POLICY PENNINGS

By Daryll E. Ray

Lugar lobs proposal into farm bill debate

In an unexpected move, Sen. Richard Lugar, ranking member of the Senate Agriculture Committee, unveiled his own farm bill proposal several days before the committee was to begin marking up some of the non-controversial portions of the committee's proposed farm bill. Lugar's proposal is similar to the risk management programs that have been bandied about in the past. News reports indicate that he worked closely with the administration to fine tune the five year proposal. The cost of this proposal is $25 billion above the baseline for a total of $83 billion and seems to have the blessing of Ag Secretary Ann Veneman. This might mean that the USDA would support such a bill over the long haul or it could be the administration's way of sending up a trial balloon. It certainly provides an alternative to the legislation passed by the House of Representatives. The proposed phasing out of commodity programs by the end of the 2005 crop year is undoubtedly the most dramatic change from the House legislation, and one that will get a lot of attention from the program crop commodity groups.

Lugar is proposing a five year program whose goal is to "provide broad-based non-distorting farm safety net and environmental enhancement programs for U.S. farmers and ranchers that rely on shared responsibility between producers and government." The three part strategy introduces a new Risk Management Menu Program for all farmers and ranchers and all commodities; enlarges the environmental payments program; and phases out the other farm commodity programs during the 2003-2005 crop years.

Risk Management Menu Program

The Risk Management Menu Program would be open to farmers and ranchers of all agricultural commodities. Each year, it would provide eligible participating farmers and ranchers with a voucher that could be redeemed for one or more of the three financial protection strategies. Planting flexibility would be maintained with no restrictions. The prohibition against switching between program crops and fruits and vegetables would be eliminated.

The value of the voucher would be based on a producer's five year average gross farm revenue based on federal tax returns. The annual voucher value would be equal to 6 percent of average gross farm revenue up to $250,000; 4 percent of revenue between $250,000 and $500,000; and 1 percent of revenue between $500,000 and $1 million. To be eligible for the Risk Management Menu Program producers must be actively involved in farming as a sole proprietorship, partnership, Subchapter S corporation, or selected other family farm business entities. Producers would also have to have filed Schedule F or a comparable federal tax return related to the farm business during the preceding 5 years or be a beginning producer, and have $20,000 in annual gross farm revenue, except for limited resource farmers. A farmer with a $400,000 gross farm revenue would receive a voucher worth $21,000; $600,000 would receive a voucher of $26,000 and $800,000 would receive a voucher of $28,000. While it does not say so, it seems that this provision would eliminate participation by universities, state highway departments, state prisons and other similar organizations who are now receiving commodity payments.

The first strategy calls for the producer to purchase 80/100 whole farm revenue insurance coverage. Since livestock and fruits and vegetables are included in this revenue insurance package, there are many details to be ironed out. This insurance would be available through participating private insurers. It would provide whole farm revenue insurance at the 80 percent coverage level with eligible losses payable at 100 percent. Producers would receive nothing for the first 20 percent of loss in revenue and then be reimbursed for all revenue losses in excess of the 20 percent. The insurance would be designed to be actuarially sound with the government providing a 48 percent premium subsidy at the 80/100 level. A producer could use all or a portion of the risk management voucher to offset the producer premium.

The second financial strategy would be for the producer to participate in a whole farm stabilization account in which the government would match on a dollar-for-dollar basis annual producer deposits subject to certain limits and withdrawal rules. The government match would be funded from the producer's voucher. A producer would be eligible to withdraw funds when the farm's net income for the year falls below its 5-year average, up to the amount of the shortfall. The account balance is limited to 150 percent of the producer's average gross farm revenue.

Under the third strategy the producer could "redeem the voucher for a cash payment in exchange for purchasing revenue insurance (other than whole farm coverage) or a combination of multi-peril crop insurance and forward contracting, hedging, or other type of privately available farm price protection which solely or in combination would guarantee that gross market revenue for the year will not fall below 80 percent of the farm's five-year average."

Environmental Programs

Lugar's proposal also calls for expanding the existing Environmental Quality Incentives program (EQIP). This Working Lands Environmental Improvement Option would increase conservation funding by $8.5 billion over the five years of the legislation.

Elimination of Commodity Programs

Last but not least the Lugar proposal would phase out commodity programs during the 2003-2005 crop years. AMTA contract payments would not be extended beyond the 2002 crop year. LDPs would continue for the 2003, 2004, and 2005 crop years and be terminated with the

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2006 crop. The 2003 loan rates would be 90 percent of the Olympic average of season average prices for the immediately preceding five crop years. If 2001 and 2002 corn prices were to remain in the present price range, the 2003 loan rate would be about $1.78 compared to the present $1.89. For 2004 it would be 85 percent and for 2005 it would be 80 percent. Commodity specific support programs would be phased down and terminated beginning with the 2006 crop year.

If the proposal were adopted it would move federal support out of the central heartland crop belt which produces the bulk of the program crops and spread it more evenly across the whole country to include fruits, vegetables, and livestock. As farmers become aware of Lugar's proposal, chances are producers in Oregon and Massachusetts will be on board, but Iowa and Texas producers may melt the phone lines coming into the Capitol.

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