

Can U.S. Agriculture Survive in the World of Uncertainty?

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Prepared for

20th Annual Farming for...Profit? Conference

Moose Jaw, SK, Canada

June 24, 2013



Question: Can U.S. Agriculture Survive in the World of Uncertainty?

Easy Answer: Yes, and I'm Certain

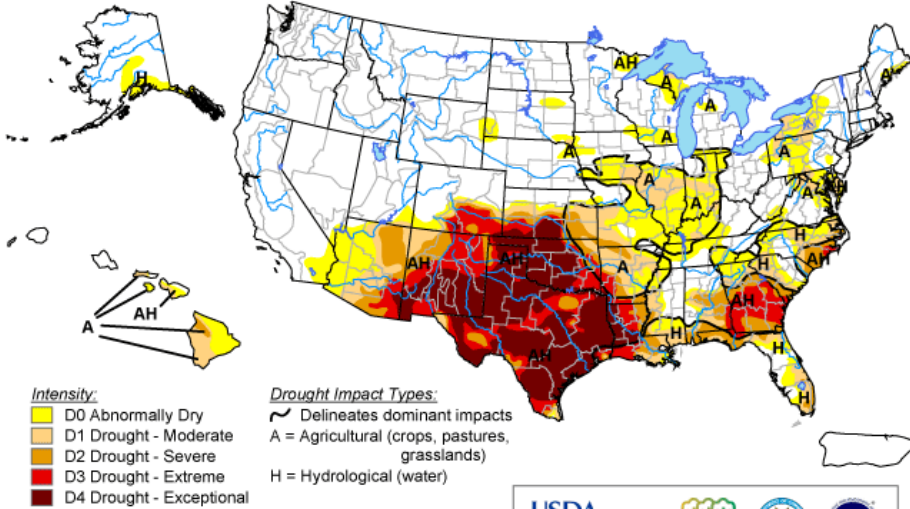
More Complicated Answer: Yes, but there are many factors impacting how successful

- ◆ Weather
- ◆ Farm Bill
- ◆ Farmer Perspectives
- ◆ International Markets
- ◆ Getting out of our Own Way
- ◆ Summary and Conclusions



Weather, Namely Drought, a Huge Factor

U.S. Drought Monitor August 16, 2011
Valid 8 a.m. EDT



Intensity:
 D0 Abnormally Dry
 D1 Drought - Moderate
 D2 Drought - Severe
 D3 Drought - Extreme
 D4 Drought - Exceptional

Drought Impact Types:
 ~ Delineates dominant impacts
 A = Agricultural (crops, pastures, grasslands)
 H = Hydrological (water)



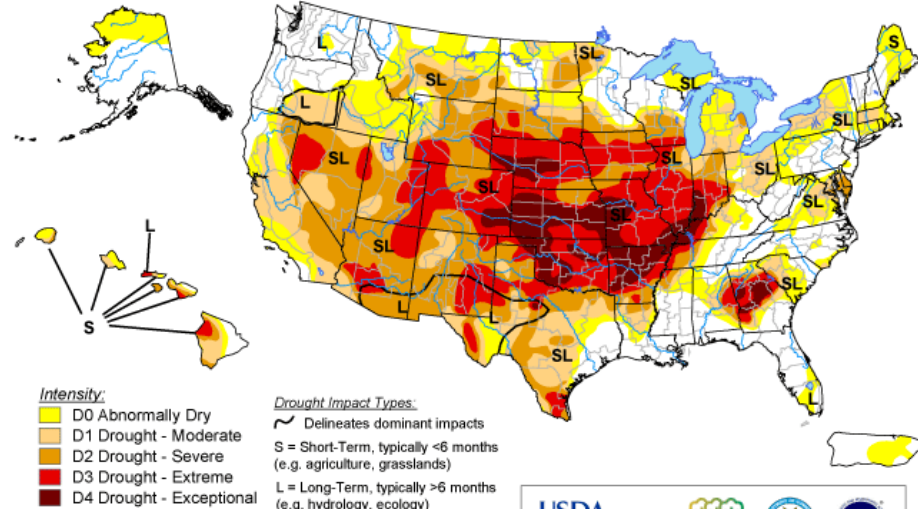
Released Thursday, August 18, 2011

Author: Laura Edwards, Western Regional Climate Center

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://drought.unl.edu/dm>

U.S. Drought Monitor August 14, 2012
Valid 7 a.m. EDT



Intensity:
 D0 Abnormally Dry
 D1 Drought - Moderate
 D2 Drought - Severe
 D3 Drought - Extreme
 D4 Drought - Exceptional

Drought Impact Types:
 ~ Delineates dominant impacts
 S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
 L = Long-Term, typically >6 months (e.g. hydrology, ecology)



Released Thursday, August 16, 2012

Author: Michael Brewer/Liz Love-Brotak, NOAA/NESDIS/NCDC

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<http://droughtmonitor.unl.edu/>

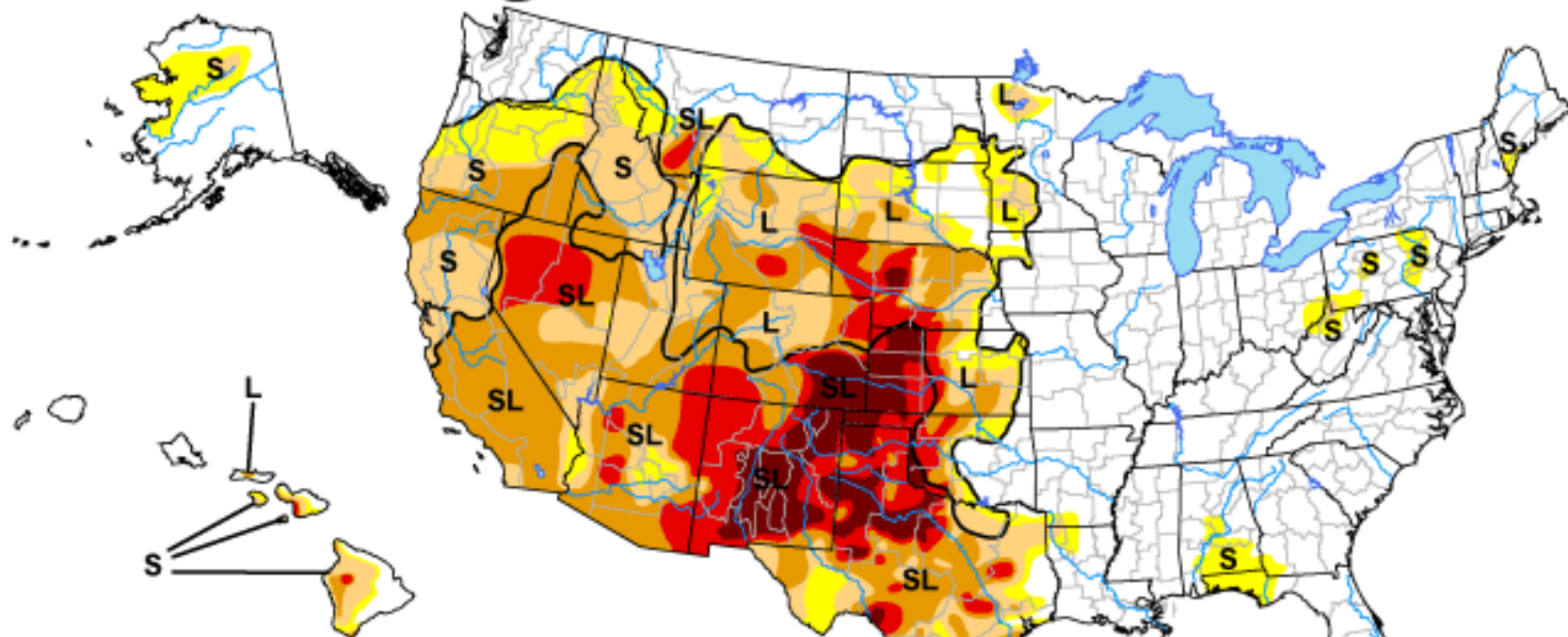
<http://droughtmonitor.unl.edu/archive.html>








U.S. Drought Monitor

June 18, 2013


Valid 7 a.m. EDT



Intensity:

-  D0 Abnormally Dry
-  D1 Drought - Moderate
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The Drought Monitor focuses on broad-scale conditions.
Local conditions may vary. See accompanying text summary
for forecast statements.

<http://droughtmonitor.unl.edu/>



Released Thursday, June 20, 2013

Author: Mark Svoboda, National Drought Mitigation Center

Drought

- Drought is almost always somewhere in the U.S.
- **2011** – Texas and Surrounding States Took Brunt of Drought, but Midwest Mostly Okay
- **2012** – Midwest Had Huge Drought Impact, Much More Expensive than 2011; Texas and SE Mostly Okay
- **2013** – So Far, South TX and Panhandle, NM, OK, up to NE Taking the Hit
- **2014 and Beyond** – Who Knows, but It will be Somewhere
- Geographic Size and Diversity Continues to Mitigate National Impacts of Drought
- Crop Insurance Has Helped Many; Insurers Taking it on the Chin, but **2012 only year in last 4 where Losses > Premiums**

2013 Farm Bill

- Already a Couple Years Late, Many Think it Will be Done This Year, Some Do Not
- Elimination of Direct Payments – Has Lenders Concerned
- Switching to More of an Emphasis on Crop Insurance

KEEP THIS IN MIND:

- Farm Bill Valued at ~\$940-\$955 Billion
- SNAP takes up 80% of total
- Crop Insurance at 9-10%
- Conservation at about 6%
- Commodity Programs at 4%

2013 Farm Bill (continued)

- Senate Bill Features (cotton excluded):
 - Agriculture Risk Coverage (ARC) – a shallow loss type of safety net with a choice of using farmer’s own yields or county yields; and
 - Adverse Market Payment (AMP) – a CCP type program to provide assistance in the event of price declines
 - Plus a Supplemental Coverage Option (SCO) – an area wide insurance program available to cover shallow losses on top of current buy-up insurance
- House Bill: Producers choose between shallow loss coverage and a combination of price-based safety net with an SCO, but Call them Different Names:
 - Revenue Loss Coverage (RLC) is for shallow losses
 - Price Loss Coverage (PLC) for low prices and includes the area-wide crop insurance options (SCO)

Provisions	Senate Agriculture Risk Coverage (ARC) Provisions	House Revenue Loss Coverage (RLC) Provisions
Revenue guarantee	Starts at 89% of previous 5-year moving Olympic average revenue for the crop	Starts at 85% of previous 5-year moving Olympic average revenue for the crop
County or Individual Level Coverage	One time irrevocable selection of either county level or individual level	County level
Payment acres	65% of planted acres not to exceed the average total acres planted or prevented from being planted to covered commodities and upland cotton on the farm for the 2009 – 2012 crop years if individual level coverage is selected or 80% for county level coverage	85% of planted acres and 30% of prevented planted acres not to exceed base acres on the farm (upland cotton base acres are included in total farm base acres) (payment factor of 85% is applied to planted acres before checking whole farm base cap)
Payment band or range	10% (89% to 79%)	10% (85% to 75%)
Actual revenue	Calculated using the average price during the first 5 months of the marketing year and actual yields	Calculated using the average price during the first 5 months of the marketing year and actual yields
Mandatory or Optional	Producer has the option to opt out of ARC and select SCO with a wider coverage level	Producer has the option to select RLC or price loss coverage (PLC)
Transitional Yields Used to Replace Low Yields in Calculating Revenue Guarantee	Can replace low yields with 60% of transitional yields in 2012 or prior years and 70% in 2013 or any subsequent years	Can replace any low yield in revenue calculations with 70% of the transitional yield

Provisions	Senate Agriculture Risk Coverage (ARC) Provisions	House Revenue Loss Coverage (RLC) Provisions
Reference Prices Used to Replace Low Prices in Calculating Revenue Guarantee	<p>Only applicable for rice and peanuts</p> <p>Long Grain Rice - \$13.00/cwt</p> <p>Medium Grain Rice - \$13.00/cwt</p> <p>Peanuts - \$530/ton</p>	<p>Wheat - \$5.50/bu</p> <p>Corn - \$3.70/bu</p> <p>Grain Sorghum - \$3.95/bu</p> <p>Barley - \$4.95/bu</p> <p>Oats - \$2.40/bu</p> <p>Long Grain Rice - \$14.00/cwt</p> <p>Medium Grain Rice - \$14.00/cwt</p> <p>Soybeans - \$8.40/bu</p> <p>Other Oilseeds - \$20.15/bu</p> <p>Peanuts - \$535/ton</p> <p>Dry Peas - \$11.00/cwt</p> <p>Lentils - \$19.97/cwt</p> <p>Small Chickpeas - \$19.04/cwt</p> <p>Large Chickpeas - \$21.54/cwt</p>
Payment Limit	\$50,000, peanuts with a separate limit	\$125,000, peanuts with a separate limit
Reduce crop insurance subsidy if AGI > 750,000	Yes, by 15%	n/a

Provisions	Senate Adverse Market Payment (AMP)	House Price Loss Coverage (PLC) Program
Payment Acres	85% of base acres	85% of planted acres and 30% of prevented planted acres not to exceed base acres on the farm (upland cotton base acres are included in total farm base acres) (payment factor of 85% is applied to planted acres before checking whole farm base cap)
Reference Prices	<p>Wheat - \$4.17/bu Corn - \$2.63/bu Grain Sorghum - \$2.63/bu Barley - \$2.63/bu Oats - \$1.99/bu Long Grain Rice - \$13.30/cwt Medium Grain Rice - \$13.30/cwt Soybeans - \$6.40/bu Other Oilseeds - \$12.68/cwt Peanuts - \$523.77/ton Dry Peas - \$8.32/cwt Lentils - \$12.81/cwt Small Chickpeas - \$10.36/cwt Large Chickpeas - \$12.81/cwt</p> <p>Senate passed bill changed reference prices to use the most recent 5 year Olympic average market prices multiplied times .55 except for rice and peanuts which are set at \$13.30/cwt and \$523.77/ton, respectively.</p>	<p>Wheat - \$5.50/bu Corn - \$3.70/bu Grain Sorghum - \$3.95/bu Barley - \$4.95/bu Oats - \$2.40/bu Long Grain Rice - \$14.00/cwt Medium Grain Rice - \$14.00/cwt Soybeans - \$8.40/bu Other Oilseeds - \$20.15/cwt Peanuts - \$535/ton Dry Peas - \$11.00/cwt Lentils - \$19.97/cwt Small Chickpeas - \$19.04/cwt Large Chickpeas - \$21.54/cwt Temperate Japonica rice – 115% of long grain rice or \$16.10</p>
Price Trigger	If the average marketing year price falls below the reference price for the commodity. Uses the higher of the average market price or national average loan rate.	The average price during the first 5 months of the marketing year falls below the reference price for the commodity. Uses the higher of the first 5 months average market price or national average loan rate.
Payment Yields	<p>CCP yields for all crops other than rice, peanuts, oilseed and pulse crops without a payment yield.</p> <ul style="list-style-type: none"> - Rice allows updating of CCP yields for rice depending upon the percentage of the crops base acres planted over the 2009-2012 period <ul style="list-style-type: none"> o If the 2009-2012 average planted acres were greater than 50% of base acres then the yield is 90% of the average yield from 2009-2012 o If the 2009-2012 average planted acres were less than 50% of base acres then the updated yield equals the CCP yield plus (percent of base acres planted times the difference between the 2009-2012 average yield and CCP yield) - Peanuts allow for updating using the average of 2009-2012 planted acre yields, omitting years not planted and replacing low yields with 75% of county average. 	CCP yields from the 2008 Farm Bill or establishes a methodology for producers of oilseeds without a CCP yield. Farm owner option to update payment yields to 90% of the average of the yield per planted acre for the crop for the 2008 to 2012 crop years, excluding any crop year in which the acreage planted was zero. Can replace yields lower than 75% of the county average with 75% of the county average when calculating the average.
Payment Limitation	\$50,000 for ARC and AMP combined, peanuts with a separate limit	\$125,000 for PLC and RLC combined, peanuts with a separate limit

Additional Upland Cotton Provisions	Senate	House
Transition Payments	None	For the 2014 and 2015 crop years only. Payment acres equal 70% of upland cotton base acres in 2014 and 60% in 2015. Transition payment rate per pound \$0.06667
Marketing Loan Rate	the simple average of the adjusted prevailing world price for the 2 immediately preceding marketing years, determined by the Secretary and announced October 1 preceding the next domestic plantings, but in no case less than \$0.45 per pound or more than \$0.52 per pound	the simple average of the adjusted prevailing world price for the 2 immediately preceding marketing years, as determined by the Secretary and announced October 1 preceding the next domestic plantings, but in no case less than \$0.47 per pound or more than \$0.52 per pound

Provisions	Senate SCO and STAX	House SCO and STAX
SCO Coverage	<p>Producer has the option of purchasing on an individual yield and loss basis or an area yield and loss basis or an individual yield and loss basis, supplemented with coverage based on an area yield and loss basis to cover all or a part of the deductible under the individual yield and loss policy, or a margin basis alone or in combination with—individual yield and loss coverage; or area yield and loss coverage</p>	<p>Producer has the option of purchasing additional coverage based on an individual yield and loss basis or an area yield and loss basis or an individual yield and loss basis, supplemented with coverage based on an area yield and loss basis to cover all or a part of the deductible under the individual yield and loss policy</p>
SCO Band	<p>If an ARC participant, coverage from individual producer buy-up insurance coverage level up to 79%. If producer opts out of ARC, then from individual producer insurance coverage level to 90%.</p>	<p>If in PLC, from individual producer insurance coverage level up to 90%. Not available if in RLC.</p>
SCO Premium Subsidy	70%	70%
STAX Coverage Band	<p>Producer elects coverage for revenue loss of not less than 10 percent and not more than 30 percent of expected county revenue, specified in increments of 5 percent.</p>	<p>Producer elects coverage for revenue loss of not less than 10 percent and not more than 30 percent of expected county revenue, specified in increments of 5 percent.</p>
STAX Reference Price	None	None
STAX Premium Subsidy	80%	80%

2013 Farm Bill (continued)

- So, where is the farm bill really going and where will it really end up?
- Senate Passed their version
- House Defeated their version
 - Cuts and work requirements for SNAP made Dems mad
 - Cuts not deep enough made conservatives mad

Now What??

December Maybe??



Farmer Perspectives

- There are many things beyond using good agronomic practices that farmers can do to keep U.S. agriculture on the right path.
- The use of good risk management practices via hedging and forward pricing have helped many producers.
- A December 2012 survey of Texas A&M AgriLife Master Marketer program alumni indicates:
 - 84% continue to use hedging instruments
 - 53% use a market advisory service in the process
 - From 2003 – 2012, percent of crop hedged increased from 11% to 30%

Farmer Perspectives

Texas Master Marketer Survey Percent of Crop Covered

Year	cotton	feed grains	wheat	live cattle	feeder cattle	natural gas	other
2003	14.00%	22.07%	11.46%	25.22%	21.82%	0%	18.75%
2004	13.75%	18.62%	8.21%	23.64%	23.64%	0%	18.75%
2005	15.90%	23.48%	11.86%	23.64%	28.14%	0%	17.50%
2006	14.27%	26.70%	12.14%	25.22%	30.71%	0%	25.00%
2007	16.22%	29.04%	16.48%	25.65%	37.06%	0%	28.33%
2008	17.02%	33.96%	14.64%	26.52%	33.11%	0%	18.75%
2009	17.11%	29.69%	13.66%	27.39%	42.63%	0%	27.20%
2010	21.82%	33.57%	17.22%	31.25%	38.95%	5.77%	27.20%
2011	27.34%	34.81%	19.20%	32.50%	43.05%	17.33%	31.20%
2012	20.78%	35.58%	25.30%	27.39%	42.69%	7.33%	49.38%

Note: 2012 increase in Other is mostly rice; n=127

Farmer Perspectives

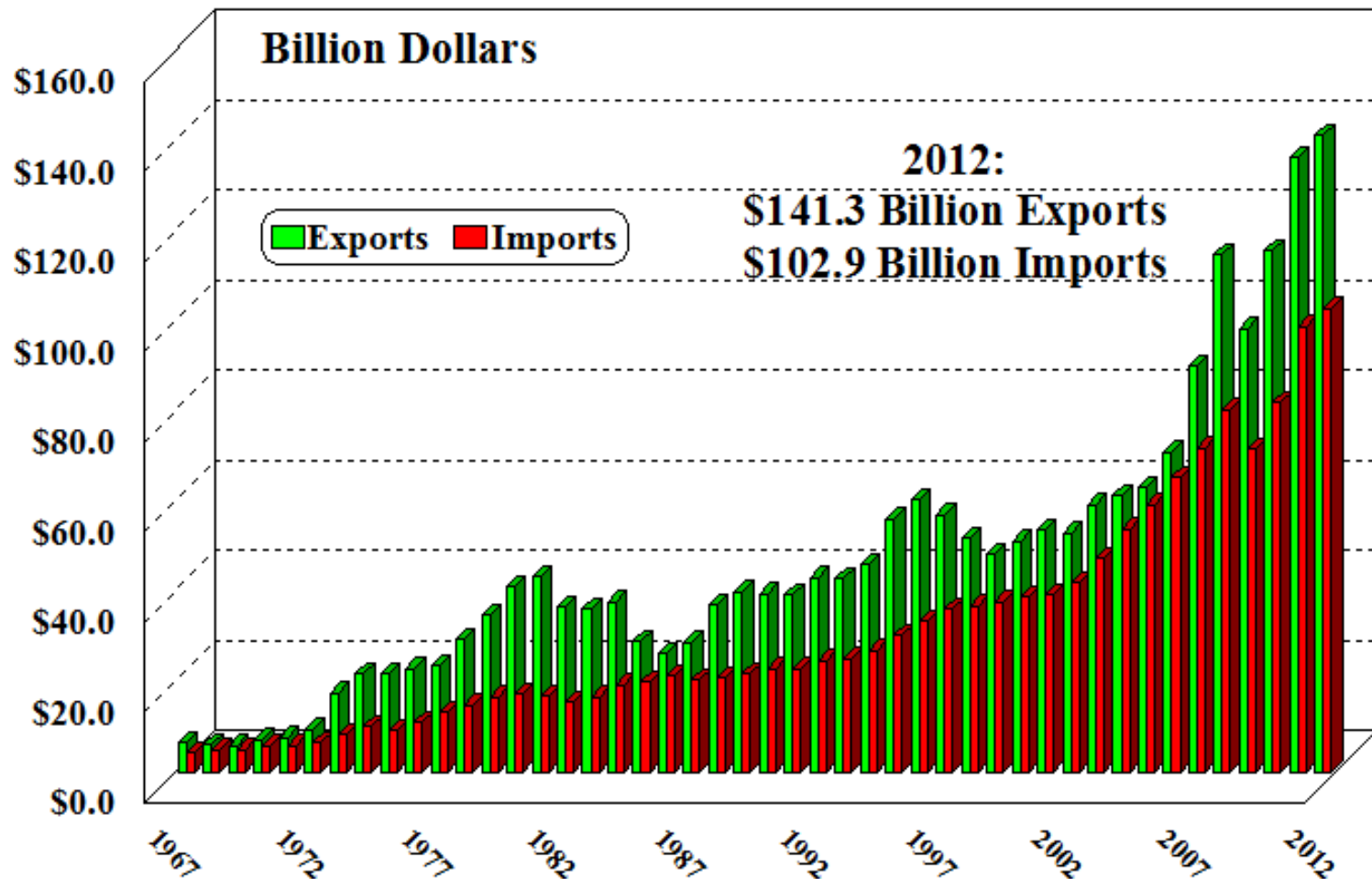
Texas Master Marketer Survey

- Survey respondents did have some concerns:
 - 63% agreed (*rated 5-7 on scale of 1-7*) that increased price volatility and associated margins and options premiums are impediments to use of futures/options for risk management
 - 57% agreed that more variable basis and less reliable convergence between futures and cash prices are serious impediments
 - 35% agreed that margin account security with a brokerage house is a serious impediment
- As gross farm receipts increased, farmers less likely to have stopped using futures/options to hedge
- As the farmer's age increased, farmers more likely to have stopped using futures/options to hedge
- Master Marketer participants are generally younger with larger scale operations, and willing to accept education

International Markets

The U.S. has a long history in international ag and food markets

Total U.S. Agricultural Trade



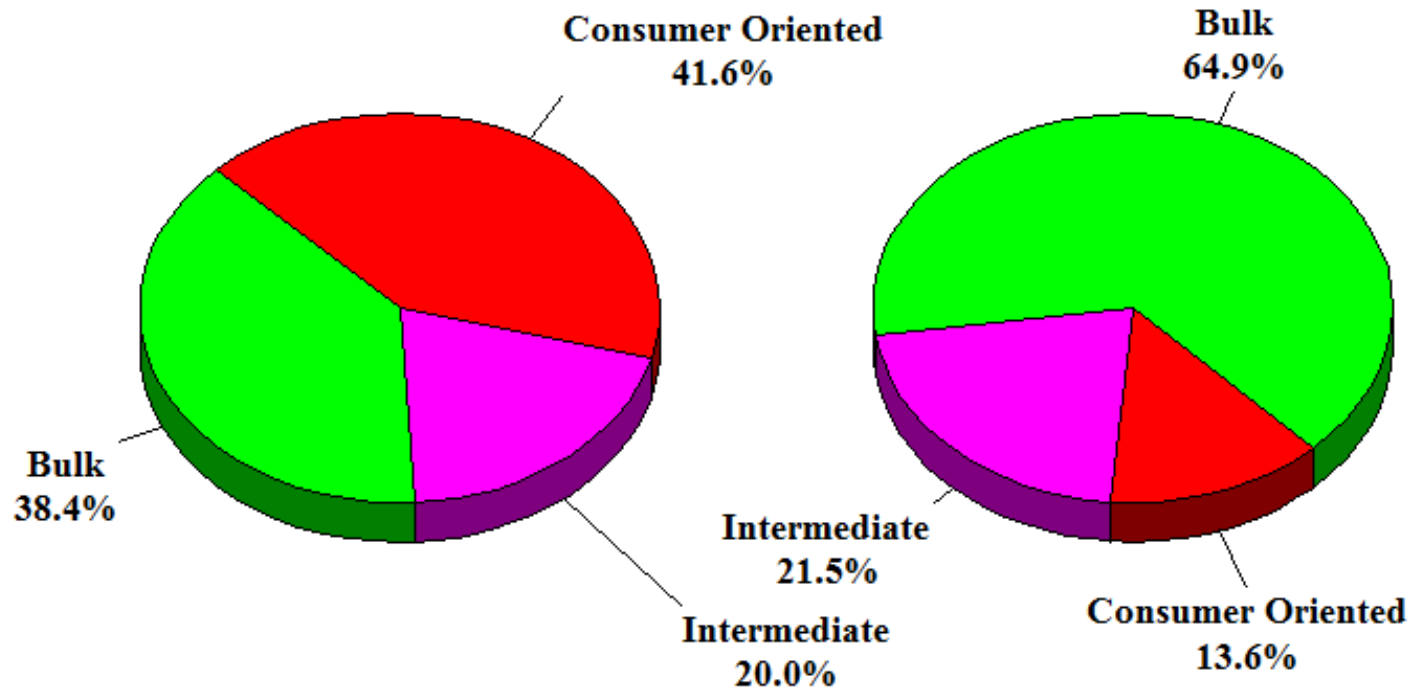
International Markets

- **U.S. Ag Exports are Diverse:**

U.S. Food and Agricultural Exports, 2012

Total Value: \$141.4 Billion

Total Volume: 171.5 MMT



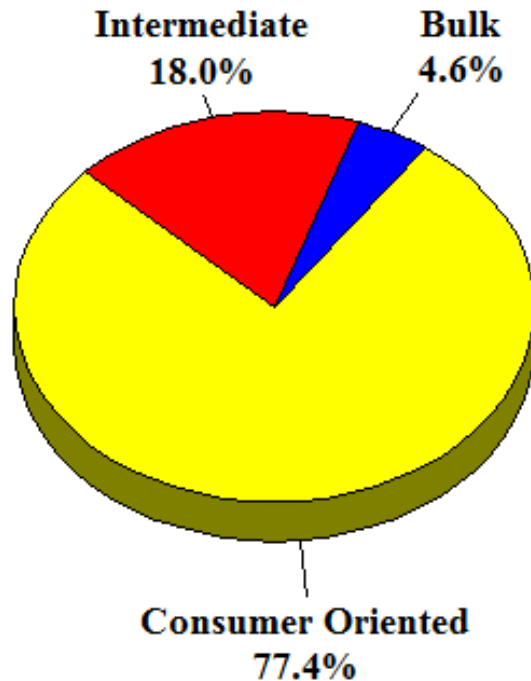
Source: Foreign Agricultural Service, USDA

International Markets

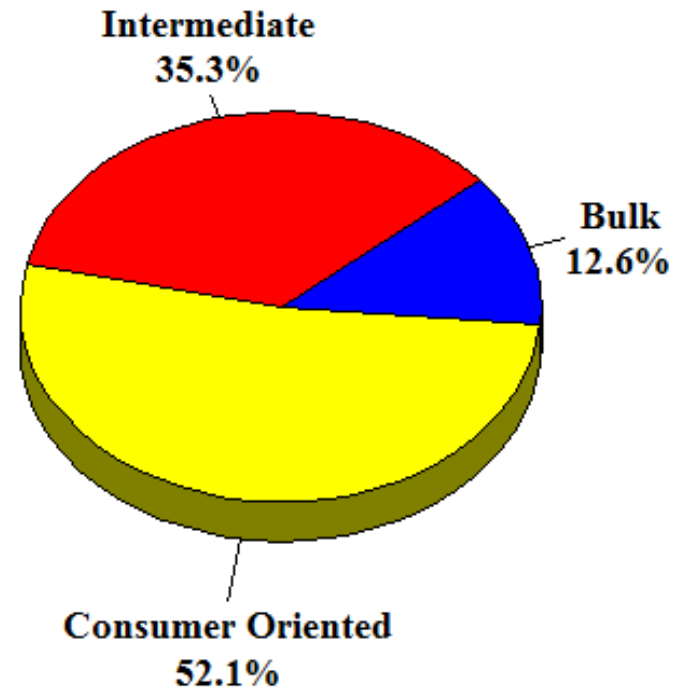
- Canada the most important foreign market for U.S. Ag and Food

U.S. Food and Ag Exports to Canada, 2012

Total Value: \$20.6 Billion



Total Volume: 11.9 MMT



Source: Foreign Agricultural Service, USDA

International Markets

- Export Markets are important to U.S. agriculture
- Without export markets, U.S. would have to find domestic markets for about 18% of the value of ag and food products
 - 24% of plant & 9% for animal
- Without export markets, U.S. would have to find domestic markets for about 20% of volume of ag products
 - 46% of oilseeds
 - 20% of fruits and nuts
 - 16% of vegetables
 - 15% of feed grains and poultry/eggs
 - 12% of red meat and food grains
- U.S. must work to maintain foreign markets for ag products or either production or prices (or both) will likely fall



Getting Out of Our Own Way

- Can't do much about the weather, but maintaining a viable crop insurance program can mitigate negative impacts
- Keeping a good farm policy, confidence in futures and options markets, and open export markets are all important
- Not making decisions which hurt farmers and markets is extremely important. Examples:
 - Treatment of agricultural operations under estate taxes
 - Reigning in the EPA – animal waste runoff and farm dust standards
 - Living up to our international trade agreements – NAFTA trucking dispute and MCOOL under the WTO



Getting Out of Our Own Way

Case in Point – Mandatory Country-of-Origin Labeling and Canada

- Designing MCOOL rules acceptable to U.S. industry and legal under the WTO has been difficult
- The latest challenge has been a dispute filed under the WTO by Canada on behalf of their Cattle and Pork Industries
 - Canadian Pork Council claims \$1.9 billion in damages through October 2012
 - CCA claims \$640 million/year in damages since 2008, or \$2.6 billion through October 2012

Getting Out of Our Own Way

Case in Point – Mandatory Country-of-Origin Labeling and Canada

- U.S. recently revised MCOOL regulations in response to losing the dispute case (May 23)
- Canada and the Pork/Cattle producers did not appreciate the changes
 - CCA claims it will increase impact from \$25-\$40/head to \$90-\$100/head
 - Government of Canada responded with a list of 38 product categories imported from the U.S. for possible retaliatory action (June 7, 2013)
 - 30 of these were agricultural products with 2012 imports from the valued at \$6.8 billion (1/3 of ag imports from U.S.) and 1.2 MMT



Getting Out of Our Own Way

Case in Point – Mandatory Country-of-Origin Labeling and Canada

- Examples of Products on List for Retaliation:
 - Baked Goods - \$1.04 billion imported from U.S.
 - Beef/Veal - \$988.0 million
 - Ethanol - \$748.5 million
 - Cereals/Pasta - \$723.5 million
 - Pork - \$492.5 million
 - Wine - \$387.4 million
 - Chocolates - \$379.2 million
 - Poultry Meat - \$329.6 million
 - Corn - \$290.7 million



Getting Out of Our Own Way

Case in Point – Mandatory Country-of-Origin Labeling and Canada

- Canada will work within the WTO framework to resolve this issue over the next 18-24 months
- Canada will not take retaliatory action until authorized by the WTO
- Retaliation cannot exceed damages, but total damages cited by the pork and cattle industries totaled about \$4.5 billion
- The MCOOL ball is now back in the U.S. court



Summary and Conclusions

- U.S. Agriculture certainly will survive in a world of uncertainty – will probably continue to flourish
- Can't change the weather, but can mitigate the impacts of drought and other events
- Next Farm Bill takes us in a new direction with growing dependence on crop insurance and the elimination of direct payments
- Farmers will continue to use risk management financial tools so long as their confidence remains
- Need to keep foreign markets open
- Need to stay out of our own way



THANKS!!

Questions??

**Ask now or contact me at
fjadcock@tamu.edu**

- Thanks to Joe Outlaw and Mark Welch for sharing farm policy and Master Marketer research
- Special Thanks to Parr Rosson for reviewing this presentation and making sure it's correct

