

Integrated Farm Revenue Program

How It Works and Why It's More Effective

Better Protection at Lower Cost

Farmers need a safety net when disaster hits and tools to help them manage risk. But existing commodity programs are complex and costly, often failing to provide protection when needed. American Farmland Trust's proposed new safety net is based on revenue protection that enhances the long-term viability and competitiveness of American agriculture. A revenue protection approach will:

- Provide better protection by targeting revenue rather than price;
- Replace existing counter-cyclical (CCPs) and loan-deficiency payments (LDPs) with more comprehensive, cost effective risk management tools;
- Be market oriented, less trade distorting and more equitable; and
- Integrate safety net programs to enable private revenue insurance to function more effectively.

Integrated Revenue Protection—*How It Works*

The integrated farm revenue program has two parts: 1) a national-level revenue deficiency payment, and 2) an individual-level revenue insurance product.

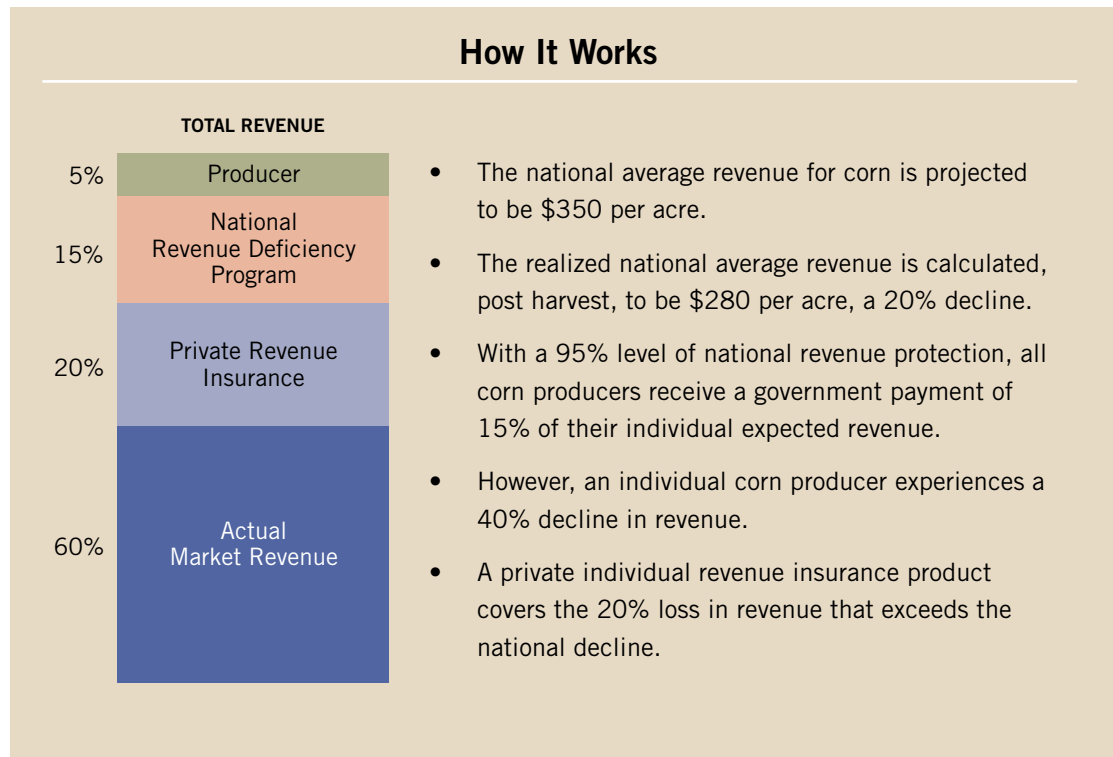
National Revenue Deficiency Program

- Federal government covers uninsurable nationwide risk.
- A national revenue deficiency program protects farmers from nationwide risks such as a sudden price drop or a widespread drought, while still encouraging farmers to plant based on market signals.
- At the beginning of each growing season, a national projected per acre revenue is calculated by multiplying the forecasted national average price times the expected national average per acre yield.
- After harvest, a national per acre realized revenue is calculated based on actual prices received and actual nationwide average yields.
- Per acre payments are based on the difference between projected revenue and the actual revenue.
- The National Revenue Deficiency Program therefore provides per acre payments based on unexpected drops in national revenue during the growing season.
- Because the national projected revenue is reset each year, this program reduces market distortions and overproduction, unlike the current system, which establishes a fixed support price, thus sending false price signals to producers.



Individual Revenue Insurance Program

- Private insurance protects a farmer's individual revenue loss due to localized events such as flooding or drought.
- With the government removing the systemic or market-wide risk, a private insurance provider can provide individual revenue insurance at higher coverage levels to protect against losses that exceed the national average.
- If an individual farmer has a per acre revenue loss greater than the national average revenue loss, then the private insurance program can make up the difference on an actuarially sound basis.
- The private individual insurance portion of the program uses a farmer's historical yields, similar to the current insurance products based on Actual Production History (APH).



The federal government, private insurance companies and individual producers should all share in managing the revenue risk of farming, as all small businesses do. For example, farmers take the first five percent drop in total revenue, the national federal program takes the next 15 percent, and private revenue insurance takes the last 20 percent drop in revenue. These percentages could change based on annual market conditions and policies set by Congress.

How It Works for a Farmer

To better understand how AFT's proposed Integrated Farm Revenue Program would work for individual farmers, we have profiled a "typical" Corn Belt farm in Mercer County, Ohio.

In 2002, our "typical" farm did not benefit from the current safety net. In that year, corn yields were about half the size of the previous year due to a drought in the eastern Corn Belt. As a result, farmers saw their average revenue drop to \$161/acre, down from an expected \$350/acre. However, since average prices that season for corn were high—around \$2.52/bushel—farmers did not receive assistance from counter cyclical or loan deficiency program payments.

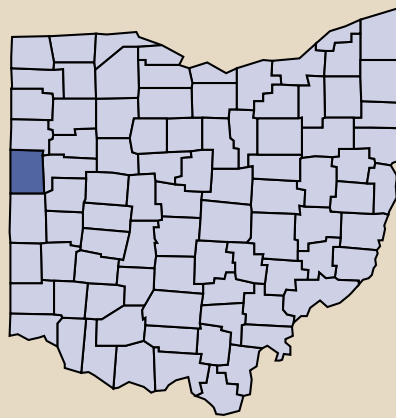
Better Protection

A revenue protection program would have better compensated farmers for their losses. In 2002, the national average revenue for corn was forecasted to be \$320/acre. The actual national average revenue was \$321/acre. Therefore, our typical Mercer farmer would not have received a national deficiency payment. However, the individual level revenue insurance component of a revenue program would have compensated the Mercer farmer based on significantly lower than expected revenue, i.e., \$161/acre due to the lower yields. In this case, the Mercer farm would have received almost \$71/acre more under AFT's proposed revenue program than under current commodity and crop insurance programs during the drought year when assistance was needed.

Lower Cost

In 2005, our Mercer farm experienced a very different situation. In that year, prices were low but yields were up. As a result, our Mercer farm's revenue was moderately low—about \$295/acre compared to a projected \$329/acre. However, since existing CCPs and LDPs are triggered only by low prices regardless of yields, farmers received payments on average of \$99/acre—payments not really needed during a good revenue year.

Mercer County, Ohio



Our "typical" Corn Belt farm is located in Mercer County, Ohio, right on the border with Indiana. Most farms in Mercer County are mid-sized family farms. The 1000-acre typical farm plants a 50/50 split of corn and soybeans. The yields on the farm are the same as the county average. Mercer County, Ohio, has higher average corn and soybean yields than other areas in the U.S.—about 145 bushels/acre, which is common for the Corn Belt. About 70 percent of the nation's corn and soybean production comes from the Corn Belt, an extremely fertile region stretching from western Ohio to Minnesota and Iowa. The profiled farmer receives CCPs, LDPs and private crop insurance in the case of an extreme event where yields fall below 75 percent of historical averages.



In contrast, AFT's proposed integrated revenue approach would have avoided excessive payments by focusing on farmers' revenue. In 2005, the national average revenue for corn was forecasted to be \$343/acre. The actual national average revenue was lower at just \$295/acre. Under a 95 percent level of coverage, the typical farm would receive a national deficiency payment of \$28/acre with no individual level revenue insurance payment that year. This payment provides the farmer with an adequate safety net while avoiding the excessive, additional \$65/acre paid under the current programs.

What's the Bottom Line?

In a comparison of current farm bill programs versus the Integrated Farm Revenue Program, our typical corn and soybean farmer receives almost the same average annual total payments. However, payments are distributed to years when expected revenue drops and assistance is needed. Payments would have been higher in 2002—when they were needed, due to high prices and low yields—while they would have been lower in 2005, when they were unnecessary due to relatively high revenue but slightly lower prices.

WHOLE FARM TOTAL	IFRP NATIONAL REVENUE PAYMENT	IFRP INDIVIDUAL REVENUE INSURANCE	IFRP TOTAL	CURRENT CCP & LDP	CURRENT YIELD INSURANCE	CURRENT PROGRAM TOTAL	DIFFERENCE
2002	0	\$ 92,002	\$ 92,002	\$ 969	\$ 50,750	\$ 51,719	\$ 40,283
2003	0	0	0	\$ 3,972	0	\$ 3,972	\$ (3,972)
2004	\$ 47,737	0	\$ 47,737	\$ 51,529	0	\$ 51,529	\$ (3,792)
2005	\$ 14,065	0	\$ 14,065	\$ 49,630	0	\$ 49,630	\$(35,564)
AVERAGE	\$ 15,451	\$ 23,000	\$ 38,451	\$ 26,525	\$ 12,688	\$ 39,212	\$ (761)

For more information about this or any of the policies recommended in *Agenda 2007*, please visit AFT's Web site at www.farmland.org or send an email to info@farmland.org.

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