For The 2012 Farm Bill, Crop Insurance Moves To Center Stage

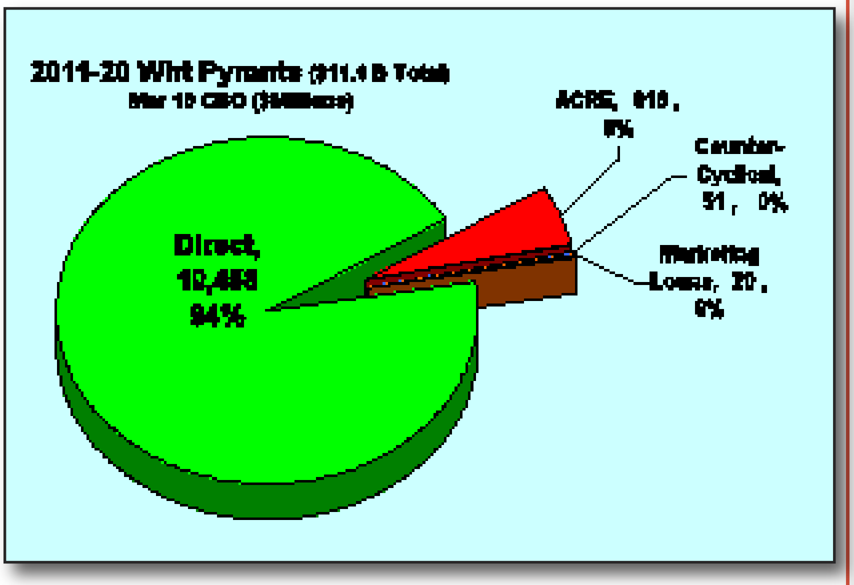
Direct Payments Losing Favor?

SARA WYANT

WASHINGTON, D.C.

For the last several years, U.S. wheat growers have been some of the staunchest supporters of direct payments, issued by USDA every year to producers with qualified base acres, regardless of what they planted or if they planted. Given the uncertainty of prices and production, it was one part of the federal farm program "safety net" that producers, and perhaps more importantly, their lenders, could count on year in and year out.

But a year ago, I started asking wheat industry leaders about future farm program options, and what they would want to see for a safety net in the future – especially if push comes to shove and there is a need to choose between some of the current options like direct payments, counter-cyclical payments and crop insurance. What if you had to pick just one? The answer was almost unanimous: crop insurance won hands down.



Why? It's not that there is any less love for direct payments, which are projected to be a major source of revenue for wheat growers over the life of the current farm bill. (See chart.) The Congressional Budget Office projects that, if the current farm bill was extended to 2020, about 94 percent of the farm program payments made to wheat growers would be in the form of direct payments.

But more and more growers have also benefited from the predictability of crop insurance, especially revenue-based products. Last year, wheat growers purchased over 136,000 policies for crop revenue coverage (CRC) insurance, paying over $1 billion in premiums. That's up from 117,708 policies the previous year, with premiums of over $570 million.

Even though crop insurance is also subsidized by the federal government, producers pay a portion of the cost, and it is viewed by many as being more defensible to American taxpayers than a direct payment program. As a result, many wheat growers are asking whether or not the funds currently invested in direct payments could be used to make the federal crop insurance program even better.

2012 Farm Bill?

Those policy discussions become even more important as the House Agriculture Committee starts farm bill hearings next month and with the potential for budget cuts on everyone's radar screen. Representatives of wheat, corn, soybeans and other commodity groups are scrambling to figure out how to prioritize their "wish list" for the 2012 Farm Bill and have had at least two joint meetings to discuss some of their options.

Members of the National Association of Wheat Growers' key policy committees met earlier this month during the Commodity Class and probably came away with more questions than answers.

"Crop insurance is an important part of our safety net and it is one reason we are watching the negotiations over the Standard Reinsurance Agreement so closely," says Jeff Newtson, Chair of the National Association of Wheat Growers (NAWG) Domestic and Trade Policy planning committee. "But we need to prioritize what is most important for our members with direct payments, the Supplemental Revenue Assistance Program (SURE), Average Crop Revenue Election (ACRE), program, and conservation programs."

To gather input and help their leaders establish priorities, NAWG plans to formulate a survey within and send it to each of their member states. They hope to have feedback by mid-April and develop a strategy for the full board by October.

"If we are going to be proactive, we have to gather input and prioritize. There is going to be a lot of work that goes into developing recommendations," adds Newtson.

House Agriculture Committee Chairman Collin Peterson (D-MN) said that his staff is currently "going into the details to identify what is being spent by each commodity……and identifying how much of the (budget) baseline is going to corn, how much to wheat, barley and so forth. And we are telling folks, this is where we start. This is how much we are currently spending.... Take a look at what we are spending on your crop and you decide if this is the best way to do this or is there a better way?" Δ

SARA WYANT: Publisher weekly e-newsletter, Agri Pulse.

Direct Payments Continue To Play Important Role

The 2008 Farm Bill continues the direct payments that began under the Farm Security and Rural Investment Act of 2002. Direct payment rates for the eligible DCP commodities are as follows:

- Wheat: $0.52 per bushel
- Corn: $0.28 per bushel
- Grain sorghum: $0.35 per bushel
- Barley: $0.24 per bushel
- Oats: $0.024 per bushel
- Upland cotton: $0.0667 per pound
- Rice, long grain: $2.35 per hundredweight
- Rice, medium/short grain: $2.35 per hundredweight
- Soybeans: $0.44 per bushel
- Other oilseeds: $0.80 per hundredweight
- Peanuts: $36 per ton

For each commodity, the total direct payment for the 2009 crop year for producers on a farm is determined by multiplying 83.3 percent of the farm's base acreage times the farm's direct payment yield times the direct payment rate.

The following is an example for 2009 corn:

Base acres planted to corn:
100 acres x 83.3%
83.3 acres payment acres
x 110 bushels direct payment yield
x $0.28 per bushel direct payment rate
$2,566.00 direct payment

Direct payments are not based on producers' current production choices, but instead are tied to established base acres and yields. Δ