



PennState Law

Center for Agricultural
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PENNSYLVANIA DEPARTMENT OF AGRICULTURE  AGRICULTURAL BUSINESS DEVELOPMENT CENTER

Understanding Agricultural Law Webinar Series

Understanding Agricultural Law

Webinar Series

Understanding the Basics of

USDA Commodity Programs

July 28, 2023





USDA Commodity Programs: Today's Coverage

- Farm Bill – History and Background
- Commodity Program Payments – Generally
- Commodity Program Payments – Types of Programs
- Current Commodity Programs (2018 Farm Bill)
- Program Eligibility



The Farm Bill

- 2018 – Agriculture Improvement Act
- 2014 – Agricultural Act
- 2008 – Food, Conservation, and Energy Act
- 2002 – Food Security and Rural Investment Act
- 1996 – Federal Agricultural Improvement and Reform Act
- 1990 – Food, Agriculture, Conservation and Trade Act
- 1985 – Food Security Act



The Farm Bill – Origins and Process

- The New Deal
 - The Agricultural Adjustment Act of 1933
 - Heavy supply control with price subsidy
- Each Farm Bill generally builds upon previous bill
 - Some programs added; some programs eliminated
- Continual process of development
- Much broader than traditional agriculture



The Farm Bill – Key Players

- Traditional agricultural organizations
- Commodity groups
- Environmental groups
- Health policy groups
- Animal rights / welfare groups
- Anyone who wishes to influence policy



Recent Farm Bills

- Signed by President Trump on December 20, 2018.
- Signed by President Obama on February 7, 2014.
- Congress overrode President Bush's veto on June 18, 2008.



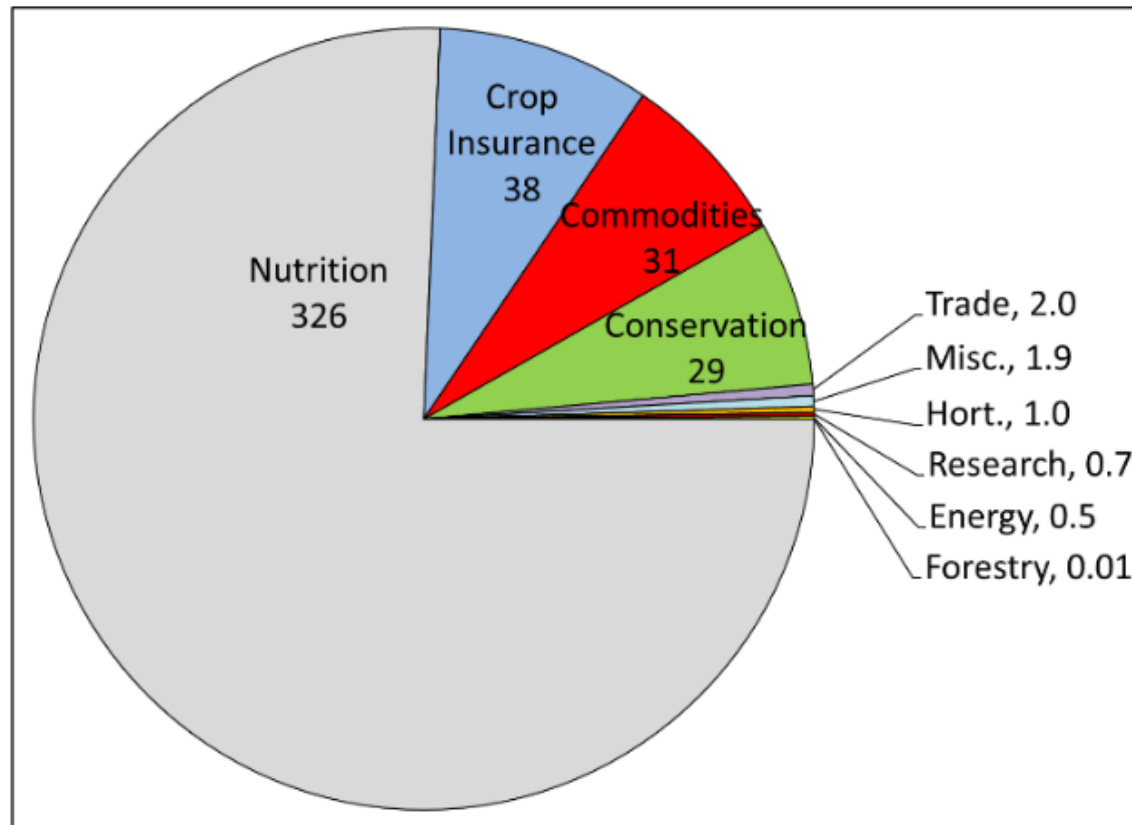
2018 Farm Bill - Overview

- 12 separate Titles
- \$428 billion in total spending
 - Nutrition Title - \$326 billion
 - Commodities Title - \$31 billion
 - Conservation Title - \$29 billion
 - Crop Insurance Title - \$38 billion



2018 Farm Bill - Overview

Figure 2. Projected Outlays of the 2018 Farm Bill at Enactment
(Mandatory outlays, billions of dollars, FY2019-FY2023)



Source: CRS. Compiled from the CBO Baseline by Title (unpublished, April 2018); and CBO cost estimate of the conference agreement for H.R. 2, December 11, 2018.



2018 Farm Bill - Overview

Table 3. Distribution of Farm Bill Titles in 2008, 2014, and 2018

(billions of nominal dollars, five-year projection at enactment, mandatory spending)

Farm bill titles	2008 farm bill		2014 farm bill		2018 farm bill	
	Amount	Share	Amount	Share	Amount	Share
Overall						
Nutrition (Title IV)	189	67%	391	80%	326	76%
Rest of the farm bill	95	33%	98	20%	102	24%
Total, entire farm bill	284	100%	489	100%	428	100.0%
Selected agricultural titles						
Farm commodities (Title I)	42	15%	24	5%	31	7%
Crop insurance	22	8%	41	8%	38	9%
Subtotal, farm safety net	63	22%	65	13%	69	16%
Conservation	24	8%	28	6%	29	7%
Research	0.3	0.1%	0.8	0.2%	0.7	0.2%
Energy	0.6	0.2%	0.6	0.1%	0.5	0.1%
Horticulture	0.4	0.1%	0.9	0.2%	1.0	0.2%

Source: CRS, using CBO baselines and CRS compilations of cost estimates at enactment.



Title I - Commodities

- Financial support to Big 5 commodities (corn, wheat, soybeans, rice, and cotton) plus dairy, sugar, peanuts, and other commodities
- Current Programs:
 - Marketing Assistance Loans
 - Price Loss Coverage
 - Agricultural Risk Coverage



USDA Commodity Programs Generally

- Why do we have commodity programs?
 - “Safety net”
 - Economics
 - Inelastic supply and demand
 - Volatile farm income
 - Imbalances magnified by lag time from planting to harvesting

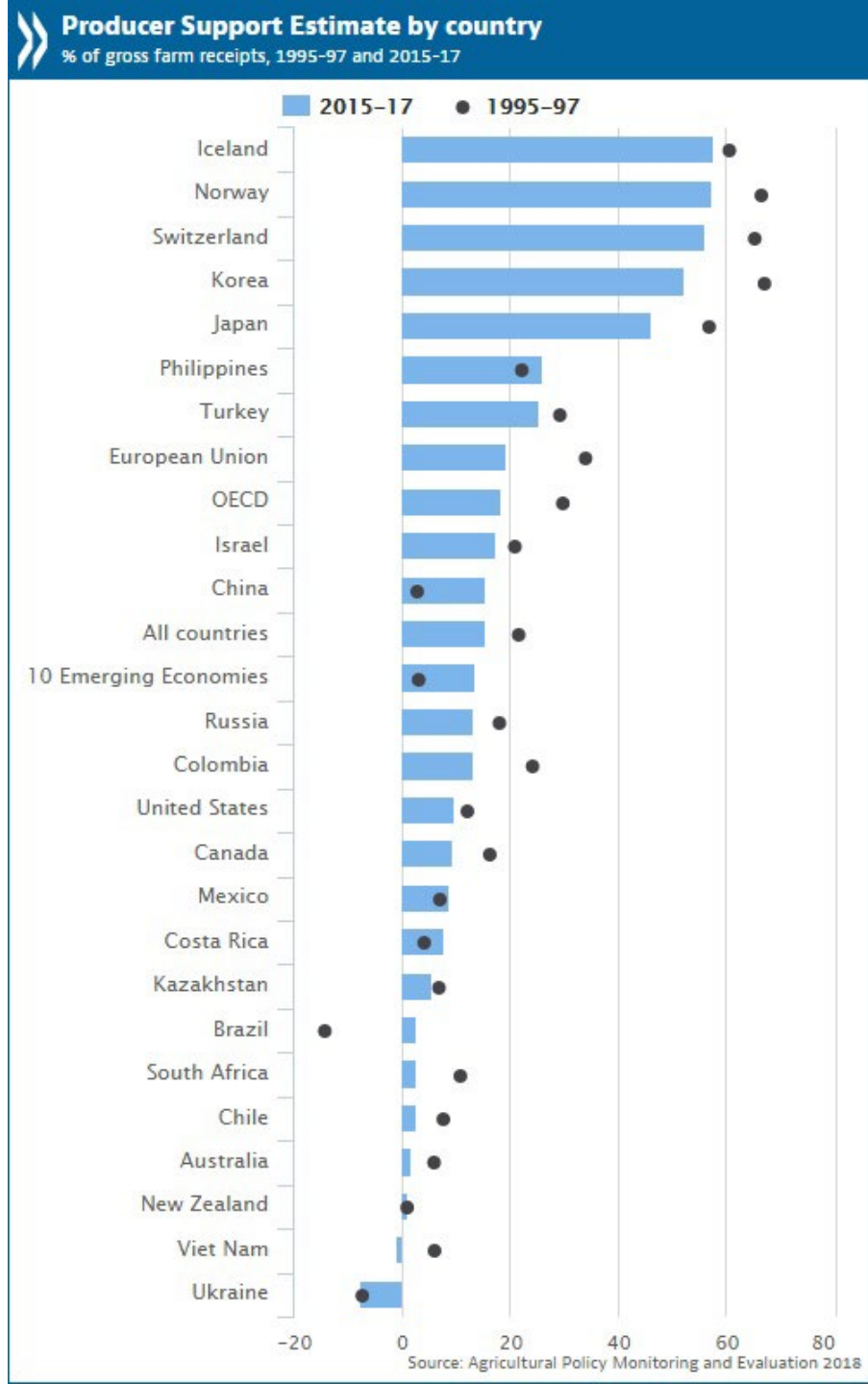


USDA Commodity Programs Generally

- Why do we have commodity programs?
 - Food security
 - Agrarian values
 - Farmland preservation
 - Producers have relied on these payments in making business decisions
 - Competitor nations have them



Agricultural Subsidies Internationally





USDA Commodity Programs Generally

- Arguments against subsidies:
 - Distort trade
 - Distort production
 - Encourage monoculture
 - Benefit large farms
 - Subsidies become capitalized into land values



“Meet the
Farmers of
Manhattan” –
Environmental Working
Group (2018)

“Between 1995 and 2016, those ‘farmers’
received almost \$16 million in federal farm
subsidies.”





USDA Commodity Programs – Two Disparate Viewpoints

- Farmer as poor noble steward of land
 - Need subsidies to survive
 - Subsidies should not provide profit
 - Focus on farmer
- Farm as enterprise that feeds us
 - Subsidies provide incentive to ensure production
 - Focus on product



USDA Commodity Programs – Key Concepts

- Decoupled vs. Coupled vs. Partially Coupled
 - Connection to current production
 - Connection to current price
- Base Acres
 - Historic production of commodity
 - Not necessarily current production of commodity



Understanding Agricultural Law Educational Series

USDA Commodity Programs: Understanding the General Types of Programs



Title I - Commodities

General Types of USDA Commodity Programs

- Direct Payments
 - Payments based on historical planted acreage and yields
- Counter-cyclical Payments
 - Payments based on low market prices
- Marketing Assistance Loans
 - Nonrecourse loans where crop is pledged as collateral



Direct Payments (eliminated in 2014)

- Payment rate established in statute
- Payments made on base acres
- Payments made on historical “direct payment yield”
- Decoupled



Direct Payments

- Example
 - Base acres – 100 acres of corn
 - Statutory base acreage ratio – 83.3%
 - Direct payment yield – 150 bushels per acre
 - Direct payment rate - \$.28/bu
 - Direct payment = \$3498.60



Countercyclical Payments

- Traditionally, CCP made when price falls below specific level
 - 2008 Farm Bill added option of revenue-based CCP (ACRE)
- Target price established in statute
- Payment calculated on:
 - Base acres
 - “countercyclical payment yield”
- Partially decoupled



Countercyclical Payments

- Example
 - Base acres – 100 acres of corn
 - Statutory base acreage ratio – 85%
 - CCP yield – 150 bushels per acre
 - National season average market price - \$2/bu
 - CCP target price of \$2.63 - \$.28 = \$2.35
 - CCP = 85 x 150 x \$.35 = \$4462.50



Marketing Assistance Loans

- Non-recourse loan where crop is pledged as collateral
- Loan rate established in statute
- Not decoupled



Marketing Assistance Loan

- Example
 - Farmer produces 10,000 bushels of corn
 - Established loan rate of \$1.95 / bushel
 - Farmer obtains 1 year loan for \$19,500
 - If market price is above \$1.95?
 - If market price is below \$1.95?
- Use of Loan Deficiency Payments



Current USDA Commodity Programs (2018 Farm Bill)

- Price Loss Coverage
- Agricultural Risk Coverage
- Marketing Assistance Loans



Commodity Programs

- Agricultural Risk Coverage
 - Payments made when annual revenue is less than 86% of historic level
 - Uses national price averages
 - Can choose county or individual coverage



Commodity Programs

- Price Loss Coverage
 - Payments made when national average price drops below established threshold
 - Payments based on base acres, historical yields, and national prices
 - Partially decoupled



Commodity Programs

- Dairy Margin Coverage
 - Provides milk margin protection
 - Requires sign-up and selection of margin and production coverage level



Commodity Programs - Eligibility

- Covered commodity
- “Actively Engaged in Farming”
- At risk
- In compliance with conservation programs
- Below AGI threshold and minimum acreage
- Report acreage



Commodity Programs - Eligibility

- Covered commodities (2018) – wheat, oats, barley, corn, grain sorghum, long-grain rice, medium-grain rice, seed cotton, pulse crops, soybeans, other oilseeds, peanuts
- Loan commodities (2018) – covered commodities + upland cotton, extra-long-staple cotton, wool, mohair, honey
- Special programs (2018) – milk, sugar cane, sugar beets
- No Title I programs (2018) – livestock, poultry, fruits, vegetables, nuts, hay, nursery products



Commodity Programs - Eligibility

- “Actively Engaged in Farming”
 - Provide significant contribution of capital and personal labor
 - OR
 - Provide active personal management
- At risk
 - Cash rentals
 - Share rentals



Commodity Programs - Eligibility

- In compliance with conservation programs
 - Maintain compliance with Sodbuster (highly erodible cropland) and Swampbuster (wetlands)



Commodity Programs - Eligibility

- Below AGI threshold and minimum acreage
 - Cannot exceed \$900,000 combined farm and nonfarm AGI
 - As measured in 3-year average prior to current tax year
 - Base acres on farm must be at least 10 acres
 - Exceptions for beginning farmers and veterans



Payment Limits

- 2008
 - DP - \$40,000
 - CCP - \$65,000
 - MAL – none
 - Direct attribution to individuals
- 2014/2018
 - Total of all commodity programs for individual - \$125,000
 - All family members age 18+ are eligible for separate payment limit
 - Continued direct attribution