2014 Farm Bill Summary

OVERVIEW

The 2014 Farm Bill was signed into law on February 7, 2014, after three years of debate, negotiations and uncertainty. The previous farm bill, which was passed in 2008, expired in 2012, was extended for one year, and expired again in autumn of 2013. With the enactment of the 2014 Farm Bill, significant changes will be made to the wide array of food, agricultural and rural policies that are impacted by the farm bill. **This law will be in effect through September 30, 2018.**

In order to gauge the budgetary implications of legislation, the spending in the 2014 Farm Bill is compared to what the 2008 Farm Bill would have cost had it continued for another ten years. Using that methodology, the 2014 Farm Bill is expected to cost $956 billion for fiscal years 2014 through 2023, whereas the previous farm bill would cost $973 billion over the same time frame. By that official comparison, the **2014 Farm Bill saves $16.6 billion**, and an additional $6.4 billion was cut from spending due to sequestration, resulting in total savings of $23 billion.

These spending reductions are achieved in large part through cuts to commodity, conservation and nutrition programs. Through these changes in funding, the farm safety net is significantly structurally altered so that crop insurance expenditures are projected to be twice as much as those for traditional farm commodity subsidies.

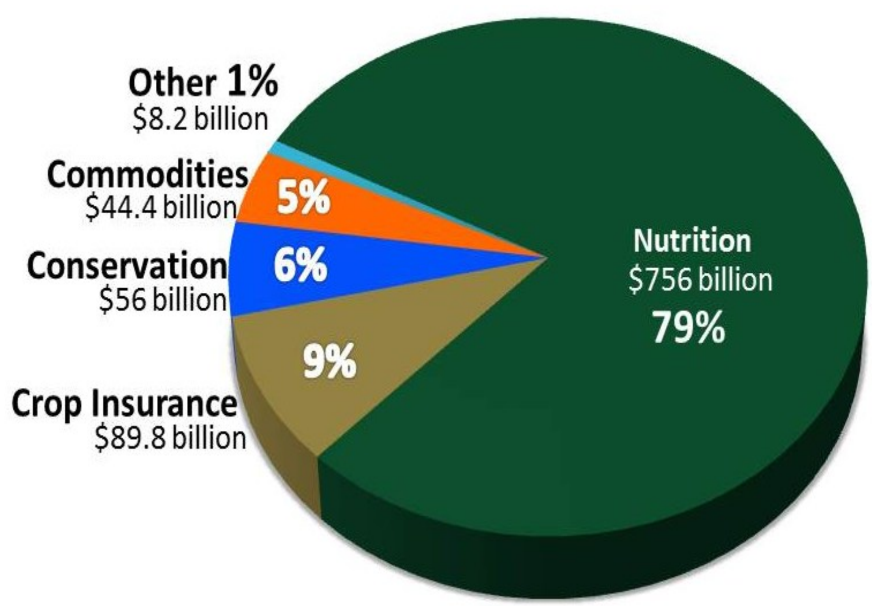
Nutrition programs, account for nearly 80 percent of the spending in the farm bill, with $756 billion of outlays for the next ten years. Crop insurance is the second largest piece of the spending pie, and is projected to cost $90 billion, while farm commodity programs will cost $44 billion. Conservation program spending will total $56 billion. Although there are many other programs and initiatives in the farm bill, their cost is less than one percent of the total. Among the others, the trade title is projected to spend $3.6 billion over the next 10 years, horticulture programs spend $1.7 billion, research initiatives will cost $1.3 billion, and bioenergy programs $1.1 billion.

This summary addresses some of the issues that were identified as priority areas for NFU members.

It is important to note that most of the programs and reforms in the 2014 Farm Bill have not yet been implemented and the rulemaking process may have an impact on the final results.

For additional information, visit www.nfu.org.

Projected Farm Bill Spending: 2014—2023



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2014 Farm Bill Summary

COMMODITY PROGRAMS

The 2014 Farm Bill restructures support programs for commodity growers. Most notably, direct payments are eliminated and the majority of the farm safety net transitions to a one-time election between a modified target price program and a revenue protection program. Overall, commodity programs are projected to comprise approximately five percent of farm bill spending during the next ten years.

Sometime in 2014, farmers will be required to choose between two commodity programs that function in very different ways. This one-time, irrevocable decision will apply through the 2018 crop year.

Price Loss Coverage (PLC) provides payment to farmers when the price of a crop falls below its reference price. These prices are higher than those set by the 2008 Farm Bill, which were at that time called target prices. PLC continues the previous policy of making payments on 85% of base acres. The 2014 Farm Bill allows base acres to be updated, using an average of plantings for the crop years between 2009 and 2012.

Commodity Reference Prices in the 2014 Farm Bill (PLC)

CROP	NEW
Wheat (bu.)	**$5.50**
Corn (bu.)	**$3.70**
Grain sorghum (bu.)	**$3.95**
Barley (bu.)	**$4.95**
Oats (bu.)	**$2.40**
Upland Cotton (lb.)	**STAX**
Rice, med & lg (cwt.)	**$14.00**
Soybeans (bu.)	**$8.40**
Other oilseeds (cwt.)	**$20.15**
Dry peas (cwt.)	**$11.00**
Lentils (cwt.)	**$19.97**
Peanuts (ton)	**$535**

Agriculture Risk Coverage (ARC) is a shallow loss assistance program that triggers when crop revenues decline. Like the PLC program, ARC payments are made on 85 percent of base acres. Payments are triggered when actual crop revenue drops below 86 percent of benchmark revenue. Farmers can select to be covered at either the county or individual farm level.

Loan Deficiency Payments and Marketing Loans, both from the 2008 Farm Bill, are retained in the 2014 Farm Bill. The crop disaster program from the 2008 Farm Bill – the Supplemental Revenue Assistance Program – was not reauthorized, as elements of this effort was rolled into ARC. The other disaster programs that covered livestock and tree assistance are reauthorized and retroactively funded for losses incurred in 2012 and will continue indefinitely.

Payment limits are set at a $125,000 per person cap on the total of PLC, ARC, marketing loan gains and loan deficiency payments. The 2014 Farm Bill applies this $125,000 limit to the total from all covered commodities (with the exception of peanut farmers, who have a separate $125,000 limit). The 2014 Farm Bill instructs USDA to write regulations that define “significant contribution of active personal management,” which is expected to attract significant comment and debate. Eligibility for these programs will be revoked if the farmer’s adjusted gross income (AGI) is in excess of $900,000.

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DAIRY PROGRAMS

Among the most contentious items in the consideration of the 2014 Farm Bill, dairy programs have been significantly overhauled. Nearly all of the 2008 Farm Bill dairy policies – the Milk Income Loss Contract (MILC) program, the Dairy Product Price Support Program (DPPSP), and the Dairy Export Incentive Program (DEIP) – have been eliminated.

The largest component of the new farm bill's dairy policy is the **Dairy Margin Protection Program** (DMPP), which provides financial assistance to dairy farmers when the national margin falls below a level. This is an annual elective program, as dairy farmers are not required to participate, and a farmer will select a coverage level between $4 and $8 per hundredweight (cwt.) of milk. A farmer's production history is calculated by averaging annual production levels from 2011 to 2013.

The national margin for dairy production is calculated as the average farm price of milk, minus an average feed ration cost. This can be calculated as:

CORN RATION COST: **(1.0728 x (corn price per bushel)**

+

SOY RATION COST: **(0.00735 x (soybean meal price per ton)**

+

HAY RATION COST: **(0.0137 x (alfalfa hay price per ton)**

=

AVERAGE FEED RATION COST

No premium is charged for the minimum $4 per cwt. margin protection level. Premiums are charged for coverage at higher margins, and the premium schedule differentiates for annual milk production of 4 million or fewer pounds and for production greater than 4 million pounds. Four million pounds of milk roughly equates to the production level of a 190-cow dairy herd. Additionally, all premium levels, except for the $8 margin level, are reduced by 25 percent for 2014 and 2015 so as to provide transition assistance to dairy farmers.

Dairy Margin Protection Program Premiums

Margin Coverage Level	Premium first 4 mil. lbs. of milk	Premium > 4 mil. lbs. of milk
$4.00	$0.000	$0.000
$4.50	$0.010	$0.020
$5.00	$0.025	$0.040
$5.50	$0.040	$0.100
$6.00	$0.055	$0.155
$6.50	$0.090	$0.290
$7.00	$0.217	$0.830
$7.50	$0.300	$1.060
$8.00	$0.475	$1.360

Another new program, the **Dairy Product Donation Program** (DPDP) is designed to address declines in prices and to provide assistance to low-income populations. DPDP kicks in if dairy production margins remain below $4 per cwt. for more than two consecutive months. When DPDP is triggered, the U.S. Department of Agriculture will purchase commodity dairy products, including cheddar cheese and dry milk power.

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DAIRY PROGRAMS—CONTINUED

Purchases under DPDP will continue until one of the following outcomes occurs:

1. Market prices rise enough to bring the margin above $4 per cwt.
2. The U.S. cheddar cheese price exceeds 105 percent of the world market price and the domestic margin is between $3 and $4 per cwt.
3. The U.S. cheddar cheese price exceeds 107 percent of world market price and the domestic margin is below $3 per cwt.
4. Three months have passed, even if margins remain below $4 per cwt.

A stabilization or supply management program, which was part of the Senate-passed draft farm bill but was specifically excluded in the House, is not included in the 2014 Farm Bill.

USDA is required to adhere to standard rulemaking procedures and to determine the market impacts of the new program during the rulemaking process. The 2014 Farm Bill reiterates that federal milk marketing orders (FMMO) have permanent statutory authority and should continue intact. It also provides a mechanism for California dairy farmers to enter into the FMMO.

CROP INSURANCE

With a funding increase of $5.7 billion over ten years, the 2014 Farm Bill spending levels for crop insurance are twice as high as those for the commodity programs, a fact that reflects the increased importance that has been assigned to risk management. Now that crop insurance has become the primary program for most farmers, **conservation compliance requirements that previously only applied to federal commodity programs will now apply to crop insurance as well.** Farmers must adhere to certain basic conservation methods in order to be eligible for federal crop insurance premium subsidies, with some exceptions and phase-in assistance for permanent crops, such as fruit and nuts, and specialty crops. It should be noted that there are no payment limits or income-based eligibility restrictions on crop insurance participation.

Because of the adjustments to conservation compliance requirements, the bill reduces crop insurance subsidies and noninsured crop disaster assistance for the first four years of planting on native sod acreage in Iowa, Minnesota, Montana, Nebraska, North Dakota and South Dakota.

Most of the funding increases for crop insurance are due to the inclusion of two new insurance products. One is for cotton only – the Stacked Income Protection Plan (STAX) – and the other is available for all commodities – the Supplemental Coverage Option (SCO). Both STAX and SCO cover county-wide revenue losses. The conference report prohibits cotton farmers from enrolling the same acreage in both STAX and SCO, but they may split acreage even within the same county between the two. Similarly, growers of any commodity may not enroll the same acreage in both SCO and the Agriculture Risk Coverage (ARC) program, but SCO and the Price Loss Coverage (PLC) program may be paired.

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2014 Farm Bill Summary

CROP INSURANCE—CONTINUED

Cotton farmers can purchase STAX as a stand-alone policy or in addition to a revenue or yield protection insurance policy, which would result in coverage levels of 70 to 90 percent. SCO is a county-level revenue or yield loss policy available to eligible commodity producers as a supplemental policy to cover a portion of the deductible of their individual insurance policy. Payments from SCO will be applied if county losses exceed 14 percent, and coverage is limited to the difference between 86 percent of revenue and a farmer's individual insurance coverage level.

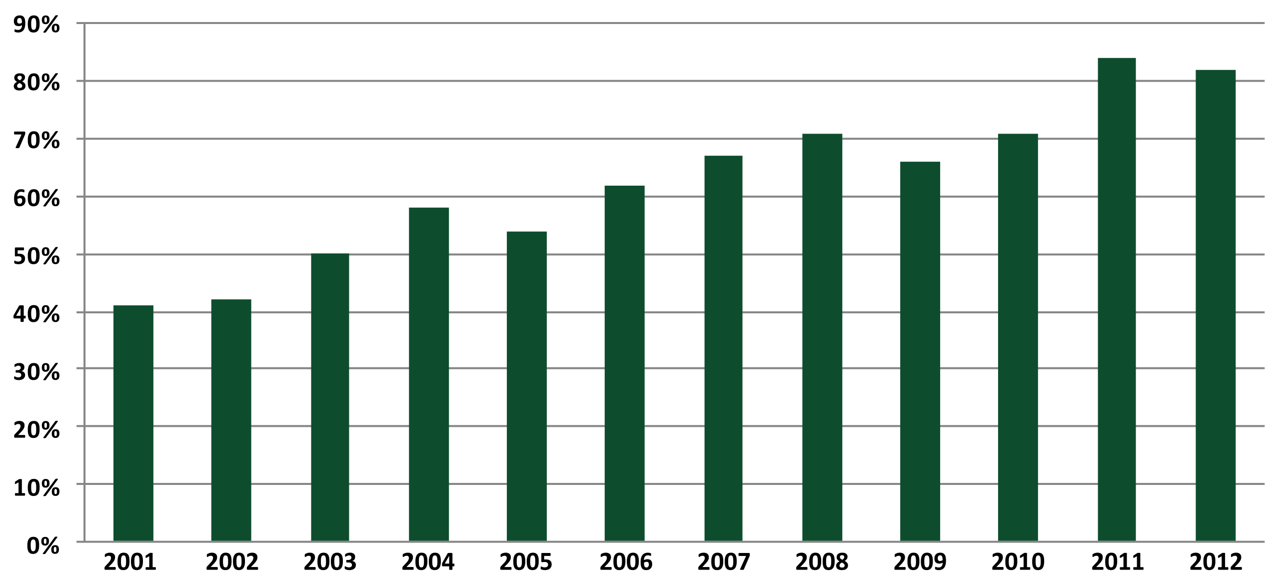
The 2014 Farm Bill makes available a ten percentage point reduction in crop insurance premiums for beginning farmers for their first five years of farming.

Further research on whole farm revenue insurance is emphasized in the bill, especially at higher coverage levels than are currently available. A variety of provisions are included that will expand or study improvements to crop insurance for other commodities, including specialty and organic crops. Other study areas include:

- Food safety and contamination-related insurance for specialty crop producers
- Insurance for hog farmers and poultry growers in the event of a catastrophic disease event
- Margin-based insurance for catfish farmers
- Insuring sweet sorghum grown as feedstock for renewable energy
- Alfalfa production insurance

Protections against cuts to crop insurance through the Standard Reinsurance Agreement negotiation process, which periodically reestablishes the terms of the relationship between the federal government and private crop insurance companies, are included in the bill.

Percentage of Insured Commodity Acres Enrolled in Revenue-Based Insurance Product



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2014 Farm Bill Summary

LIVESTOCK PROGRAMS

Ranchers endured the worst side effects of the extension of the 2008 Farm Bill and its subsequent lapse. Continued drought and the October 2013 blizzard hurt many ranchers, and as a result, livestock programs, particularly those that provide disaster assistance, feature prominently in the 2014 Farm Bill. Two other issues of high interest to NFU – Country-of-Origin Labeling (COOL) and rules related to the Grain Inspection, Packers and Stockyards Administration (GIPSA) – were also addressed.

Efforts to undermine or repeal COOL were defeated and the 2014 Farm Bill leaves the COOL law intact. COOL was even expanded to apply to goat meat and farm-raised venison, and the labeling of production steps – born, raised, and slaughtered/harvested – will continue to be required on all COOL-covered commodities. However, the bill requires USDA to study the economic impact of COOL within six months of enactment. Additionally, the 2014 Farm Bill does not impede USDA's authority to enforce the Packers and Stockyards Act and crack down on abusive market practices by consolidated packers and processors.

The 2014 Farm Bill includes four **Supplemental Agricultural Disaster Assistance Programs**, two of which comprise the bulk of the spending and are directed toward livestock. For the first time, these livestock programs are endowed with mandatory funding. The programs are also retroactive, so that USDA will be able to provide aid to farmers and ranchers for losses incurred in 2012 and 2013.

Livestock Indemnity Payments (LIP) will pay up to 75 percent of the market value for livestock mortality in excess of normal rates. Losses due to attacks by other animals or adverse weather conditions are also eligible for payments. The **Livestock Forage Disaster Program (LFP)** compensates ranchers for grazing losses due to drought or fire on land owned, leased, or purchased by a qualifying rancher, or land that was sold due to drought or was used by a contract grower on in a county affected by drought. Payments under LFP may equal up to 60 percent of the monthly feed costs incurred by the producer or the feed costs calculated by the normal grazing capacity of the land and payments can rise up to the 80 percent level for ranchers or growers forced to sell livestock because of drought.

Special arrangements and exceptions are further described in the bill. For example, assistance is excluded for grazing losses on land used for haying or grazing under a Conservation Reserve Program contract. The farm bill includes specific language on county designations according to the National Drought Monitor service and also has alternative requirements for livestock grazed on public lands.

Further animal health-related provisions include renewal of the trichinae certification program, establishment of an animal health laboratory network, and additional supervision of the avian influenza surveillance program in the National Poultry Improvement Plan. Also included are a competitive production and marketing grant program through the National Sheep Industry Improvement Center and prioritization of feral swine eradication.

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2014 Farm Bill Summary

ORGANIC, BEGINNING FARMERS AND RANCHERS, & EMERGING MARKETS

The 2014 Farm Bill makes substantial reforms and provides new opportunities for organics, specialty crops, farmers markets and beginning farmers and ranchers. The bill substantially increases funding and creates new programs for these segments of the agriculture economy.

Local and regional food systems benefit from increased farm bill funding. The **Farmers Market and Local Food Promotion Program** received $30 million per year in mandatory funding. In addition, local and regional businesses were given continued access to Business & Industry Loan Programs. A total of $65 million is provided for Value Added Product Market Development Grants, which advance the growth of local and regional food systems.

The 2014 Farm Bill included new opportunities for specialty crops, with an additional $50 million per year in mandatory funding for the **Specialty Crop Research Initiative** and $72.5 million per year in mandatory funding for **Specialty Crop Block Grants.** Spending on pest and disease management and disaster prevention for specialty crops is increased to $62.5 million per year for the first four years of the farm bill, and $75 million is allocated for 2018 and after the farm bill expires.

Specialty crops will have access to new crop insurance options, and will also be subject to the same conservation compliance requirements as traditional commodities. Producers are allowed a 5-year period to comply with highly erodible land requirements and 2 years to comply with the modified wetlands requirements.

The farm bill continued its support of organic agricultural production, with $11.5 million per year in funding for the **Organic Certification Cost Share Program**, to help farmers and ranchers defray the costs of organic certification. The **Organic Agriculture Research and Extension Initiative** was provided $20 million per year in mandatory funding to better educate organic farmers and ranchers of the latest innovations in organic production.

The bill supports **beginning farmers and ranchers** in a wide variety of new ways. Beginning farmers are now eligible for reduced crop insurance premiums for their first five years of production. The **Beginning Farmers and Ranchers Development Program**, to improve new farmers' access to education, training, outreach and mentoring, is funded at a level of $20 million per year.

President Obama signs the Farm Bill at Michigan State University on Feb. 7, 2014 (Official White House Photo by Pete Souza)

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2014 Farm Bill Summary

CONSERVATION PROGRAMS

The 2014 Farm Bill makes substantial investments ($57.6 billion over 10 years) in key conservation programs. As a whole, the programs are streamlined and consolidated to increase efficiency. The farm bill continues to promote healthier soils, water, and air while maintaining the productivity of farmland.

CRP Acreage Caps	
Current	32 million acres
2014	27.5 million acres
2015	26 million acres
2016	26 million acres
2017	24 million acres
2018	24 million acres

Conservation Reserve Program (CRP)

Throughout the life of the 2014 Farm Bill, CRP acreage will be gradually reduced from the current 32 million acres to 24 million acres in 2018 – a 25 percent reduction.

Environmental Quality Incentives Program (EQIP)

As it has throughout the life of the program, EQIP will provides technical and financial assistance to farmers and ranchers for various conservation practices.

- Each year, 60 percent of EQIP funds will be used for assistance to livestock producers.
- The Wildlife Habitat Incentives Program (WHIP) will be merged into EQIP.
- WHIP participants are guaranteed at least five percent of total EQIP funding.
- WHIP provides support for farmers to create wildlife habitats on their farms.

EQIP Funding Levels	
2014	$1.35 billion
2015	$1.6 billion
2016	$1.6 billion
2017	$1.65 billion
2018	$1.75 billion

Conservation Stewardship Program: a working-lands program that pays farmers for conservation benefits.

- Caps the program at 10 million acres per year.

Regional Conservation Partnership Program (RCPP): A new program that combines the Cooperative Conservation Partnership Initiative and the Agricultural Water Enhancement Program. The RCPP creates a merit-based system that targets specific vulnerable areas, such as the Great Lakes.

- $100 million in mandatory funding over 5 years.

Agricultural Conservation Easement Program (ACEP):

- Consolidates Grassland Reserve Program, Wetlands Reserve Program, and Farm and Ranch Protection Program.
- Provides funding authority for ten years, so that funding is available if the bill is extended.
- Total funding level of $2.025 million through 2018.

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2014 Farm Bill Summary

ENERGY PROGRAMS

The 2014 Farm Bill reauthorizes and funds several renewable energy and energy efficiency programs. It also includes, for the first time, mandatory funding and a permanent baseline.

Rural Energy for America Program (REAP)

The program provides grants and loan guarantees for a variety of renewable energy and energy efficiency systems, including wind, solar, biomass, and geothermal energy. The new bill prohibits REAP from funding renewable infrastructure projects, such as blender pumps. It will not continue to fund feasibility studies for energy projects.

Biomass Crop Assistance Program (BCAP)

The program's purpose is to encourage farmers to plant dedicated energy crops with the help of establishment payments and payments for the collection, harvest, storage and transportation of the crop. The main change in the bill is the reduction in cost-sharing of establishment payments from 75 percent to 50 percent.

Biorefinery Assistance Program

The program is intended to spur the development of advanced biorefineries to produce advanced biofuels. The program was expanded to include renewable chemical and biobased product manufacturing.

Biobased Markets (Bio-preferred) Program

The program is intended to increase the consumption and purchase of biobased products. The bill adds a reporting requirement for quantities and types of biobased products for federal agencies .

Farm Bill Energy Programs Funding Levels (in millions)

Program Name	Mandatory Funding	Discretionary Funding
Biobased Markets Programs	$15	$10
Biorefinery Assistance Program	$200	$375
Repowering Assistance Program	$12	$50
Bioenergy Program for Advanced Biofuels	$75	$100
Biodiesel Fuel Education Program	$5	$5
Rural Energy for America Program	$250	$100
Biomass Research & Development	$12	$100
Biomass Crop Assistance Program	$125	0
Community Wood Energy Program	0	$25
Total:	**$694**	**$765**

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NUTRITION PROGRAMS

Throughout the 2014 Farm Bill discussions, the nutrition title, including the Supplemental Nutrition Assistance Program (SNAP), was a contentious issue. Specifically, the debate surrounded the amount of cuts to programs like SNAP. The House of Representatives voted to cut $40 billion from nutrition programs, while the Senate voted for a much smaller cut of $4 billion. In the end, **the farm bill cuts $8 billion from SNAP and other nutrition programs.**

SNAP funds are still available to millions of low-income Americans. SNAP recipients can also now receive matching payments when they use their benefits at farmers markets. This will help the hungry gain access to fresh and nutritious food and while simultaneously promoting local food systems.

The nutrition title includes a few key changes. There are now **tighter eligibility criteria** for SNAP recipients. College students, lottery winners, and undocumented immigrants are now explicitly prohibited from receiving benefits. In addition, the farm bill ends a policy allowing low-income families who qualify for heating assistance to automatically qualify for SNAP benefits.

Emergency food and nutrition assistance was given a boost in the new farm bill. **The Emergency Food Assistance Program (TEFAP)** was given an additional $250 million.

Additional highlights include providing fresh fruits and vegetables to areas that previously did not have access through the Healthy Food Financing Initiative. This program helps support projects that help address food deserts. In addition, $50 million in annual funding was given to the Department of Defense Fresh Fruit and Vegetable Program, which permits schools to purchase greater quantities of fresh fruits and vegetables.

AGRICULTURAL EXPORT AND FOOD AID PROGRAMS

The 2014 Farm Bill makes substantial investments in previously-existing international food aid and export promotion programs.

The bill fully funds the **Market Access Program** and **Foreign Market Development Program**, which promote U.S. agricultural products in foreign countries. The bill also solves a trade issue by making changes to the credit guarantee program in order to comply with the **World Trade Organization cotton dispute** won by Brazil.

International **food aid** programs were funded and reformed. The bill reauthorizes Food for Peace, the largest international food aid program. The bill also provides more flexibility to use cash assistance in the program. Finally, the 2014 Farm Bill emphasizes providing more nutritious food aid and not causing serious disruption to local markets.