Monitoring Agri-trade Policy

MAP

No. 01/09 – February 2009

The New US Farm Bill: Zooming in on ACRE

Summary

The long-awaited 2008 US Farm Bill is the subject of the first MAP of 2009. The new law preserved the traditional instruments of farm policy, including loan programmes, countercyclical payments, crop insurance and direct payments but also added some new schemes. With farmers now signing up for support schemes for 2009/10, we zoom in on the new scheme known as the Average Crop Election Programme or ACRE.

Because guaranteed prices under ACRE lock in the increases of the last two years, the new programme looks more attractive than the traditional suite of commodity support schemes. If there is a high take-up and if prices fall, then expenditure could increase sharply over levels seen in recent years. US agricultural policy once again appears to be increasing the trade-distorting component of its domestic support.

The Farm Bill covers more than farm programmes

The Farm Bill is a wide ranging piece of legislation, covering not only farm programmes but also conservation, nutrition and trade inter alia. The Congressional Budget Office (CBO) has projected annual expenditure of $58 billion under the new Farm Bill from 2008-2012, of which just 15% ($8 billion) is for commodity support programmes. Of this $8 billion, over $5 billion is allocated to fixed direct payments, with the remainder spread over the traditional suite of commodity schemes and the new ACRE programme. This is broadly in line with spending in the recent past.

Key changes in the 2008 Farm Bill

The 2008 Farm Bill preserved the three-legged stool of traditional commodity programmes Loans, Counter Cyclical Payments (CCP) and Direct Payments. In the context of high food prices there was a rebalancing of support prices in favour of "northern" crops. The increase in these support prices would have little impact on spending however, if prices were to remain high. Cotton is the exception, with CBO January '09 projections for cotton loans of over $2.5 billion and CCP of around $1billion.

Other changes in the 2008 Farm Bill include the reduction of subsidies to the crop insurance industry and the introduction of a new Permanent Disaster scheme. But the biggest innovation is likely to be the new revenue insurance scheme called the Average Crop Revenue Election (ACRE) programme. From 2009 farmers have the option to continue with the traditional schemes or to enter the new scheme.

The new ACRE scheme is a countercyclical revenue programme which addresses the risk that revenue will fall from levels seen in the recent past, by providing a payment when actual revenue falls below the revenue guarantee. It allows producers in 2009 to lock in a revenue guarantee based on the high prices of 2007/08 and 2008/09 and updated yields. ACRE therefore appears attractive compared to CCP since the ACRE revenue guarantee is roughly double the implicit revenue guarantee for CCP. Furthermore since ACRE is based on planted acres it provides a better match to the producer's current production than the traditional schemes.

Potential spending under ACRE

Payments under ACRE are only triggered if revenue falls below the guarantee. So the scheme will pay out if prices fall but not if they are flat or rising. FAPRI's analysis of August 2008 assumed continued high prices over the period 2008-2012. It concludes that relatively low payments would be triggered under both the traditional schemes and ACRE (this was before the sharp decline in cotton prices). ACRE expenditure was estimated at around $2 billion per year.

We have conducted our own sensitivity analysis, using national US data, to gauge the level of potential expenditure, if prices were to decline to 2006/07 levels in 2009/10. We assume 80% participation in ACRE for corn, wheat, soybeans, sorghum and barley and that cotton, rice and peanuts stay within the traditional programmes. The 2009 price "guarantee" based on the average of 2007/08 and projected 2008/09 prices is $4.05 for corn, $6.59 for wheat and $9.55 for soybeans. Payments would be significant if 2009 market prices fall to 2006 levels. We calculated that ACRE payments would be around $10.2 billion for the 2009/10 crop, of which corn accounts for $4.5, soybeans over $3 and wheat $2.4 billion. Even if prices stay at 2006 levels over the life of the 2008 Farm Bill – admittedly a highly unlikely scenario - payments would continue, albeit at a lower level, because the adjustment of the revenue guarantee is delayed by the 10% maximum annual change. However ACRE does not provide a floor unlike CCP. So if prices collapse and remain low, then after a few years, as the revenue guarantee reflects the lower prices, ACRE payments would eventually be phased out.

Conclusions

The new ACRE revenue insurance scheme has been designed for a high price environment in that it allow producers to lock in a revenue guarantee based on recent high prices and updated yields. Although prices have fallen since the Bill was enacted in June '08, ACRE still offers better revenue protection than the CCP programme with the exception of cotton. In addition it allows a better match with planted acres, so we would expect a high uptake of the new scheme.

ACRE has the potential to generate high payments if prices fall below the revenue guarantee based on the 2007-08 benchmark. We calculated ACRE expenditure of over $10 billion in 2009, if market prices declined to 2006 levels. Payments could remain high for a few years as there is a maximum 10% annual adjustment of the revenue guarantee.

The new ACRE is crop specific, linked to updated prices and yields and is based on planted acres not base acres. It is likely therefore to be classified as product specific Amber Box support and to fall under the discipline of Amber Box individual product specific caps.