The Farm Safety Net improvement Act of 2007 (S.1872)

Reforming Farm Support Programs to Better Serve Farmers

A FOCUS ON ILLINOIS

Senators Richard Durbin of Illinois and Sherrod Brown of Ohio propose to replace current marketing loan deficiency and price counter-cyclical programs (without making changes to direct payments) with a new farm safety net—a state level revenue counter-cyclical program. The new program provides better protection with less market distortion at no additional cost.

HOW THE PROGRAM WORKS: A farmer receives a counter-cyclical revenue payment if a ***state's actual revenue*** for a crop year is less than the ***state's revenue target*** for that crop year.

- ***STATE REVENUE TARGET*** *= [(state expected yield) x (revenue counter-cyclical pre-planting price) x 90%]*

  State expected yield is the state's linear regression trend yield per planted acre for 1980-2006 crops. If a trend yield cannot be established for a state, yields in similar states are used.

  Revenue pre-planting price equals the average of the current and the past two year's Federal Crop Insurance pre-planting prices. Revenue pre-planting price cannot increase or decrease more than 15% from the previous year's pre-planting price.

- ***ACTUAL STATE REVENUE*** *= [(state yield per planted acre) x (revenue counter-cyclical harvest price)]*

  $$\textit{State yield per planted acre} = \frac{\text{Total quantity of crop produced in state}}{\text{Total acres planted in the state}}$$

  Revenue counter-cyclical harvest price is the Federal Crop Insurance's harvest price used for revenue products.

$$\text{A farmer's COUNTER-CYCLICAL REVENUE PAYMENT} = \left(\text{State revenue target } \textbf{minus} \text{ actual state revenue}\right) \times \left(\text{Farmer's acres planted to the crop}\right) \times \left(\frac{\text{Farmer's actual production history}}{\text{State expected yield}}\right) \times 90\%$$

Example of Durbin-Brown Mechanics: Corn

Expected State Trend Yield :	150.0 bushels/acre
Revenue Counter-Cyclical Pre-Planting Price	$3.45/bushel
Revenue Target: (150.0 x $3.45 x 90%)	**$465.75/acre**
Realized State Yield:	153.5 bushels/acre
Revenue Counter-Cyclical Harvest Price	$2.85/bushel
Realized State Revenue: (153.5 x $2.85)	**$437.48/acre**

AVERAGE STATE REVENUE DEFICIENCY PAYMENT *= ($465.75-$437.48) x 90% =* ***$ 25.44 / acre***

INTEGRATION WITH CROP INSURANCE: The Risk Management Agency and Farm Service Agency are to work together to ensure to the maximum extent practicable that producers are not compensated by the revenue counter-cyclical program and Federal Crop Insurance for the same loss. Actions include the reduction of a crop insurance indemnity to avoid double payment. The latter should reduce the insurance premiums paid by farmers.

COMPARISON: DURBIN-BROWN REVENUE PROGRAM VS. CURRENT PRICE PROGRAM

- **Revenue vs. Price:** Current marketing loan deficiency and counter-cyclical programs are based on price. Durbin-Brown is based on gross revenue (yield times price).
  - A revenue program should provide more risk protection than a price program because it includes yield as well as price.
  - A revenue program payment fills a hole in the current safety net by covering shortfalls in both price and yield. In contrast, loan deficiency payments are made only on the quantity produced. Thus, they are lower when a farmer has a low yield, which often is when a farmer needs assistance.

- **Updated Program Yield:** By using a trend-line yield, Durbin-Brown updates program yields. This benefits crops whose yield increased during the 2002 farm bill period.

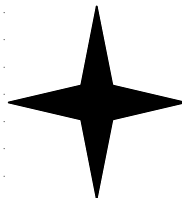
- **National vs. State Target:** Current programs use a national loan and target price. Durbin-Brown uses revenue targets set at the state level.
  - A state program should provide more risk protection than a national program because it will reflect localized weather anomalies, such as drought, that occur at the individual state level.

- **Flexible vs. Fixed Target:** Current policy generally sets program parameters for the life of the farm bill. Durbin-Brown is more flexible: the price component of the revenue target is a 3-year moving average tied to market price. Also, payments are based on planted, not historical acres.
  - Fixed targets establish a floor under the market. However, they run the risk of providing no support if prices are above the fixed levels. Indeed, this lack of sufficient support happened frequently during the 2002 Farm Bill, especially for soybean, wheat, barley, and oats.
  - In contrast, flexible targets move with the market. Durbin-Brown's level of support increases as market prices increase.

BETTER PROTECTION: Advantages of these features of Durbin-Brown on payments to farmers are illustrated in the table at right. This estimate uses the same economic conditions used by the Congressional Budget Office in making forecasts for Congress. Source: analysis by AgRisk Management, LLC.

BETTER PROTECTION:
Projected Average Annual Government Payments Per Acre: 2009-2012
ILLINOIS

Illinois Crop	Current CCPs + LDPs	*Durbin-Brown*	*Difference Vs. Current Programs:*
Corn	$ 0.75	$ 13.65	***$ +12.90***
Wheat	1.08	12.59	***+11.51***
Soybeans	1.82	7.31	***+5.49***



LOWER INSURANCE COST:
Projected Reduction in Crop Insurance Premium Costs,
ILLINOIS

Illinois Crop	*Reduction in Premium*
Corn	28 %
Wheat	28 %
Soybean	20 %

LOWER INSURANCE COST: Separate vs. Integrated Farm Safety Net: Under the current farm safety net, crop insurance and farm support programs are separate programs. Durbin-Brown contains attributes that integrate these historically separate programs. Prices used to determine revenue insurance indemnities are used to determine Durbin-Brown's revenue payment.

- Durbin-Brown creates farm safety net cost efficiencies by removing double payments for the same loss -- indemnities from crop insurance and farm program payments may cover the same loss. This should lower crop insurance premiums paid by farmers. See the table at the left for an estimate of the potential size of this reduction. Source: analysis by AgRisk Management, LLC.

To learn more about the Farm Safety Net Improvement Act of 2007 (S.1872), please contact:

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