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Theme Overview: Deciphering Key Provisions of the Agricultural Act of 2014

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JEL Classifications: Q18
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After more than three years of debate on the next farm bill, the Agricultural Act of 2014 was signed into law on February 7, 2014. Overall, total spending under the new bill will be reduced by $23 billion as compared to the baseline over the next 10 years. The Agricultural Act of 2014 reforms the dairy program, includes major changes to commodity programs, adds new supplemental crop insurance programs, consolidates conservation programs, expands programs for specialty crops, reauthorizes important livestock disaster assistance programs, and reduces spending under the Supplemental Nutrition Assistance Program (SNAP). However, despite large cuts in total program spending, the Act continues to provide important programs to ensure a safe and adequate food supply and to protect our natural resources. The articles in this theme discuss new or revised provisions relating to commodities, crop insurance, dairy, conservation, nutrition, and specialty crops as included in the Agricultural Act of 2014.

For agricultural commodity producers and landowners, this farm bill offers new programs and new choices. Key changes include the elimination of direct payments, counter-cyclical payments, and the Average Crop Revenue Election (ACRE) program. Producers now have a choice between new commodity programs, including Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC), as well as some new supplemental, area-wide crop insurance programs. Throughout the process, the House and Senate agriculture committees focused on providing a strong safety net to producers with an emphasis on risk management and crop insurance. This objective was further enhanced by including a new level of interaction between commodity and crop insurance programs. Enrollment in the new commodity and crop insurance programs are linked and producers and landowners will likely want to consider both choices simultaneously. Another key change is the elimination of upland cotton as a covered commodity under Title I commodity programs. Jody Campiche, Joe Outlaw, and Henry Bryant discuss key details of the new commodity programs and interactions with the new crop insurance programs.

Keith Coble, Art Barnaby, and Rodney Jones provide further discussion on the new supplemental crop insurance programs and potential interactions with individual insurance policies as well as commodity programs. Crop insurance has become an increasingly important component of the federal safety net for producers as evidenced by an increase in funding and programs in the Agricultural Act of 2014. The ability to purchase both an individual crop

Articles in this Theme:

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insurance policy as well as a new area-triggered supplemental insurance policy are key additions to the crop insurance program in this farm bill. Other key changes to the crop insurance program, such as the ability to exclude low yields from a producer's Actual Production History (APH), are also discussed in this article.

The increased emphasis on risk management programs continues in the dairy subtitle as well. After a rather difficult and contentious debate, the dairy safety net that has been in place for decades underwent a complete overhaul. Previous programs designed mainly to support price were replaced with programs designed to protect producer margins. Mark Stephenson and Andrew Novakovic discuss the evolution and details of the new Margin Protection Program and the Dairy Production Donation Program.

The conservation title has been part of federal farm policy since the 1930s and continues to be an important piece of the Agricultural Act of 2014. Over the years, the conservation title has grown in the farm bill to address multiple objectives and had evolved into 23 different programs. However, just as most other programs were subject to budget cuts, overall spending on the conservation title was reduced as well. The conservation title underwent significant streamlining and many of the smaller, overlapping programs were consolidated so that 13 programs remain in the 2014 Act. Brad Lubben and Jim Pease discuss the impact of the consolidation on important conservation programs.

Another key issue in the farm bill debate was a reduction in spending under the nutrition title, which is the largest area of farm bill spending. Due to major disagreements over the nutrition title, the House initially passed an agriculture-only bill and later passed a separate nutrition bill. An agreement was finally reached to cut $8 billion over 10 years from SNAP and the nutrition programs were re-attached to the other farm bill programs. The reduction in spending will mostly be achieved by changing how energy assistance benefits are counted in the SNAP benefit determination. About 80% of farm bill dollars is spent on the nutrition title, so the $8-billion-cut represents about 1% of the total. Parke Wilde discusses the impact of these cuts to SNAP participants.

Although federal funding and support for the specialty crop industry is much lower than for traditional crops, more attention was given to address the critical needs of this industry and funding was included in the 2014 Act. Some of the existing programs were expanded and new programs were created to support the specialty crop industry. Alba Collart and Keith Coble provide an overview of farm bill programs related to specialty crops.

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Agricultural Act of 2014: Commodity Programs

Jody Campiche, Joe Outlaw, and Henry Bryant

JEL Classifications: Q18
Keywords: 2104 Farm Bill, ARC, Commodity Programs, Price Loss Coverage (PLC), Supplemental Coverage Option (SCO)

The Agricultural Act of 2014 offers new programs and more choices than ever before (Chite, 2014). In previous farm bills, the decisions to participate in various commodity and crop insurance programs were not necessarily intertwined. However, with an ever-increasing focus on risk management and a strong emphasis on crop insurance, the Act introduces new interactions between commodity and crop insurance programs. Direct payments provided to crop producers regardless of financial loss in the three previous farm bills are gone (with the exception of a reduced payment on the cotton base).

To effectively manage risk in their operations, producers may want to consider analyzing their entire farm and risk management "portfolio" which would include projected market revenue, farm commodity payments, and crop insurance indemnities. Enrollment in the new commodity programs will be a one-time, irrevocable decision in 2014 or early 2015 so it is important for producers to determine the mix of programs that offers the most effective safety net over the next four to five years versus the program with the largest government payment in a particular year. Unlike the Average Crop Revenue Election (ACRE) program in the 2008 farm bill where payments were tied to planted acres of covered commodities (up to the number of base acres), the new commodity programs are paid on base acres of covered commodities. Covered commodities include wheat, oats, barley, corn, grain sorghum, long grain rice, medium grain rice, pulse crops, soybeans, other oilseeds and peanuts. Upland cotton is no longer a covered commodity and is provided a safety net consisting of a reduced direct payment, called a transition payment, in 2014 (and possibly 2015), marketing loan support, and an area-wide revenue insurance program.

Commodity Program and Insurance Choices

As shown in Figure 1, the following choices exist for covered commodities: 1) landowner chooses to retain or reallocate base acreage; 2) landowner chooses to retain or update payment yields; 3) producer or landowner chooses to enroll base acres in Price Loss Coverage (PLC), farm-level Agriculture Risk Coverage (ARC), or county-level Agriculture Risk Coverage (ARC); 4) producer chooses to purchase an individual insurance policy on planted acres; or 5) if producer purchases an individual insurance policy and is not enrolled in farm-level or county-level ARC, option to purchase a new supplemental insurance product, called the Supplemental Coverage Option (SCO), on planted acres (starting with the 2015 crop year). In addition, producers have the option to participate in the marketing loan program or loan deficiency program for loan commodities. Loan commodities include wheat, oats, barley, corn, grain sorghum, upland cotton, extra long staple cotton, long grain rice, medium grain rice, peanuts, soybeans, other oilseeds, graded wool, non-graded wool, mohair, honey, dry peas, lentils, small chickpeas, and large chickpeas.

Landowners may choose to reallocate their historical base acres to covered commodities planted in the last four years. Base acre reallocation is proportionate to the four-year average (2009-2012) of planted covered commodities. Prevented planted acres are also included in the base reallocation calculations. Since cotton is no longer a covered commodity, cotton base acres cannot be reallocated. All cotton base acres on each farm as of September 30, 2013 are converted to generic base acres. No commodity program payments will be received if cotton is planted on

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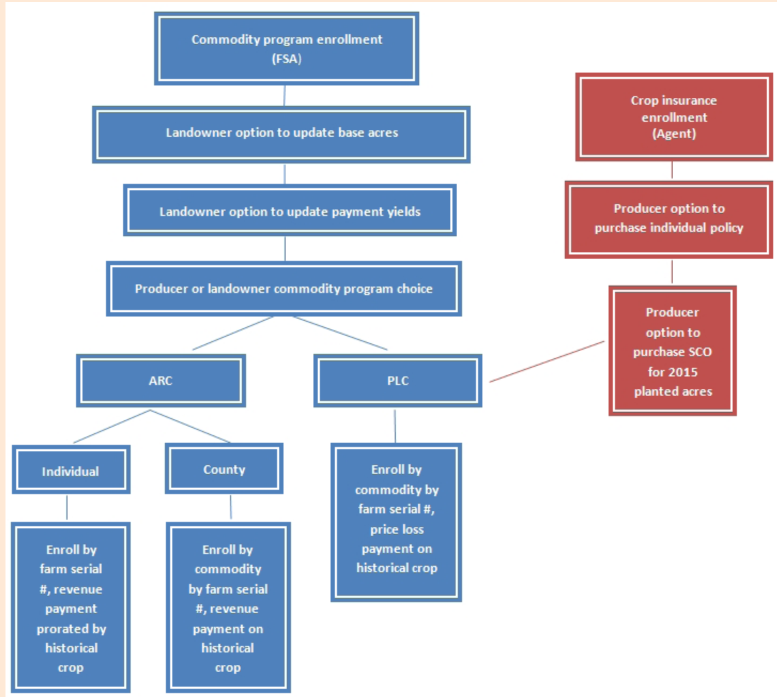
generic base acres. However, generic base may be planted to another covered commodity and that commodity would be eligible for ARC or PLC payments. So producers with cotton base would need to choose which of the new commodity programs (ARC or PLC) the planted covered commodities will be enrolled in during signup with the U.S. Department of Agriculture (USDA), Farm Service Agency (FSA). For example, if a producer chooses to plant 100 acres of corn on cotton base acres in 2014, the producer would be eligible to receive ARC or PLC payments on the planted corn acres in 2014. In general, one way to look at generic base acres is that on an annual basis, they become base acres for whatever covered commodity is planted on them. Unless a covered commodity is planted on generic base acres in a given year, the generic base acres are not relevant (as far as the commodity payment calculation).

As an example, assume a producer has 100 acres of wheat base acres and 100 acres of cotton base acres but the producer has been planting 200 acres of corn for the past few years. The producer can keep the 100 wheat base acres and be eligible to receive commodity program payments on the 100 wheat base acres (assuming the producer enrolled in one of the programs). The producer does not have to plant wheat (or any other crop) in 2014 to be eligible for commodity program payments in 2014. The producer also has the option to reallocate the 100 wheat base acres to corn and be eligible for commodity program payments on corn instead of wheat. Again, the producer does not actually have to plant corn or wheat in 2014 to be eligible for a payment in 2014 (but payments are not automatic and are only triggered by a price decline or revenue loss depending on whether the producer enrolls in PLC or ARC).

For the payment yield update, the updated yield will be equal to 90% of the average yield per planted acre of the covered commodity for the 2008-2012 crop years. Historical payment yields (as opposed to actual yields) are used to calculate PLC payments.

Figure 1: Commodity Program and Insurance Decisions for Covered Commodities



Agriculture Risk Coverage (ARC)

Producers of covered commodities have the option to enroll in either a new revenue protection program, called ARC, with the option to select farm-level coverage or county-level coverage, or a new price protection program, called PLC. For PLC and county-level ARC, producers can enroll on a commodity-by-commodity and FSA farm-by-farm basis. However, producers who elect farm-level ARC for a commodity on an FSA farm will be required to enroll all crops on that FSA farm in farm-level ARC. The county-level ARC program is paid on 85% of base acreage of the farm commodity while the farm-level ARC program is paid on 65% of total base acreage for the FSA farm including all commodities. Farm-level ARC might trigger payments more frequently than county-level ARC but producers would receive a payment on 20% less base acreage. It is important to note that with county-level coverage, producers could have a loss on their own farm, but would not receive a payment if the county does not suffer a loss as well. Producers with yields that do not follow closely with the county average may want to consider farm-level ARC or use crop insurance for individual yield risk.

The county ARC guarantee is equal to 86% of the previous five-year Olympic average marketing year price (drop the highest and lowest) times the previous five-year Olympic average county yield. If any of the five-year prices are below the PLC reference prices, a "reference price" will replace it in the calculation. Reference prices set by Congress in the 2014 Act are listed in Table 1. County T-yields are used in a similar fashion to replace low county yields in the calculation. The actual county revenue is the actual marketing year average price multiplied by the actual county yield. The farm-level ARC calculation includes all covered commodities planted on the FSA farm and considers the producer's share of all farms where he has an interest. The benchmark revenue for farm-level ARC is calculated as the five-year Olympic average of the sum of the revenues (yield times price) for all covered commodities on the farm using actual planted acres of the covered commodities.

The ARC payment is limited to 10% of the benchmark revenue so payments would be issued when actual revenue (county or farm) is between 76% and 86% of the benchmark revenue. For example, if the ARC guarantee is $200/acre, the maximum payment would be $20 per acre paid on 85% of base acreage.

Price Loss Coverage (PLC)

Although, the PLC program is very similar to the counter-cyclical payment (CCP) program in the 2008 farm bill, it includes new reference prices that are significantly higher than the target prices in the 2008 farm bill (Table 1). If the effective price, which is the higher of the national average marketing year price or the loan rate, falls below the reference price, a PLC payment will be issued. The PLC payment rate equals the reference price minus the effective price. A producer's PLC payment is equal to the payment rate times the payment yield times 85% times base acres for the crop. It is possible that if the price drops below the reference price and yields are at normal levels, PLC could result in a higher payment than ARC in a given year, especially when tied to the new SCO program.

New Supplemental Crop Insurance Programs

Producers of covered commodities who elect PLC also will have the option to enroll in a new supplemental crop insurance program, called SCO. SCO is designed to cover the difference between 86% and the level of coverage of the producer's individual insurance policy. Producers who elect ARC will not be able to enroll in the SCO program. Although not eligible for PLC, planted cotton acreage can also be enrolled in the SCO program. SCO is designed as a shallow-loss insurance program that covers county-wide losses and complements a producer's individual insurance policy. For SCO, producers are required to purchase an individual insurance policy such as a revenue protection (RP) or yield protection (YP) insurance policy. SCO takes on the characteristics of the underlying insurance policy meaning that if YP is the underlying policy then SCO would be yield protection only. The same would hold true if the underlying policy were RP. This is a new concept because producers have not previously been allowed to stack insurance policies for the same crop. However, SCO will not be available until the 2015 crop year which further adds to the complexity of the 2014 commodity program enrollment decision. SCO premiums are subsidized at 65% by USDA.

A similar area-wide supplemental crop insurance program, called the Stacked Income Protection Plan (STAX), will be available only to upland cotton producers starting in 2015 (Campiche, 2013). The premium subsidy for STAX is 80%. To further complicate the decision process, producers who purchase SCO or STAX can choose different coverage levels which correspond with the coverage level of their individual policy. Since overlap is not allowed, SCO/STAX coverage is limited by the coverage level of the producer's individual policy. However, it is important to note that these are area plans which cover county losses as opposed to losses on the individual farm. In many cases, farm APH yields may be higher than the county yields. A producer may have a loss on the farm but not receive a payment if the county does not also have a loss. This also works the other way too, so a producer could receive an indemnity payment when no loss occurs on the farm but the county does have a loss.

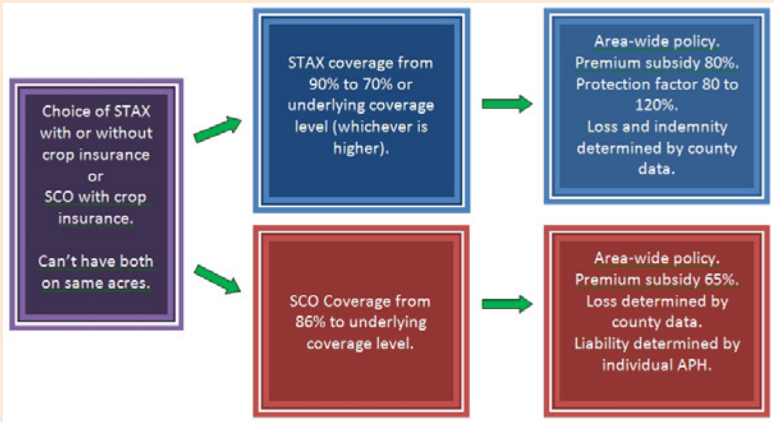
STAX vs. SCO for Upland Cotton Producers

Upland cotton producers have the option to elect SCO instead of STAX for planted cotton acreage (Figure 2). A key difference between SCO and STAX is that with SCO, the producer's APH yield is used to calculate the liability. So, producers will want to consider this when comparing SCO and STAX. STAX coverage can range from 90% of the county revenue guarantee to 70% or the coverage level of the underlying policy (if there is one), whichever is

Table 1: 2014 Farm Bill Reference Prices vs. 2008 Farm Bill Target Prices

Crop	2008 FB Target Price	2014 FB Reference Price
Barley	2.24	4.95
Corn	2.63	3.7
Cotton	0.7125	NA
Grain Sorghum	2.57	3.95
Peanuts	495	535
Oats	1.44	2.4
Rice	10.5	14
Soybeans	5.8	8.4
Wheat	3.92	5.5

Figure 2: Flow Chart of Upland Cotton Decisions



higher. Meanwhile, SCO covers from 86% of the county guarantee down to the coverage level of the underlying policy. For example, a producer with 80% coverage on his individual policy could only get up to 10% coverage with STAX or up to 6% coverage with SCO (86-80%). A producer with 70% coverage on an individual policy could get up to 20% coverage with STAX or up to 16% coverage with SCO. The wider the range being covered by either SCO or STAX would result in higher premiums. Unlike SCO, an individual policy is not required with STAX.

Summary and Conclusions

The 2014 farm bill includes major changes to the producer safety provided to crop producers. Direct payments that have been a key component of the producer safety net since 1996 have been eliminated as have Counter-Cyclical Program payments available since 2002. Crop producers and landowners have several decisions to make when USDA-FSA announces signup later this year. Initially, they will need to decide whether they want to reallocate their base acres which would serve to more closely align base acres to recent plantings. The major decision is whether they want to choose farm-level ARC, county-level ARC, or PLC.

Since this decision will stay with the farm for the life of the farm bill, producers are encouraged to consider which choice they feel the most comfortable with over the next five years rather than which might provide a short-term payment. Each producer will need to make this decision for every covered commodity grown on each farm. Once this decision is made, payment yields can be updated for any commodity enrolled in PLC.

While these decisions may seem daunting for even an average size farm, it is important to note that the safety net provided in this farm bill can be especially strong if producers will take the time to tailor their farm program choices to each of their farms. Once these decisions are made, there are several crop insurance changes that will also need to be considered.

For More Information

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Crop Insurance in the Agricultural Act of 2014

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Keywords: Crop Insurance, Farm Bill, Risk

Through a long and sometimes contentious farm bill debate that began in 2011 and did not end until 2014, there was near unanimous agreement that producer support must be justified by risk mitigation. The most obvious example was the ending of the non-risk responsive direct payments and the sizeable expansion of crop insurance programs with a funding increase of $5.72 billion over the baseline. This article provides an overview of the new crop insurance programs as well as changes to existing provisions as contained in the Agricultural Act of 2014. In addition, the article provides a discussion of some of the complex interactions between new crop insurance programs and commodity program decisions.

Overall, the basic underlying crop insurance policies (and subsidy levels) that were in place prior to the 2014 Act remain essentially unchanged. Arguably, the most dramatic, new change in the crop insurance arena was the creation of two area-triggered supplemental insurance products, including the Supplemental Coverage Option (SCO) and the Stacked Income Protection Plan (STAX). However, STAX is only available to upland cotton producers.

Another somewhat complex feature of the 2014 Act is the interaction between Title I commodity programs and SCO enrollment. More specific details are provided in the first article in this series (i.e. commodity programs) but it is important to mention them briefly in this article. Producers and landowners have the option to choose between farm-level Agriculture Risk Coverage (ARC), county-level ARC, and Price Loss Coverage (PLC) for covered commodities (upland cotton is no longer a covered commodity and cotton base acres cannot be enrolled in ARC or PLC). Enrollment in ARC or PLC will be a one-time, irrevocable decision beginning with the 2014 crop year. Producers could also choose not to enroll in any commodity program. Farms enrolled in farm-level or county-level ARC will not be eligible for SCO (and STAX is only available for planted cotton acreage). It is important to note that ARC and PLC are tied to historical base acres, while traditional crop insurance and SCO are tied to planted acres. So a producer could receive ARC or PLC payments for one crop (i.e. the crop with base acres), but actually be planting a different crop. Producers can enroll in ARC or PLC for the 2014 crop year (and beyond), but SCO and STAX will not be available until at least the 2015 crop year.

The SCO and STAX programs are similar to the pre-existing Area Risk Protection Insurance (ARPI) policy. Coverage under these programs is based on the experience of the county rather than an individual farm. Producers would pay a premium and receive indemnity payments when the county suffers a loss. Producers will be able to purchase both an individual insurance policy to cover farm level losses and STAX/SCO (starting with the 2015 crop year) to provide greater risk protection. It is important to note that area-triggered programs such as STAX and SCO will likely not be perfectly correlated with farm-level losses. This is largely due to imperfect correlation between farm and county yield and is analogous to basis risk between cash and futures prices. As a result, a producer may receive a SCO or STAX indemnity but may not receive an indemnity from his or her individual policy (or vice versa). While STAX and SCO are very similar, a few key differences exist between the two programs.

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STAX vs. SCO

As shown in Table 1, an individual insurance policy is required with SCO, but not with STAX. A producer can purchase STAX as a stand-alone policy or in addition to an individual policy. If a producer purchases SCO, it will take the form of an individual policy. For example, if the producer's individual insurance policy is a yield protection (YP) policy, then SCO will also be a YP policy. Alternatively, if the producer's individual insurance policy is a revenue protection (RP) policy, then SCO will be a RP policy. STAX always takes the form of an RP policy with upside price protection. STAX covers losses between 10% and 30% of expected county revenue, offered in increments of 5%. STAX is subsidized at 80%, so producers would pay 20% of the premium. With STAX, producers also have the option to select a payment rate multiplier of up to 120% which would increase the amount of protection per acre.

With SCO, coverage ranges from 86% of expected county revenue minus the coverage level of the individual insurance policy. So, if a producer has a 70% RP policy, then the maximum amount of SCO coverage available is 16% (86% to 70%). The premium subsidy for SCO is 65%, so producers would pay 35% of the premium. Cotton producers may purchase both SCO and STAX, but not on the same acres.

Interactions between Commodity Programs and SCO

Many producers of covered commodities will likely choose to either enroll in ARC or in PLC and purchase SCO. ARC provides revenue protection. PLC provides price protection. SCO provides revenue or yield protection, depending on the individual policy. Since SCO is not available for the 2014 crop year, the decision to enroll in PLC over ARC may be more difficult since PLC only protects against price declines. The Food and Agricultural Policy Research Institute at the University of Missouri (FAPRI MU) estimates that over 60% of soybean and 50% of corn base acres will be enrolled in ARC, while 70% or more of the other crop base acres will be enrolled in PLC (FAPRI-MU, 2014). The PLC reference price for some crops is much lower than the expected price, meaning that PLC could be less likely to trigger a payment than ARC. For example, producers with corn or soybean base may have an initial incentive to select ARC since a substantial price drop would be required in most years for PLC payments to exceed ARC payments over the projected life of the farm bill.

In addition, SCO may not have much value to corn or soybean producers since the majority purchase higher levels of coverage on their individual crop insurance policy (as compared to wheat producers). Since SCO coverage starts at 86%, a producer with 80% coverage on an individual policy would only be able to purchase up to 6% SCO coverage. SCO premiums have not been released and it is not quite clear if the producer portion of the SCO premium will be higher than the producer premium for other types of coverage on an individual policy, such as enterprise units. An enterprise unit consists of all of the producer's acreage of an insured crop in a given county regardless of whether it is owned, cash leased, or share leased; and regardless of how many landlords or different U.S. Department of Agriculture's Farm Service Agency (FSA) farm numbers may be involved. The subsidy for an individual policy based on enterprise units is 80%, so the producer pays 20%. It is possible that producers may be able to purchase a higher level of coverage for an individual policy based on enterprise-units for a lower premium cost than they will be able to purchase SCO at nearly the same level of coverage (Dismukes et al., 2013).

By contrast, in the Great Plains, producers in many counties do not generally purchase crop insurance at coverage levels above 75% (it is either not offered or is too expensive), so SCO could potentially provide more coverage. Also, planted acres do not have to follow base, and there is significant crop diversity in the Great Plains and elsewhere, which means that PLC/SCO might be a more attractive option for some producers. For example, if a producer plants sorghum on wheat base, s/he could reduce traditional crop insurance to a low level (say 50%) and purchase the maximum SCO coverage (the difference between 50% and 86%). Remember, the program decision (ARC vs. PLC) may have little to do with the actual planting decisions. The only connection appears to be that crops enrolled in ARC on a particular farm number would not be eligible

Table 1: Comparison of STAX and SCO

Attribute	STAX	SCO
Guarantee Level	90%	86%
Lower Limit of coverage	70%	Individual crop insurance coverage level
Subsidy Level	80%	65%
Year Available	2015	2015
Payment acres	Planted Acres	Planted Acres
Individual Coverage Required	No	Yes
Coverage Type	Revenue Protection	Revenue Protection, Revenue Protection with Harvest Price exclusion, yield protection.
Expected Revenue	Max of county trend yield or 5 year Olympic average yield x higher of crop insurance base price or harvest price	County trend yield x higher of crop insurance base price or harvest price/
Actual Revenue	Actual county yield x harvest price/	Actual county yield x harvest price/
Liability	Up to 120% of expected county revenue x (90%-lower coverage limit)	Farm APH yield x expected price x (86%-individual crop insurance coverage)

for SCO. Therefore, enrollment in PLC provides greater flexibility on the insurance side between farm-level coverage and area coverage. This is especially true for those situations where higher levels of traditional crop insurance coverage are not offered, or where premiums for traditional crop insurance are very high. Finally, since SCO is an insurance product, there is no limit on SCO payments, perhaps making it an attractive choice for those producers concerned about payment limits. However, some details regarding how the guarantees are calculated, and how the premiums will be calculated, are not known at this time and may not be fully known by the time some producers have to make these decisions (depending on when signup occurs relative to when producers have to make crop insurance decisions).

Changes in Existing Programs

In addition to the new shallow-loss insurance programs, several changes were made in the existing crop insurance programs offered to producers. First, several changes were made to unit and APH structures.

- The enterprise unit pilot program from 2008 is made permanent.
- Separate enterprise units on irrigated and dry land acres of a crop are allowed.
- Separate coverage levels on irrigated and non-irrigated acres of a crop are allowed.
- Producer will be able to drop all historical APH observations from their APH history for all years the county yield falls below 50% of the county or contiguous county simple, 10-year average yield. The 60% plug to replace a low yield in one's APH also remains an option for farmers suffering a large crop disaster.

Given the popularity of enterprise units, the first two changes are likely to make enterprise units even more attractive. The Act also includes language encouraging the Risk Management Agency (RMA) to develop or approve a peanut revenue insurance product by 2015. The Act mandates that RMA provide organic price elections by 2015 and that two or more weather-index pilots be allowed. Finally, the bill gives RMA the authority to provide crop margin insurance that covers the difference between an index of input prices and output revenue.

Conservation-Related Issues

The "sod-saver provisions" in the bill are included to reduce the incentive to farm fragile lands. These provisions reduce crop insurance subsidies and noninsured crop disaster assistance for the first four years of planting on native sod acreage in a pilot region of Minnesota, Iowa, North Dakota, South Dakota, Montana, and Nebraska.

A major change in crop insurance programs is the new attachment of conservation compliance to crop insurance programs. Historically, conservation compliance has applied to commodity programs, but not crop insurance. These provisions, which were actually included in the conservation title, eliminate crop insurance premium subsidies to producers who are out of compliance with wetland conservation requirements and conservation requirements for highly erodible land.

Subsidies

With all crop insurance programs, the agency attempts to set an actuarially fair premium rate that would be expected to break-even in the long run and then subsidizes that rate with percentages as defined in law. Table 2 shows the subsidy percentages for existing programs and the new SCO and STAX programs. Note that subsidy percentages vary by coverage level and unit structure. Given that SCO and STAX cannot overlap with individual coverage, the choice of an individual program coverage level also determines the lower bound of the shallow-loss program. Subsidy percentages may affect the choice of that coverage level. In general, subsidy percentages fall as coverage levels rise, with the exception of STAX and SCO. Also, there is a provision in the Act which provides an additional

Table 2: Crop Insurance Subsidy Percentages Under the Agricultural Act of 2014

Coverage Level	Basic & Optional Subsidy %	Enterprise Unit Subsidy %	SCO Subsidy	STAX Subsidy %
50%	67%	80%	65%	NA
55%	64%	80%	65%	NA
60%	64%	80%	65%	NA
65%	59%	80%	65%	NA
70%	59%	80%	65%	80%
75%	55%	77%	65%	80%
80%	48%	68%	65%	80%
85%	38%	53%	65%	80%
86%	NA	NA	65%	NA
90%	NA	NA	NA	80%

10% subsidy to beginning farmers, along with 80% yield plugs in their APH history.

Research Priorities

USDA is required to conduct more research on whole farm revenue insurance with higher coverage levels than currently available. The bill identifies several commodities as underserved agricultural commodities with the intent that RMA focus efforts on developing products for sweet sorghum, biomass sorghum, rice, peanuts, sugarcane, alfalfa, pennycress, and specialty crops. Studies or policies are also required on insuring:

- Specialty crop producers for food safety and contamination-related losses.
- Swine producers for a catastrophic disease event.
- Producers of catfish against reduction in the margin between market prices and production costs.
- Commercial poultry production against business disruptions caused by integrator bankruptcy.
- Poultry producers for a catastrophic disease event.
- Producers of biomass sorghum or sweet sorghum grown as feedstock for renewable energy.
- Alfalfa crop insurance.
- Whole farm diversified risk management insurance plans.

Finally, $10 million in each of fiscal years 2014 through 2018 is authorized for the USDA RMA to conduct two or more pilot programs to provide financial assistance for producers of underserved crops and livestock (including specialty crops) to purchase an index-based weather insurance product from a private insurance company. The Corporation may pay a portion of the premium, but not in excess of 60%.

Summary

The Agricultural Act of 2014 clearly makes crop insurance an increasingly important component of the federal safety net for crop farms. Additional resources were added and new programs were created. Ultimately, area-triggered, shallow-loss programs that can layer on top of individual coverage crop insurance is the big new design proposed in the Act. However, the Act clearly directs USDA to pursue expansion of crop insurance programs to specialty crops, livestock insurance, and other commodities that have in the past been deemed difficult to insure. It is expected that several pilots and new products will be released during the life of this Act.

For More Information:

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The Dairy Subtitle of the Agricultural Act of 2014

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JEL Classifications: Q18
Keywords: Dairy Subtitle, Farm Bill, Margin Protection Program

The Agricultural Act of 2014 (AA2014) was signed into law on February 7. The essence of the new dairy safety net began with the formation of a task force to rewrite dairy policy created by the National Milk Producers Federation in June 2009. Its plan included a "margin insurance" program that is little altered in the new Margin Protection Plan (MPP) for dairy producers, and which is the centerpiece of the new farm bill's dairy subtitle. It also contained a Dairy Market Stabilization Plan (DMSP) that would become the focal point for controversy and fierce political debate and maneuvering literally up to the final moments of agreeing to the Conference Committee compromise that became the new farm bill.

Over two months of hard-fought and even bitter conference debate, the dairy title remained a sticking point. Literally last-minute efforts were made to come up with alternatives that found some political solutions that didn't involve a DMSP. In the end, a kind of demand stimulation program was added instead of domestic supply controls. This is called the Dairy Product Donation Program (DPDP).

The dairy provisions are explained in some detail below. Readers are cautioned that there are aspects of the new dairy programs that cannot be fully explained until the U.S. Department of Agriculture (USDA) completes the process of writing regulations that interpret the legislative language of AA2014.

Connections to the Previous Farm Bill

The dairy provisions of AA2014 were first and foremost intended to replace the safety net provisions of existing law. The Dairy Product Price Support Program (DPPSP) was terminated immediately, though the permanent Dairy Price Support Program contained in the 1949 Agricultural Act was retained but suspended for the duration of the new farm bill. The Milk Income Loss Contract (MILC) of the 2008 farm bill will be terminated once the new Margin Protection Program (MPP) becomes operational or on September 1, 2014, whichever is earlier. And, finally, the Dairy Export Incentive Program (DEIP) was immediately terminated. The DPPSP and DEIP were seldom-used programs and the industry won't feel their loss. However, MILC was active as a counter-cyclical payment program for dairy producers over its life.

Specific Other Authorities from The 2008 Farm Bill Continue

The dairy forward pricing program remains. This program allows non-cooperative buyers of milk who are regulated under Federal Milk Marketing Orders (FMMO) to offer farmers forward pricing on Class II, III, or IV milk instead of paying the minimum FMMO blend price for pooled milk.

The dairy indemnity program also persists. This program potentially provides payments to dairy producers in the unlikely event that a public regulatory agency directs them to remove their raw milk from the commercial market because it has been contaminated by pesticides, nuclear radiation or fallout, or toxic substances and chemical residues other than pesticides.

Certain other provisions to augment the development of export markets under the National Dairy Promotion and Research Program are retained. The authority to promulgate a FMMO that covers the state of California, and

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could allow it to retain its current quota plan, is reinstated if a legitimate hearing request is made.

The New Safety Net

The farm bill creates a new safety net for dairy producers. A new Margin Protection Plan (MPP) is offered to producers. However, they must choose between the new MPP or the Livestock Gross Margin for Dairy (LGM-D) that has been available for several years. Producers cannot participate in LGM-D after enrolling in the new MPP program.

The new MPP contains several basic elements that combine to determine how, when, and how much in payments dairy farmers can receive in periods of financial stress. The Actual Dairy Production Margin (ADPM) is determined as the difference between the national average price for all milk and the cost of three feeds that represent the bulk of feed purchased for dairy cattle—corn, soybean meal, and alfalfa hay. The feed costs are intended to represent 90% of the dairy ration that would be consistent with recommended nutrition to produce 100 pounds (cwt.) of milk including the dairy cow and the herd complement of dry cows, hospital cows, and young stock at average U.S. milk yield per cow. The ADPM will be calculated monthly but, for almost all applications in the Act, triggering events are based on a two-month average for consecutive pairs of months in the calendar year, i.e. January/February, March/April, May/June, and so on.

Figure 1: Historic Actual Dairy Production Margin

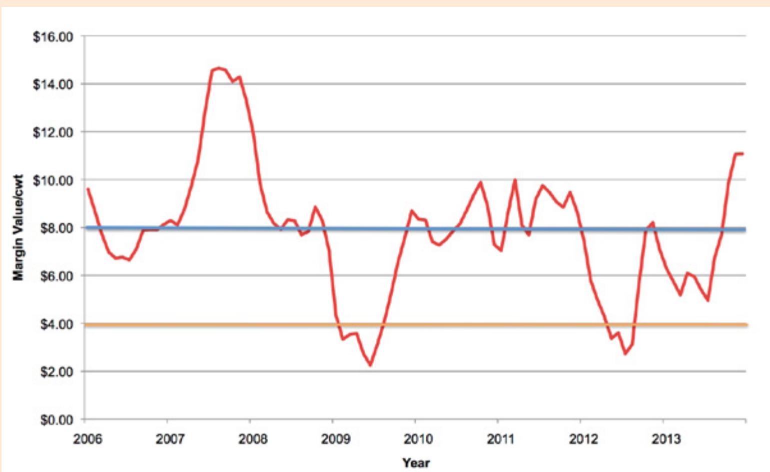

Table 1: Margin Protection Program Coverage Level and Premium Cost

Coverage Value in $/cwt of PH marketings	Premium ≤ 4 M lbs. PH ($/cwt)	Discounted Premium ≤ 4 M lbs. PH ($/cwt)	Premium >4 M lbs. PH ($/cwt)
$4.00	$0.00	$0.00	$0.00
$4.50	$0.01	$0.01	$0.02
$5.00	$0.03	$0.02	$0.04
$5.50	$0.04	$0.03	$0.10
$6.00	$0.06	$0.04	$0.16
$6.50	$0.09	$0.07	$0.29
$7.00	$0.22	$0.16	$0.83
$7.50	$0.30	$0.23	$1.06
$8.00	$0.48	$0.48	$1.36

The MPP functions as an insurance program where the degree of protection is chosen by individual producers who pay a premium cost. They will receive an indemnity payment if the two-month average ADPM falls below their chosen level of protection. The MPP does not guarantee an individual producer's margin. It is assumed that each producer's margin will vary in a way that correlates with the national calculation.

Every participating farm will have production history that will be used to determine total premium payments and total indemnities. That history will be the highest annual marketings in the three preceding years: 2011, 2012, or 2013. New entrants, having less than one year of history, will be able to choose one of two ways to extrapolate their available production history to a 12-month equivalent. In subsequent years the production history will be adjusted to reflect any increase in the national average milk production.

Once a year, producers will be able to choose the percentage of their production history they wish to cover and at what margin level. Producers may choose to cover no less that 25% of their production history, no more than 90%, or points in between in 5% intervals. Farmers may elect ADPM coverage in 50¢/cwt. increments from $4.00 to $8.00/cwt. The quantity of milk covered at the selected ADPM coverage will determine the total annual premium cost. Participants must pay an annual administrative fee of $100.

Premiums are structured at a lower cost for the first 4 million pounds per year of production history and at a higher level for amounts of production history covered in excess of 4 million pounds. In addition, premiums for the first 4 million pounds, up to but not including the $8.00 coverage, will be discounted by 25% for sign-ups in 2014 and 2015. This is to encourage participation in the program, especially by smaller-scale farmers.

Operations whose production history exceeds 4 million pounds of milk would be charged the lower rate on the first 4 million pounds and the higher rate on amounts above that level. Once this value is determined, the base percentage that they elected—25% to 90%—is applied to determine the total premium due. In other words, for larger farms, the premium is pro-rated in accordance with their total production history compared to the 4-million-pound cutoff point. For example, a farm whose production history is 6 million pounds per year and that chooses to cover 50% of its milk would be covering 3 million pounds of milk production, i.e., less than 4 million, but the premium would be calculated as 2 million pounds at the lower rate and 1 million pounds at the higher rate.

Conditions that will trigger an indemnity payment are calculated in two-month intervals. The calendar year is divided into six periods consisting of consecutive pairs of months: January/February, March/April, May/June, July/August, September/October, and November/December. When an indemnity is triggered, producers will receive a compensating payment on the qualifying amount of milk.

Although the Act does not specify a "marketing year" for the MPP, one could assume that USDA will plan it as a fiscal-year program, as was the case for MILC. However, there are several places in the farm bill's language which refer to a calendar year and USDA may conclude that to be the Congressional intent for the marketing year.

The Dairy Product Donation Program (DPDP)

At any time that the ADPH is below $4/cwt. in each of two successive months, the Secretary of Agriculture must announce and implement the DPDP. Under this program, the Secretary must:

- Purchase dairy products for donations to food banks or other programs that provide food assistance to individuals in low-income groups.
- "Distribute but not store" the dairy products purchased.
- Do so "immediately" and at "market prices."
- Consult with "public and private nonprofit organizations organized to feed low-income populations" to "determine the types and quantities of dairy products to purchase."
- Terminate the DPDP whenever one of a set of exit conditions exists.

The program provides an arguably good use for dairy products, but its potential impact on demand and price is not entirely clear. One basic question is how often this program will trigger. The $4 action trigger represents a very low margin. Since 2000, there have only been 10 months, limited to two years, when the new margin has hit that level or lower.

The bill has entry and exit rules for when the donation program operates, but there is no quantity or performance target as to how aggressively the program should operate. It is entirely possible that the program could be too anemic to have much impact on market prices.

Another fundamental question is whether or not the end-users of donated products would have purchased them on commercial markets anyway. To the extent that these donations are going to programs that have limited resources and continuously unmet needs, it is not unreasonable to speculate that commercial displacement will be minimal.

Issues and Challenges

While the new dairy title was designed in good faith and with great attention to detail, there are still many issues that will not be addressed until USDA finishes writing the implementation regulations. After the MPP has been in operation, some unintended consequences may still occur. Some of those are:

- AA2014 states that by no later than September 1, 2014, "the Secretary shall establish and administer a margin protection program for dairy producers…". However, speculation is already occurring about whether USDA will be able to make this deadline.
- In future years, the date of sign-up relative to the new year is uncertain, but it is a point of some concern and discussion among analysts and advocates over what this separation should be. The MILC program offered a sign-up period that basically was two weeks in advance of the effective date. There is a concern that allowing dairy farmers to elect coverage close to the start-up date will create a kind of adverse selection problem in which futures markets information about Class III milk, corn, and soybean meal contracts available prior to sign-up will make it fairly easy for dairy farmers to make annual coverage decisions that ensure a maximum indemnity at a minimal premium cost.
- While market conditions may rapidly change, MPP premiums never do. The upside of this provision is that the MPP can serve as a protection against protracted low-margin periods that cannot be managed using the Chicago Mercantile Exchange futures and

options contracts. A possible adverse side effect is the crowding out of private risk markets by subsidized, government-provided margin insurance.

- The MPP provisions may inadvertently result in a policy framework that gives advantage to "lumpy" over "incremental" growth at the farm level. As described earlier, insurable production at any single location is determined by a combination of the historical milk production over 2011-13 and the subsequent growth in national milk per cow. However, producers who choose to grow their business by building a brand new, separate dairy operation at a new location would likely be able to enroll that operation in the program under the provisions governing "new entrants."

Concluding Thoughts

The dairy subtitle of the new AA2014 offers a total revamping of the safety nets that have been in place for the dairy sector going back to the middle of the 20th century. The MPP might be considered a variation of the counter-cyclical payments (MILC) that began in 2002, but it is notably different in two important ways. First, it substitutes Milk Income Over Feed Costs for farm milk prices as the measure by which we economically evaluate market conditions and support dairy farms. Second, it does not restrict eligibility for the program by farm size. Larger farms have to pay a higher premium, but they are not categorically limited in participation.

The DPDP uses the mechanics of the old Dairy Price Support Program to purchase dairy products, but it really does so as an extension of existing programs that allow USDA to purchase dairy products on behalf of a variety of food assistance programs.

Advocates of a new approach argued that the limitations of existing programs were vividly revealed during the horrible economic events of 2009, and repeated for different reasons in 2012. Hence, they argued, bold new programs are needed. Whether the new programs proposed will prove to be the answer farmers seek is something that will be debated and estimated, but we won't really know unless and until they are tried.

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Conservation and the Agricultural Act of 2014

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Conservation has been part of federal farm policy since the first farm bills of the 1930s. The early focus on soil conservation represented a public investment to address the widespread implications of soil erosion during the "Dust Bowl" era, the maintenance of soil productivity, and the rationalization of federal farm income supports. Over time, conservation has grown in the farm bill to address multiple objectives and eco-system services and to respond to a wider array of stakeholders. In recent decades, conservation has become a large portfolio of programs and policies that preserve and protect natural resources.

Today, conservation programs include those that 1) retire land from agricultural production to conservation uses, 2) provide assistance to adopt conservation practices or structures on working lands, and 3) preserve land for agricultural or environmental uses. State, local, and public-private partnerships also help direct federal conservation toward local or regional issues and efforts. And, conservation compliance programs establish minimum levels of conservation efforts necessary to maintain eligibility for benefits from federal farm programs.

The Agricultural Act of 2014 (the Act), or commonly the 2014 Farm Bill (U.S. Congress, 2014), maintains these primary goals for federal conservation programs and policies, but substantially streamlines the existing portfolio of programs and moderately reduces overall funding levels. The Conservation Reserve Program (CRP) remains the largest single conservation program and the primary land retirement program, idling agricultural acres for conservation purposes. Working lands programs provide incentives and technical assistance for conservation efforts on land that remains in production and include the Environmental Quality Incentives Program (EQIP) and the Conservation Stewardship Program (CSP). Several existing programs that retire or preserve wetlands and agricultural land have been combined in a new omnibus category called the Agricultural Conservation Easement Program (ACEP), based on their use of long-term easements as a conservation tool. The Wetlands Reserve Program (WRP), the easement portion of the Grassland Reserve Program (GRP), and the Farmland Protection Program (FPP) have all been repealed, but their functions are now part of the new ACEP. In addition, several partnerships and targeted programs from the 2008 Farm Bill are also repealed and consolidated into the Regional Conservation Partnership Program (RCPP).

Budget Levels and Changing Priorities

The conservation title was not immune to the budget challenges affecting the overall farm bill debate. Just as the Act reduced total mandatory spending relative to baseline budget estimates, conservation programs also faced budget cuts. Estimates from the Congressional Budget Office (CBO) indicate that the new Act will reduce conservation program spending by $4 billion (6.5%) from the existing $61.6 billion, 10-year baseline budget (as estimated in May 2013) to a total of $57.6 billion in spending over the fiscal years 2014-2023 (CBO, 2014a). However, many of the cuts are slated for 2018-2023, beyond the 2014-2018 authorization period of the 2014 Farm Bill. Projected spending on conservation programs during the five-year life of the farm bill will drop just $208 million, from the baseline estimate of $28.4 billion to $28.2 billion (1%), lessening

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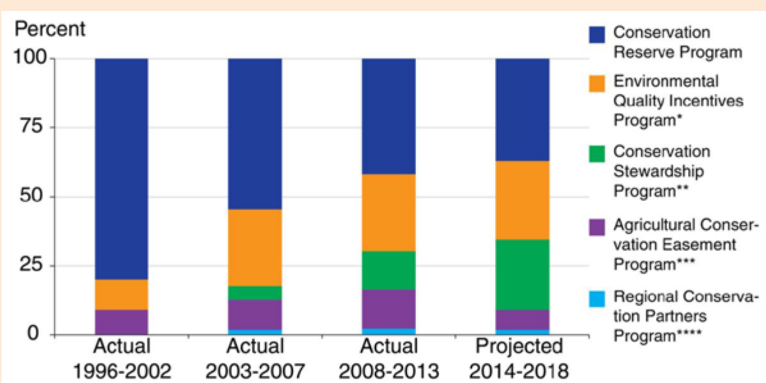
the immediate impact of the budget cuts.

While overall conservation spending is projected to decline from baseline levels under the new Act, the allocation of spending among conservation programs provides insights into the changing focus of conservation efforts. Analysis from the U.S. Department of Agriculture (USDA) Economic Research Service illustrates the changing conservation priorities since the 1996 Farm Bill (USDA Economic Research Service, 2014). Figure 1 shows the share of conservation spending by 2014 Farm Bill major program area (and their predecessors). Reduced spending for the conservation title primarily comes from reductions in CRP funding resulting from a lower enrollment acreage cap. While the CRP has been the largest single component of conservation spending since its creation in 1985, working lands programs (EQIP and CSP) are projected to comprise the majority of spending over the fiscal and program years 2014-2018. Working lands program funding is projected to continue its growth throughout 2014-2018, but at slower rates than the pre-Act baseline. And ACEP easement programs are expected to receive less funding under the 2014 Farm Bill than their predecessor programs received under the 2008 Farm Bill.

Reduced conservation program funding could reduce conservation efforts nationally, although the extension of conservation compliance requirements to crop insurance program participants should expand the requirements for maintaining at least minimal conservation practices on agricultural land across the country. The following analysis and discussion of these programs and policies provides detail and insight for producers, landowners, researchers, educators, and other conservation policy stakeholders. Program implications for both voluntary conservation programs and required compliance programs are presented. The analysis is based on interpretation of the legislation and expectations for implementation, but is subject to development and implementation of final USDA program rules as well as annual appropriations during 2015-2018.

Figure 1: Share of Conservation Spending by Major Program Areas
* Includes EQIP and the Wildlife Habitat Incentives Program for 1996-2013.
** Includes the Conservation Security Program for 2002-2007.
*** Includes the Wetland Reserve Program, Farmland Protection Program, and Grassland Reserve Program (easement portion) for 1996-2013.
**** Includes the Agricultural Water Enhancement Program, Chesapeake Bay Watershed Program, Cooperative Conservation Partnership Initiative, and Great Lakes Basin Program for 1996-2013.



Source: USDA Economic Research Service and ERS analysis of Office of Budget and Policy Analysis data on actual expenditures for 1996-2013; spending levels provided in the 2014 Farm Act and Congressional Budget Office estimates for 2014-2018.

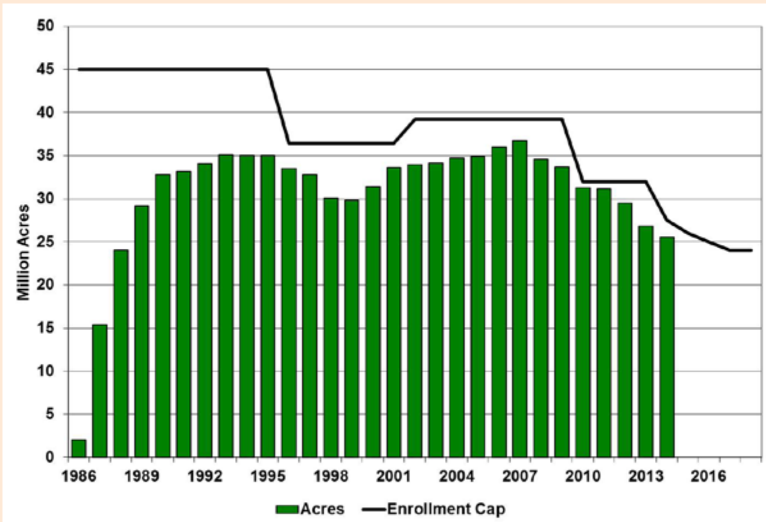
Voluntary Conservation Programs

The voluntary programs provide financial and technical assistance to producers and landowners enrolled in various conservation programs. The streamlined portfolio of programs authorized in the 2014 Farm Bill includes the CRP along with working lands programs, easement programs, and partnership and targeted programs.

Conservation Reserve Program

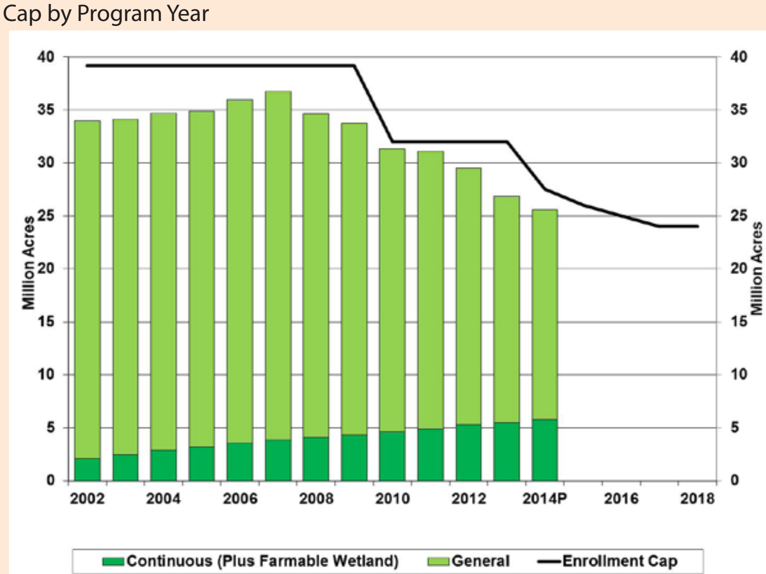
The CRP was first authorized in the 1985 Farm Bill to set aside marginal, highly erodible cropland into a reserve for conservation purposes. Political support for the CRP during the Congressional debate over the 1985 Farm Bill came as much from efforts to reduce crop production in the wake of crop surpluses and low prices as it did from efforts to expand conservation programs. CRP quickly became the largest conservation program in terms of acres enrolled and program funding. The CRP is implemented by the USDA Farm Service Agency and provides contract holders a yearly rental payment in exchange for removing environmentally sensitive land from agricultural production and establishing a sustaining land cover. The enrolled land provides environmental benefits that address societal goals of improving water quality, preventing soil erosion, and reducing wildlife habitat losses. CRP contracts run for 10 to 15 years on land that can be enrolled through either a general sign-up or a continuous sign-up. The general sign-up is a competitive process announced periodically by the Secretary of Agriculture to accept offers for entry into the CRP and competitively determine which offers are accepted and enrolled based on environmental benefit and cost factors. The continuous sign-up is focused on environmentally sensitive land and practices (not necessarily whole fields) and may accept offers for entry into the CRP on a non-competitive basis. While the continuous sign-up acres do not have to compete for acceptance into the CRP, the focus on environmentally sensitive land and practices is estimated to provide greater environmental benefits per acre (Claassen, 2014).

Figure 2: Conservation Reserve Program Acres and Enrollment Cap by Program Year



Source: USDA Farm Service Agency and U.S. Congress
Note: Enrollment data by program year. Acres for 2014 are preliminary as of the beginning of 2014.

Figure 3: Conservation Reserve Program Acres by Sign-Up and Enrollment Cap by Program Year



Source: USDA Farm Service Agency and U.S. Congress
Note: Enrollment data by program year. Acres for 2014 are preliminary as of the beginning of 2014.

Figure 2 shows the enrolled acres by program year as well as the enrollment cap as adjusted by successive farm bills. The CRP quickly grew to more than 30 million acres from 1986 to 1990 and eventually peaked at 36.8 million acres in 2007 before steadily declining to 25.6 million acres as of the beginning of 2014. Through its first 20 years, the enrollment cap was non-binding, serving more as a target for enrollment than a cap. But both the 2008 and the 2014 farm bills have included substantial reductions in the enrollment cap, first from 39.2 million acres to 32 million acres under the 2008 Farm Bill; and now from 32 million acres to 24 million acres by fiscal year 2017 under the 2014 Farm Bill. Changing land values, crop economics, conservation technologies, and alternative uses may have encouraged landowners to voluntarily leave the CRP at expiration as opposed to re-enrollment. As such, the lower caps may have locked in reduced enrollments and funding. In any case, it is clear that the CRP will continue to shrink over the next three years to meet the new 24-million-acre cap by fiscal year 2017.

Figure 3 illustrates the growing importance of the continuous sign-up provisions. While overall enrollment in the CRP has been shrinking in recent years, acres enrolled under continuous sign-up provisions have steadily grown to more than 5.7 million acres as of the beginning of 2014. At current rates, land enrolled under continuous sign-up provisions could grow to more than 6.7 million acres by 2017, limiting the availability of enrollment via general sign-up.

The 2014 Farm Bill includes other provisions related to the CRP. Three provisions affect land during its enrollment in the CRP. Haying and grazing of CRP land is allowed without a payment reduction under qualifying emergency conditions. Managed haying and grazing as a normal practice is allowed as well, but will continue to incur a rental payment reduction. Rental components of the previous GRP have also been combined into the CRP. These provisions appear to increase the incentives for enrolling or keeping grasslands in the CRP.

Two other provisions affect the potential transition of land out of the CRP. Contract holders are given the opportunity for an "early out" from current CRP contracts during fiscal year 2015. Contract holders with expiring CRP land can earn additional CRP payments if they sell or rent that land to a beginning or socially disadvantaged farmer or rancher under the re-authorized Transition Incentive Program.

With the changes to the CRP enrollment cap as well as the "early out" provision for 2015, the biggest impact of the 2014 Farm Bill could be the transition of at least 2-3 million general sign-up acres out of the program. Five states—Kansas, Minnesota, Montana, Texas, and Washington—each have over 300,000 acres of CRP set to expire in the next three years. All of these states except Minnesota also have a substantially higher share of their CRP land enrolled under the general sign-up than the national average, suggesting that these states and other similarly situated states or regions could see the greatest impact in the transition of acres exiting the CRP.

The environmental impacts of a reduced CRP and the economic impact of CRP acres that may transition back to agricultural production are questions of particular importance. Wu and Weber (2012) summarized selected CRP benefits of reduced soil erosion, recreation, and increased land values at more than $1 billion per year based on 1997 enrollment levels of about 33 million acres. In an earlier analysis, Hansen (2007) reported CRP benefits of reduced soil erosion and improved wildlife habitat at more $1.3 billion per year. While a reduced CRP will reduce total environmental benefits, the reduction of general sign-up acres—as opposed to continuous sign-up acres—could lessen the impact, given the greater environmental benefits of the continuous sign-up acres (Claassen, 2014).

Land management decisions on acres that exit the CRP will also have environmental and economic implications. A 2007 survey of South Dakota CRP contract holders suggested land coming out of the CRP was likely to return to crop production (61% of acres) as opposed to grass hay or livestock production (30% of acres) or other uses (9% of acres) (Janssen et al., 2008). Other economic studies analyze the potential for CRP acres to return to production, including studies of acres going into particular crops (Petrolia and Ibendahl, 2008), crop production systems (Williams et al., 2009), and agricultural production regions (Hellerstein and Malcolm, 2011). The potential for several million acres to return to agricultural production would be expected to impact the outlook for crop production, supply, and price levels. However, producer intentions and economic analyses are also dependent on current and future expectations for price and production. Those changing expectations, as well as other management preferences, resource limitations, or even policy regimes, will result in unique decisions for each parcel and landowner. While crop production seems to be the predominant choice for expiring CRP acreage, grassland for livestock production outside of the CRP or even expanded grazing activities within the CRP may offer other choices for producers. Keeping land in conservation uses but outside the CRP could also be a choice for some landowners, particularly for private or commercial wildlife purposes.

Working Lands Programs

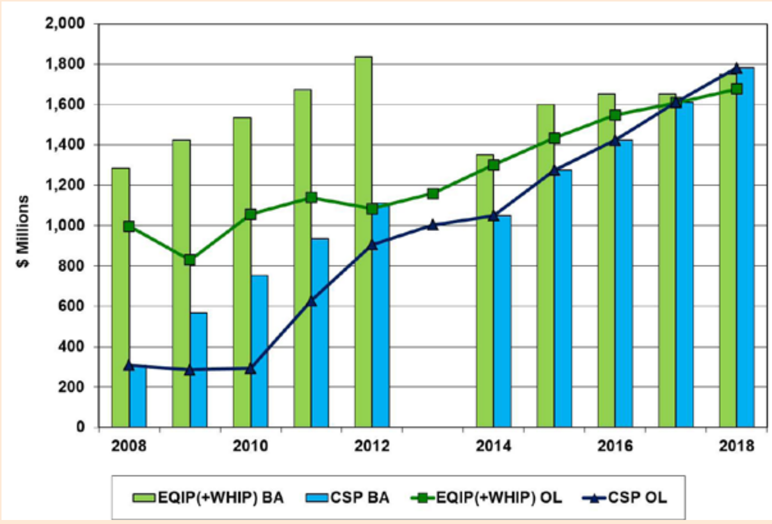
Working lands programs provide assistance to producers and landowners to adopt or maintain conservation practices or structures on lands that are in agricultural production. EQIP and CSP are the primary working lands programs in the 2014 Farm Bill and now incorporate some other functions such as the previous Wildlife Habitat Incentives Program. Agricultural Management Assistance is also included in the 2014 Farm Bill to provide financial and technical assistance to producers using conservation practices to manage risk and address natural resource issues.

EQIP was implemented in the 1996 Farm Bill to combine several smaller assistance programs. EQIP provides financial and technical assistance to producers who adopt new conservation practices or structures on their operations. CSP was first authorized in the 2002 Farm Bill as the Conservation Security Program and then revised and renamed as the Conservation Stewardship Program in the 2008 Farm Bill. CSP provides financial assistance for adopting or maintaining conservation practices as well as incentives for adopting additional conservation efforts.

Both programs have grown substantially in authorization and funding since their creations. As noted above, funding for these two working lands conservation programs is expected to exceed 50% of the total conservation funding over the life of the 2014 Farm Bill. An analysis of working lands program funding in Figure 4 illustrates the growth in funding over time.

The graph illustrates the initial budget authorization for EQIP (including WHIP) and CSP, first in the 2008 Farm Bill and then the 2014 Farm Bill. Under the initial language of the 2008 Farm Bill, EQIP was authorized to grow from $1.285 billion to $1.835 billion per year by 2012 in spending for implementation and

Figure 4: Working Lands Programs Budget Authorization (BA) and Outlays (OL) by Fiscal Year



Source: Congressional Budget Office (2014a, 2014b), U.S. Congress (2008), and U.S. Congress (2014)
Note: Budget authorization as initially set in the 2008 Farm Bill and the 2014 Farm Bill. Subsequent adjustments to budget authorization are not illustrated. Outlays for 2014-2018 are projected.

assistance. CSP was authorized to enroll 12.8 million acres per year at a legislated average cost of $18 per acre for implementation and assistance. Thus, as more acres were enrolled each year in five-year contracts (renewable to 10 years), total enrollment and spending was expected to grow from $309 million to $1.111 billion per year by 2012. However, for both EQIP and CSP, actual appropriations fell short of budget authority as changes to programs and limits on spending were included in subsequent legislation. By 2012, actual outlays for EQIP totaled $1.084 billion and for CSP totaled $905 million. This discrepancy between farm bill authorization and actual spending is a predictable outcome of the annual Congressional appropriations process as elected representatives consider funding priorities, challenges, and potential changes to mandatory spending levels (Monke and Johnson, 2010).

After the one-year extension of program authority (not illustrated) and spending in 2013, the 2014 Farm Bill establishes new budget authority for both programs. As the graph shows, the budget authority for both bills is reduced to lower levels in 2014 than what was initially authorized for 2012 in the previous 2008 Farm Bill. EQIP authority is reset to $1.35 billion in 2014 before climbing to $1.75 billion by 2018. CSP authority is reset to $1.049 billion before climbing to $1.781 billion by 2018 based on enrollment of up to 10 million new acres per year at an average cost of $18 per acre on top of continued servicing of existing contracts.

While the budget authority for both programs was reduced relative to baseline budget projections, actual outlays are still expected to climb. As shown in the graph, outlays are projected to grow year over year through 2018, up to $1.676 billion for EQIP and $1.781 billion for CSP. Thus, opportunities for producers and landowners continue to grow with the working lands programs, albeit at a slower rate.

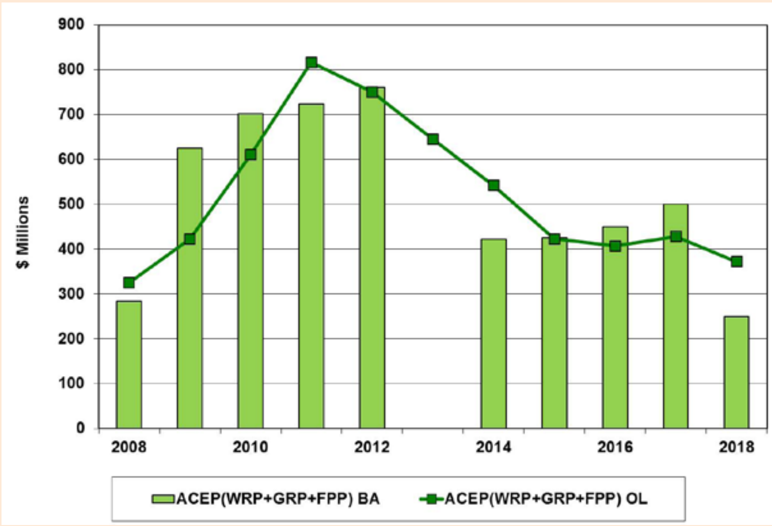
With continued increases in the working lands programs, the environmental benefits should continue to grow as well. The Conservation Effects Assessment Project—a multi-agency and multi-department collaboration to quantify the environmental benefits of conservation practices—provides substantial documentation of the numerous environmental benefits of these programs and others, and includes a comprehensive reference and bibliography of environmental benefits research and literature (USDA National Agricultural Library, 2014).

Easement Programs

The new and streamlined ACEP provides easements to preserve wetlands, grassland, and farmland. The program involves a partnership of federal funds, local agency or organization funds, and landowner contributions to establish permanent or long-term easements (or long-term contracts with native American tribes). The program helps restore, preserve, and enhance wetlands and helps preserve working agricultural lands in desired agricultural uses. A separate Healthy Forests Reserve Program uses easements and financial assistance to help protect forest resources, habitat, and ecosystems.

ACEP includes components of the previous WRP, GRP, and FPP. WRP was first authorized in the 1990 Farm Bill, and has been used to develop wetlands easement, contract, or restoration agreements on a total of 2.65 million acres through 2012. GRP was authorized in the 2002 Farm Bill and again in the 2008 Farm Bill to protect grassland from conversion into other agricultural or non-agricultural uses. Approximately 250,000 acres were placed in easements under the GRP from 2002 to 2012. The concept of conservation easements to preserve agricultural lands was introduced in the 1990 Farm Bill and expanded in the 1996 Farm Bill before culminating in

Figure 5: Easement Programs Budget Authorization (BA) and Outlays (OL) by Fiscal Years



Source: Congressional Budget Office (2014a, 2014b), U.S. Congress (2008), and U.S. Congress (2014)
Note: Budget authorization as initially set in the 2008 Farm Bill and the 2014 Farm Bill. Subsequent adjustments to budget authorization not illustrated. Outlays for 2014-2018 are projected.

the formal establishment of the FPP in the 2002 Farm Bill. A total of 1.1 million acres were placed in easements under the program through 2012. All enrollments under the earlier programs are continued under ACEP. (USDA Natural Resources Conservation Service, 2014).

The ACEP program actually received increased funding relative to the budget baseline for 2014-2018, but with the paradoxical result of reduced funding relative to previous funding levels of previous easement programs. This odd circumstance is attributable to budget considerations during development of the 2008 Farm Bill, which left WRP, GRP, and FPP funding authorized through fiscal year 2012, but no budget authorized for WRP and GRP for fiscal years 2014-2017. Thus, WRP and GRP contributed to "budget savings" under the 10-year budget window for the 2008 Farm Bill, but then had no budget baseline available for reauthorization when debate began on what became the 2014 Farm Bill. The 2014 Farm Bill invests new dollars in ACEP, increasing expected spending for fiscal years 2014-2018 more than $800 million over the existing baseline. But this level of expected spending is still substantially less than what was actually spent over fiscal years 2008-2012 under the 2008 Farm Bill. Figure 5 illustrates the original budget authorization for the easement programs first under the 2008 Farm Bill and then under the 2014 Farm Bill in comparison to the actual and projected outlays as estimated by the Congressional Budget Office (2014a and 2014b).

With reduced spending projected under the new easement program, opportunities for producers, landowners, and partnering agencies or organizations will be reduced as well. While easement programs will remain an important and attractive alternative in many regions of the country, the relative costs of purchasing easements on wetlands or agricultural lands limits the footprint such a program can have. To date, easement programs have enrolled less than 4 million acres nationwide as compared to the tens of millions of acres each in CRP, EQIP, or CSP. However, the conservation benefits of ACEP are permanent as compared to the temporary contracts of the other programs, where long-lasting benefits of the programs are targeted and expected, but subject to future decisions of landowners and producers.

Partnership Programs

The RCPP under the 2014 Farm Bill combines the elements of several pre-existing regional and partnership programs, including the Agricultural Water Enhancement Program, The Chesapeake Bay Watershed Program, the Cooperative Conservation Partnership Initiative, and the Great Lakes Basin Program. The RCPP encourages the development of local partnerships of producers and public or private groups to address natural resource issues on regional or watershed scales. Selected projects receive assistance to help install and maintain conservation efforts through existing programs such EQIP, CSP, and ACEP, among others. The RCPP is authorized for $100 million in funding for each of the fiscal years 2014 through 2018, essentially maintaining funding levels for the previously separate programs, although it is unlikely that funding will be directed solely to partnerships or regions that were funded under the 2008 Farm Bill.

Compliance Programs

Apart from the voluntary conservation programs, producers and landowners who participate in most programs administered by the USDA Farm Service Agency or the USDA Natural Resource Conservation Service are subject to conservation compliance provisions. The 2014 Farm Bill expands those compliance provisions to include eligibility for crop insurance premium benefits and includes additional Sodsaver provisions—programs that help to conserve soil from erosion—affecting crop insurance premium benefits as well.

Conservation Compliance

Conservation compliance provisions were established by the 1985 Farm Bill and affect producers and landowners participating in most USDA Farm Service Agency or USDA Natural Resource Conservation Service programs. To be eligible for assistance in the various programs, producers and landowners must comply with conservation provisions and requirements on highly erodible land (Sodbuster) and on wetlands (Swampbuster). To be in compliance, producers must establish and maintain a conservation system on highly erodible land that keeps soil erosion rates under control. Producers must also conserve wetlands and not convert wetlands nor produce agricultural commodities on converted wetlands. Wetlands converted or farmed prior to the 1985 enactment of conservation compliance provisions fall under a "grandfather" clause and can be considered "farmed wetlands" or "prior-converted wetlands" without violating the conservation compliance requirements.

While the 1996 Farm Bill eliminated the conservation compliance provisions for crop insurance, the new farm bill re-links them. The 2014 Farm Bill includes conservation compliance as a requirement for producer eligibility for crop insurance premium subsidies. For a producer to receive the benefit of any portion of the crop insurance premium paid by the Federal Crop Insurance Corporation, the producer must maintain conservation compliance provisions on highly erodible land and wetlands. For wetlands, producers effectively have a new grandfather date (the February 7, 2014, enactment of the farm bill) for prior-converted wetlands for purposes of crop insurance benefits only. Any violations affect eligibility for premium assistance in subsequent years. Additional provisions provide a transition period for producers facing conservation compliance for the first time because of the new crop insurance linkage, as well as protection for tenants on operations where the landlord fails to comply.

Sodsaver Provisions

The 2014 Farm Bill contains new language in a Sodsaver provision to reduce crop insurance benefits on native sod converted to crop land. Existing legislation prohibited crop insurance benefits on native sod planted to an insurable crop in the Prairie Pothole National Priority Area. The new provisions in the 2014 Farm Bill allow crop insurance participation on the converted sod, but substantially reduce the benefits. For a crop insured on converted sod ground, the insurable yield is equal to 65% of the transitional yield available to the producer and the premium subsidy is reduced by 50 percentage points (from typical subsidy levels of more than 60%). The new Sodsaver provisions apply in the states of Minnesota, Iowa, North Dakota, South Dakota, Montana, and Nebraska—an expansion of the previously covered Prairie Pothole Region.

Summary

A review and analysis of conservation programs and provisions contained in the 2014 Farm Bill shows a continued public interest and investment in conservation practices on the nation's agricultural lands. Total funding for conservation is expected to decline somewhat from previous baseline projections, but actual spending is projected to continue growing and the allocation of funding among conservation programs shows changing conservation priorities.

The CRP is destined to shrink through at least 2017 as it comes under a new, lower enrollment cap. But high-priority continuous enrollment land and practices are expected to continue growing, indicating continued environmental benefits for the public from the CRP over the life of the 2014 Farm Bill.

Working lands programs are slightly reduced from baseline projections and budget authorization, but actually continue to grow in terms of total spending, meaning more opportunities for producers and landowners and more total investments in conservation practices on agricultural land and in operations. The easement programs receive partially restored funding authority relative to a disappearing baseline under the previous farm bills, but they will move forward with less total funding than in previous years as they address wetland, grassland, and farmland preservation goals. Partnership programs continue to address regional and local priorities under a streamlined program and relatively stable funding.

New conservation compliance and Sodsaver provisions are linked to crop insurance benefits. With crop insurance programs as a foundational part of the federal farm income safety net and traditional commodity program payments forecast to shrink dramatically, the political impetus was to attach conservation provisions to crop insurance eligibility. New compliance provisions add highly erodible land conservation and wetlands protection as requirements to be eligible for crop insurance premium subsidy benefits. New Sodsaver provisions severely limit crop insurance benefits on native sod ground broken out for crop production.

Altogether, the investments in voluntary programs and compliance provisions continue to demonstrate that the farm bill plays a primary role in addressing conservation efforts on agricultural land across the United States. Total spending on voluntary conservation efforts has grown over time even as farm bill spending has been constrained. The level of conservation program funding and the role of voluntary conservation programs versus direct regulatory activities will likely be a major part of the debate over future farm bills and farm policy.

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After Long Argument, Then Compromise, Congress Agrees on Nutrition Assistance Benefit Cuts in the Agricultural Act of 2014

Parke E. Wilde

JEL Classifications: Q18, I18.
Keywords: Farm Bill, Nutrition Assistance, Supplemental Nutrition Assistance Program (SNAP)

The Agricultural Act of 2014—better known as the farm bill—passed both houses of Congress only after lawmakers compromised in their long and bitter argument over the future of nutrition assistance programs for low-income Americans. The House of Representatives in 2013 passed a bill with nutrition program cuts of almost $40 billion over 10 years. The Senate passed a bill with much smaller nutrition program cuts of approximately $4 billion over the same period. The compromise signed into law in February 2014 included an intermediate net reduction of more than $8 billion to nutrition assistance programs, accounting for about half of the total budget savings in the law.

The Agricultural Act of 2014 is an "omnibus" —or multi-purpose—law that authorizes major U.S. agriculture, conservation, and crop insurance programs, in addition to nutrition assistance. The nutrition assistance programs receive four-fifths of all spending. The largest such program, the Supplemental Nutrition Assistance Program (SNAP), or food stamps, in 2013 provided food resources to 47.6 million low-income Americans per month at a cost of $80 billion per year. Participants received benefits through an electronic benefit transfer (EBT) card that could be used like a debit card to purchase eligible food and non-alcoholic beverages from food retailers. SNAP benefits start at a maximum level for the very poorest households, and benefits are lowered for households that have some income. The average monthly benefit in 2013 was $133 per person (U.S. Department of Agriculture (USDA) Food and Nutrition Service, 2014).

SNAP is a "mandatory" or entitlement program which means that Congress commits to providing sufficient funds for however many low-income Americans apply for benefits and provide proof of eligibility under current rules. Hence, there are no waiting lists for SNAP benefits as there are when annual funding runs out for non-entitlement safety net programs such as housing assistance. Being a mandatory program influences the nature of SNAP debates in Congress. Rather than proposing a specific dollar amount to cut, legislators may propose changes to eligibility rules or benefit levels. Then the Congressional Budget Office (CBO) —a non-partisan office that reports to Congress—provides an official estimate of the resulting budget cut in terms of dollars.

Voting on the Nutrition Title

In previous farm bills, Congress sharply debated regional and commodity-specific concerns with comparatively little partisanship. For the 2014 farm bill, however, the nutrition provisions generated a more harshly partisan debate. The Speaker of the House and his deputies had to balance the proposals of the Committee on Agriculture—which previously had decisive influence over the farm bill—against new pressure from the Republican majority to enact deeper cuts to SNAP to achieve more rapid deficit reduction. In the Senate, by contrast, the Democratic leadership sought to protect the nation's largest anti-hunger program from such deep cuts.

In early 2013, leaders from both parties on the House Committee on Agriculture hammered out an agreement that included approximately $20 billion in SNAP cuts over 10 years. Many House members who were not on the Agriculture Committee insisted on a more rapid deficit

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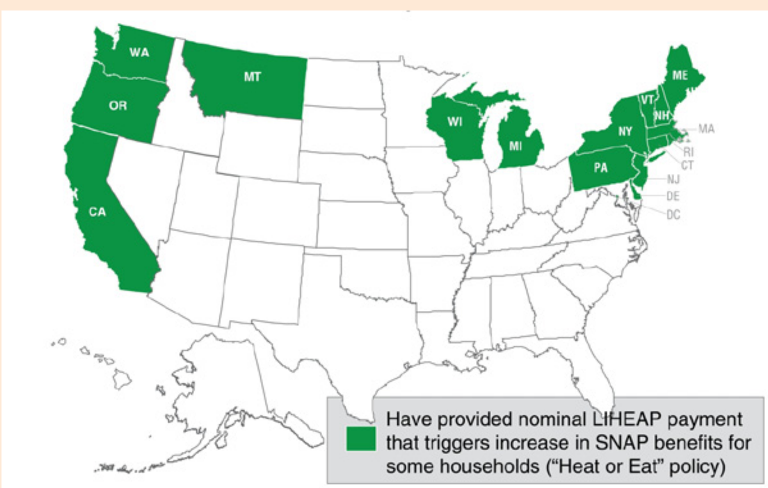
reduction. In a major shock for U.S. agricultural policy in June, the full House of Representatives rejected the committee-supported bill. In late summer 2013, the House passed an agriculture-only bill, without Democratic support. In September, the House passed a separate bill, reauthorizing SNAP but cutting the program by $40 billion over 10 years, again without Democratic support. These House bills nearly ended the practice, which dated to the 1970s, of combining farm programs and nutrition assistance in a single omnibus bill to win bipartisan political support from both farm-state and urban legislators.

In fall 2013, conferees from the House met with their counterparts from the Senate, which had passed a bill with SNAP cuts only one-tenth as large, to work out their differences. In January 2014, the conferees recommended SNAP cuts of $8 billion over 10 years, which is the compromise that finally became law. The conferees re-attached the nutrition provisions to the remainder of the farm bill. This combined bill passed the House of Representatives on January 29, 2014, with support from 162 Republicans and 89 Democrats. Opponents included 63 Republicans and 103 Democrats.

The farm bill passed the Senate on February 4, 2014, with support from 22 Republicans and 44 Democrats. Opponents, including 23 Republicans and 9 Democrats, had diametrically opposed motivations. For example, Sen. Jeff Sessions (R-AL) said, "I remain concerned that the reforms to the SNAP program, the food stamp program, are much too modest" (Kasperowicz, 2014). On the other side of the aisle, Sen. Elizabeth Warren (D-MA) said, "There are important provisions in the farm bill, but I cannot support legislation that further slashes the SNAP program" (Warren, 2014).

In the end, the nutrition title remained part of the Agricultural Act of 2014 with bipartisan support, much as in earlier farm bills from the 1970s onward. However, partisan identity was far more prominent in the fierce Congressional debate, which delayed passage of the farm bill by more than a year. Despite the final passage, the coalition that favors including a nutrition title in the farm bill appeared more fragile than ever before.

Figure 1: States Where LIHEAP Restrictions May Reduce SNAP Benefits



Source: USDA Economic Research Service (2014). ERS calculations based on information from USDA Food and Nutrition Service.

Several Types of SNAP Cuts Were Proposed in 2013

In 2013 farm bill discussions, legislators proposed several major and minor changes to SNAP eligibility rules and benefit levels. Two of these proposals turned out to be most important:

- In a major proposal that did not survive into the final Agricultural Act of 2014, the House of Representatives in 2013 proposed to eliminate some types of "categorical eligibility," which allowed participants in certain other safety-net programs to become automatically eligible for SNAP. The CBO estimated that this proposal would make 2.1 million people ineligible and reduce SNAP spending by more than $11 billion over 10 years (Bolen, Rosenbaum, and Dean, 2014).
- In a change that did survive into the final law, both the House and Senate altered how energy assistance benefits are counted when the SNAP benefit amount is determined. CBO estimated that this change would have saved more than $8 billion over 10 years (Bolen, Rosenbaum, and Dean, 2014), representing a total cut to SNAP benefits nationwide of approximately 1%.

The impact of this latter change was distributed unevenly across states and households. Some states previously had provided many SNAP households with small amounts of energy assistance through the Low-Income Energy Assistance Program (LIHEAP), which allowed participants to take an energy-related deduction in the official computation of their income for SNAP. This deduction, in turn, allowed these households to receive a higher SNAP benefit. By changing the rules so that small amounts of LIHEAP assistance no longer triggered a deduction, Congress effectively reduced SNAP benefits. The reduction was concentrated in a comparatively small group of households, amounting to 3.7% of SNAP participants. While these households would have experienced a large benefit cut—approximately $90 per household per month on average—no SNAP participants would have been kicked out of the program. The states that had previously provided small amounts of energy assistance were located in the Northeast, the Upper Midwest, and the West, so SNAP participants in these states took the full brunt of this cut (Figure 1).

In addition to the cuts proposed in the 2014 bill, SNAP participants also recently experienced benefit cuts through a different mechanism. In most years, the maximum SNAP benefit is set equal to 100% of the Thrifty Food Plan, which is an official benchmark monthly food budget. In response to the financial crisis of the late 2000s and the Great Recession, the federal government had temporarily increased the maximum SNAP benefit to approximately 113% of the Thrifty Food Plan, noting that SNAP benefits offered a direct way to stimulate the retail economy. This temporary boost was partly whittled away by inflation over the subsequent several years, so that by October 2013, the maximum benefit was 106% of the Thrifty Food Plan. The last part of the boost was halted at the end of October 2013, resulting in a federal budget savings of approximately $5 billion per year.

Other Changes to Nutrition Assistance

The Agricultural Act of 2014 makes several other, smaller changes to nutrition assistance programs (Bolen, Rosenbaum, and Dean, 2014). For example, the new law tightens SNAP administration by making sure that program administrators find out quickly if a SNAP participant wins a lottery and by requiring SNAP participants who lose their EBT card multiple times to provide a formal explanation. These changes are minor, but they reflect the determination of legislators to respond to public concerns about program participation by ineligible people and about misuse of program benefits to purchase ineligible goods.

Some new funding was provided for pilot projects to explore potential changes in program design for nutrition assistance programs. One type of pilot seeks to reduce long-term program dependency and increase work requirements. Another type of pilot aims to promote fruit and vegetable intake, along the lines of "Bounty Bucks" programs that encourage SNAP spending in farmers' markets (Hesterman, 2014) or the recent Healthy Incentive Pilot (HIP) that subsidized fruits and vegetables in ordinary food retailers (Bartlett et al., 2013). The law permits SNAP nutrition education efforts to include physical activity promotion along with healthy food messages.

Finally, the Agricultural Act of 2014 reauthorizes The Emergency Food Assistance Program (TEFAP), the Food Distribution Program on Indian Reservations (FDPIR), and special nutrition assistance programs for U.S. territories and Puerto Rico (Bolen, Rosenbaum, and Dean, 2014). The law requires a review of a cash assistance component to the Puerto Rico program, indicating that the program, in the future, could be converted entirely to an in-kind program such as SNAP.

Beyond the nutrition programs in the Agricultural Act of 2014, other major U.S. nutrition assistance programs include school meal programs and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). These programs were reauthorized for five years in a different law—the Healthy, Hunger-Free Kids Act of 2010.

Applied Research on Nutrition Assistance Programs

Empirical research provides important information about program operations and impacts, which has sometimes been used in designing policy changes. One line of research has explored the determinants of program caseload changes, especially the causes of the rapid caseload increases from 2007 onward, which formed the backdrop to the most intense recent policy arguments. The most recent research in this tradition has estimated that macroeconomic factors associated with the Great Recession explained nearly 50% of the caseload increase from 2007-2011, and policy changes such as the temporary boost to benefits explained nearly 30% of the caseload increase (Ziliak, 2013). As usual in such models, some of the caseload change remained unexplained.

Another active field of research evaluates nutrition assistance programs and explores options for improving them. Measuring program impacts is difficult because participation is voluntary. A difference in outcomes between SNAP participants and nonparticipants could represent a program impact, but, just as plausibly, it could represent some other factor that differed between the two groups (Wilde, 2013).

Researchers have used several promising strategies to address this challenge. Some research has used statistical models, called instrumental variables models, which give special attention to independent factors—such as a diversity of state-level administrative rules—that influence a household's program participation decision (Ratcliffe, McKernan, and Zhang, 2011). This research estimated that receipt of SNAP benefits makes it 30% less likely that a household will experience "food insecurity," a condition of food-related hardship.

Other research has taken advantage of a "natural experiment," when there is a major policy change. USDA research focused on the temporary boost to SNAP benefits after 2007 and then the subsequent decline in the real value of this boost. The research found that the recent decline in the value of SNAP benefits increased the condition of "very low food security" —another measure of food-related hardship—by 16.5% (Nord et al., 2013).

A random assignment research design—in which participants are randomly assigned either to participate or not participate in a program—is considered the "gold standard" in program evaluation research, but, of course, it would be unethical to deny some people access to benefits simply to see if they go hungry. An alternative approach would be to randomly assign SNAP benefits to some people who currently are ineligible—perhaps because their income is just barely too high—to see the impact of the additional benefits. At present, random assignment research designs are being used in studies of new program innovations to promote healthy eating (Bartlett et al., 2013), but not for basic program features such as eligibility rules or the benefit amount.

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Highlights of the Agricultural Act of 2014 for Specialty Crops

Alba J. Collart and Keith Coble

JEL Classifications: Q13, Q16, Q18
Keywords: Farm Bill, Local Food Systems, Specialty Crops

The share of federal spending in the U.S. specialty crop industry has been small compared with support available for commodity crops. However, specialty crops gained considerable support in the Agricultural Act of 2014, also referred to as the 2014 farm bill. The bill increased funding levels for specialty crops by 55% to about $4 billion over ten years (United Fresh Produce Association, 2014). Most programs to solve critical needs of the specialty crop industry have been reauthorized and their funding levels have either increased or remained unchanged. Some of the existing programs were expanded and new programs were created.

Reestablished Programs and Their Major Changes

The bill reestablishes the Tree Assistance Program (TAP), a disaster relief program that provides eligible orchardists and nursery tree growers with financial assistance to replant or rehabilitate crops after losses caused by a natural disaster. Emphasis is also made on trade and international marketing assistance for U.S. specialty crop producers serving export markets. The trade title reauthorizes the Market Access Program (MAP) and the Technical Assistance for Specialty Crops (TASC) program, while increasing funding for TASC to $9 million for each of fiscal years (FY) 2014 through 2018. MAP is designed to help U.S. agricultural trade associations, cooperatives, trade groups, and small businesses build export markets by providing technical assistance and sharing the costs of overseas marketing, while TASC is designed to help overcome sanitary, phytosanitary, and technical barriers to the export of U.S. specialty crops.

The nutrition title prioritizes the consumption of fresh produce by vulnerable populations including children, senior citizens, and residents of food deserts. It reauthorizes the Healthy Food Financing Initiative (HFFI), a program that seeks to decrease the prevalence of food deserts in the United States by offering financial and technical assistance to healthy retail food stores to overcome the initial barriers to entry in these underserved areas. This title also reauthorizes the purchase of fruits, vegetables, and other specialty crops for distribution to schools and service institutions, and reestablishes the Seniors Farmers' Market Nutrition Program (SFMNP) to increase access to fresh fruits and vegetables for low-income senior citizens. Total funds available for the procurement of fruits and vegetables by the Department of Defense have been set at $200 million, not less than 25% of which must be used towards the purchase of fresh produce.

Research and extension remain high priority programs for specialty crops. The Specialty Crop Committee and the Specialty Crop Research Initiative (SCRI) were reauthorized and expanded to address research and extension needs of the various specialty crop industries. In addition to the eleven members who currently form the Specialty Crop Committee, a Citrus Disease Subcommittee composed of nine domestic producers of citrus from the states of Texas, Florida, California, and Arizona will identify research, extension, and development needs of the U.S. citrus industry. The SCRI has been expanded through the formation of the Emergency Citrus Disease Research and Extension Program. The purpose of the citrus grant program is to fund scientific research, technical assistance, and development activities focused on combating citrus diseases and pests, as well as disseminating relevant information and any new technologies discovered. Grant proposals submitted by

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eligible public and private research entities to the SCRI will be subject to a scientific peer review by a panel of subject matter experts from federal agencies, non-federal entities, and the specialty crop industry. The proposals will also be subject to a merit review and ranking by a panel of specialty crop industry representatives for the specific specialty crop. The Specialty Crops Committee and corresponding subcommittees will provide recommendations for conducting the review process, an assessment of the process, and comments on grants awarded. Mandatory funding for the SCRI has been increased to $80 million for FY 2014 and thereafter. Since it is mandatory, it will not be subject to the annual appropriations bills. The Emergency Citrus Disease Research and Extension Program will be funded from 31% of these mandatory funds plus $25 million that has been authorized to be spent under the jurisdiction of Congress through appropriations bills.

Recipients of research and extension grants awarded by the Secretary of Agriculture after October 1, 2014, will now be subject to a new matching funds requirement. That is, grant recipients will have to match at least 100% of the grant by providing funds, in-kind contributions, or a combination of both. Programs established within research agencies of the U.S. Department of Agriculture (USDA), and capacity and infrastructure programs including land-grant universities and programs to support agricultural experimental stations, will be exempt from this matching funds requirement. While non-profit research organizations and private research institutions are not exempt, the bill indicates that yearly waivers may be granted for research and extension projects that address national priorities. For example, projects are to include those that develop new uses and new products for agricultural commodities or significantly enhance the competitiveness of U.S. agriculture.

The horticulture title reestablishes programs necessary for market news dissemination, direct-to-consumer marketing of local foods, food safety education, and competitiveness enhancement of the specialty crop industry. It reauthorizes the Specialty Crops Market News to provide price and shipment information on specialty crops while maintaining the program's spending levels ($9 million for FY 2008 through 2012).

The Farmers' Market Promotion Program (FMPP), now called the Farmers' Market and Local Food Promotion Program, has been reauthorized and mandatory funding has been introduced. Although its funds cannot be invested in infrastructure development, this program is crucial in helping small- and mid-size producers improve and expand direct-to-consumer opportunities such as farmers' markets, roadside stands, community supported agriculture (CSA) businesses, and agri-tourism operations. Funding for this program has been increased to $30 million for each of FY 2014 through 2018, in addition to $10 million that remains authorized to be appropriated in each of the fiscal years. Of the total funds available to conduct this program, half will be allocated towards projects that deal with direct producer-to-consumer opportunities, while the other 50% will be allocated to local and regional food business enterprises including those that are not direct producer-to-consumer markets. However, if the project does not involve direct producer-to-consumer markets, grant recipients will need to match at least 25% of the total cost of the project in the form of cash or in-kind contributions. Moreover, a limit of 4% on administrative expenses has been established for the FMPP program.

Food safety education initiatives and the Specialty Crop Block Grant (SCBG) program will also continue with the passage of the 2014 farm bill. Changes to the SCBG program include increased funding, adjustments to the grant allocation formula, and allowance of funding for multistate projects related to food safety, plant pests and diseases, research, and crop-specific projects. Mandatory funding for the SCBG program was introduced in the 2008 U.S. farm bill. The new farm bill increases its funding levels to $72.5 million for each of FY 2014 through 2017 and to $85 million for FY 2018 and thereafter. Moreover, grants awarded through the SCBG program will now be allocated to states considering the state and nationwide acreage of specialty crop production in addition to the average value of production. Yearly administrative expenses made under this program by the Secretary of Agriculture are limited to 3%, whereas administrative expenses incurred by states are limited to 8%.

Lastly, the bill consolidates the National Clean Plant Network and the Pest and Disease Management and Disaster Prevention program into a single program. Funding for the combined programs has been increased to $62.5 million for each of FY 2014 through 2017, and $75 million for FY 2018 and thereafter.

Other important crop and product-specific provisions in the horticulture title that will likely impact the specialty crop industry include: 1) establishment of an industry-funded promotion, research, and information program for fresh-cut Christmas trees sold in the United States, which involves the collection of $0.15 per tree on farms that cut 500 or more per year; 2) exemption of apple shipments to Canada in bulk containers—containers over 100 lbs.—from the provisions of the Export Apple Act; 3) changes in notification requirements for plant-incorporated protectants in imported seeds; and 4) exclusion of non-pesticide sources of sulfuryl fluoride from residues tolerance assessments performed by the U.S. Environmental Protection Agency (EPA).

What's New and What's Out?

New provisions in the bill relevant to the specialty crop industry are much more numerous than the provisions revoked. The grant program established to improve the movement of specialty crops to markets was discontinued. The nutrition title, however, contains important changes and new provisions with great potential for specialty crop producers, Supplemental Nutrition Assistance Program (SNAP) eligible households, and school feeding programs. Changes in the definition of a "retail food store" in the nutrition title allow agricultural producers who market directly to consumers to accept SNAP benefits, implying that not only farmers' markets but also CSAs and roadside stands will be able to accept electronic benefit transfer (EBT) cards as forms of payment when selling fruits and vegetables or seeds and plants for eligible household use.

The feasibility of households redeeming SNAP benefits through online and mobile transactions will be tested through new pilot projects that seek to help retail food stores adopt new technologies. To participate in the mobile pilot project, retail food stores and producers selling directly to consumers will need to apply to the Secretary of Agriculture, specifying the technology to be used and the manner in which the household will be given proof of the transaction, among other requirements yet to be determined in the rulemaking process. To participate in the online pilot project, other interested parties will also need to apply, describing the manner in which they will ensure the purchase of eligible items only and educate the public in the use of the technology. Both pilot projects are expected to be completed by July 1, 2016. If they prove successful and implemented nationwide, specialty crop producers who sell directly to consumers may be able to accept SNAP benefits through online and mobile transactions starting January 1, 2017.

The details and requirements to participate in these programs will be clearer as the regulations are written and released by the U.S. Secretary of Agriculture, but the new farm bill provides an overview of expected sellers' obligations. Sellers nationwide will need to ensure the privacy of customer data and the security of transactions, and will not be allowed to price-discriminate through higher online prices. They will be responsible for covering the costs of obtaining, installing, and maintaining mobile technologies, and will not be allowed to use SNAP benefits to pay delivery, ordering, convenience, or other fees. These two implications from the nutrition title open the door for online purchases of specialty products sold directly to consumers and digital marketing opportunities in the near future.

Regarding school feeding programs, three new provisions were created to facilitate the inclusion of fruits and vegetables in the National School Lunch and National School Breakfast programs.

First, a pilot project will be conducted to help states buy unprocessed fruits and vegetables in a flexible manner. Eight states currently participating in the National School Lunch Program will be allowed to buy unprocessed fruits and vegetables from multiple suppliers, and to buy local if desired. Participating states will be selected based on the quantity and variety of local fruits and vegetables on a per capita basis, demonstrated commitment to Farm-to-School efforts, and the quantity of local educational agencies.

Second, schools currently participating in the Fresh Fruits and Vegetables Program (FFVP) will be selected to participate in a pilot project to evaluate the impacts of offering canned, frozen, or dried fruits and vegetables on children's consumption levels and school participation. Schools outside the pilot project, however, will need to continue offering fresh fruits and vegetables.

Third, pulse products such as dry beans, dry peas, lentils, and chickpeas, will be incorporated into the National School Lunch and National School Breakfast programs. Child acceptance of these products and product suitability for school programs will be evaluated in 2016.

The bill's inclusion of provisions that benefit locally or regionally produced agricultural products translates into direct support for small and medium agricultural businesses. Ways to determine the value of crops used in locally or regionally produced agricultural products will be determined to facilitate lending of operating loans to local and regional food producers. Also, exploring ways for producers to establish a price history for these crops has been added to the agenda.

Besides credit-related solutions, the bill offers incentives for the consumption of locally or regionally produced agricultural products. For instance, it creates the Food Insecurity Nutrition Incentive program, which provides cash incentives to SNAP-eligible households for the purchase of fruits and vegetables at farmers' markets. It also mandates a study on locally or regionally produced agricultural products to collect data on production and marketing practices of Local Food Systems (LFS) and the direct and indirect costs that LFS incur in complying with federal regulations. Other novel commodity-specific provisions in the horticulture title include a new report on the appropriate federal standard for the identity of honey to help domestic producers compete with low-priced imports of altered honey.

Organic Agriculture

Provisions for the rapidly expanding organic agriculture sector received broad support from both major political parties. The bill expands the definition of "agricultural commodity" to include certified organics, it mandates a technology upgrade for the database and technology systems of the National Organic Program, it creates permission for an Organic Commodity Promotion Order, and it grants specific powers to the Secretary of Agriculture to investigate products that are being fraudulently marketed as organic. Importantly, three key farm bill programs that have helped shape the success of U.S. organic farmers over the past decade have been reauthorized including the Organic Agriculture Research and Extension Initiative (OREI), the Organic Production and Market Data Initiatives (ODI), and the National Organic Certification Cost-Share Program (NOCCSP). The latter program seeks to help U.S. organic crop and livestock producers defray the costs of obtaining an organic certification by reimbursing as much as 75% of certification costs. Funding for the cost-share program was increased to $11.5 million for each year from FY 2014 through 2018.

Finally, though the lack of federal crop insurance remains a major issue for specialty crop producers, this bill attempts to help level the field for organic farming. The bill mandates increased efforts in developing and improving federal crop insurance for organic crops and in implementing price elections for organic products. No later than the 2015 reinsurance year, certified producers of organic crops will be offered price elections that reflect their retail or wholesale prices. A new annual report will include the progress of implementing these price elections and advances on developing new federal crop insurance approaches for organic producers.

Going Forward

The Agricultural Act of 2014 advances many priorities of the U.S. specialty crop industry. Not all concerns of the industry were addressed, but this farm bill did significantly broaden the scope of U.S. agricultural policy. The bill's provisions discussed will likely benefit different stakeholders in the specialty crop industry. It may be expected that consumers, including SNAP-eligible households, children in school feeding programs, senior citizens, and residents of food deserts will gain increased access to specialty crops, which may result in an increase in demand for local foods. Greater access may bring about a rise in consumption of fresh produce among the general population, but notably it has the potential to change eating habits among vulnerable groups, thereby helping address public health concerns. Conventional and organic producers of specialty crops may benefit from greater consumer demand, as well as from provisions designed to facilitate lending and conduct research and extension initiatives. These incentives may serve to strengthen existing local farms, but also to bring new farms to market. Given rising concerns of obesity and child malnutrition, the alarm people have over food deserts, as well as the rising popularity of lifestyle programs such as Let's Move or the Farm-to-Table and Farm-to-School movements, it may be expected that food policy issues related to horticulture, specialty crops, organic production and related issues will continue to be at the forefront of the policy debate. Clearly there will be a multitude of research and outreach opportunities.

For More Information:

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