmers who sign-up for ACRE would be required to give up 20 percent of their direct payments. In addition, CBO projects budget savings under this option. Producers receive a better safety net, and farm policy is made more market-based.

Why is ACRE fundamental reform?

- 1) Results in less distortions through market-orientation.
Under the ACRE program producers move away from government set target prices and move to a safety net built upon moving market prices. Under this system producers will need to account for market conditions before planting crops. This represents a fundamental change in thinking about how the government provides producers a safety net.

Rather than allow government to set prices to distort production, **this new safety net will be based on market conditions as they move up or down.** On the conservation front, this will lead to planting decisions being based on market conditions, natural weather patterns and physical topography without the distortion of a government price acting as an artificial floor.

- 2) Pays farmers only when they face a real loss in revenue.
Producers must show a loss before they receive a payment. Under current programs producers are not required to show that they have suffered a financial loss before they receive government commodity payments. Indeed, there are many cases during the last several years where producers were receiving record profits, yet through program quirks where receiving large commodity payments.

Under the ACRE program producers need to show that they suffered a loss at the farm level before they can collect safety net payments. ACRE helps restore the underlying notion of what a safety net program should be: provide help only when producers are in need and suffering a loss.

- 3) Cuts Loan Deficiency Program rates.
The marketing loan deficiency program has been the source of considerable international trade litigation. While the program continues within ACRE, producers opting in will receive a 30 percent cut in their marketing loan rate. This is a significant change to the structure of the marketing loan program, and while it doesn't solve the United States' international trade problems it does **signify a positive change.**
- 4) Cuts direct payments to pay for the program and frees up funding.
Producers who enter the ACRE program must take 20 percent cut in their direct payments and a 30 percent cut in their marketing loan. These two cuts in the status quo system generate savings that pay for this better safety net that protects revenue-no new money is spent for this program. In addition, these two cuts generate savings that are used to help fund conservation, nutrition and other parts of the Farm Bill.