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Margin Protection Considerations for the 2023 Farm Bill

The 2022 crop year has been a time of relatively high commodity prices, but also record high input prices, sparking discussion about how to make farm programs more responsive to a changing financial landscape. USDA recently reported that 2022 represents the highest ever year-to-year increase in production costs, with farm production expenses increasing 18% in one year. High commodity prices mean program payments are less likely to be triggered in most cases, and farmer margins (revenue after expenses) will be narrow.

Discussion of the 2023 Farm Bill, and how best to address the needs of farmers has already begun. As Congress considers how to support farmer profitability, thus ensuring the U.S. remains food secure, Arkansas farmers have a rare opportunity to have direct input into the drafting of the Farm Bill. Senator John Boozman, (R-AR), is the Ranking Member of the Senate Committee on Agriculture, Nutrition, and Forestry. He, along with committee Chairwoman Debbie Stabenow (D-MI), recently sent a letter to Agriculture Secretary Tom Vilsack and USDA-Risk Management Agency Marcia Bunger requesting the agency look at ways to accelerate the expansion of margin protection tools or similar products.

Sen. Boozman's counterpart in the House, Rep. GT Thompson (R-PA), the Ranking Member on the House Agriculture Committee, has suggested the creation of a Title I margin protection program for row crops like that of the Dairy Margin Coverage (DMC) program. He has seen the benefit of the program for farmers in Pennsylvania and has encouraged consideration of expanding the program.

Current AFBF policy* supports the continuation of a counter-cyclical program and a revenue program and giving farmers the opportunity to evaluate which program benefits them the most and to choose which program in which to participate.

There is a reference price escalator provision in the 2018 bill designed to increase price protection above the statutory reference price. PLC triggers payments whenever the marketing year average price is less than the effective reference price. The effective reference price is the higher of the statutory reference price or 85% of the five-year Olympic average of MYA prices, with the maximum effective reference price 115% of the statutory reference price. Current CBO baseline estimates suggest the escalator clause will likely trigger for corn and soybeans in upcoming years, but it is unlikely to trigger for seed cotton or rice.

The 2018 Farm Bill authorized two programs that provide margin protection, but they are limited in scope. Dairy Margin Coverage is a Title I program administered by the USDA-Farm Service Agency (FSA). It is available nationwide, but as the name suggests, participation is limited to dairy farmers. Margin Protection Federal Crop Insurance is available for rice, corn, soybeans, and wheat in certain states. There are currently 18 states where Margin Protection Insurance is available. This article details the successes and shortcomings of the current programs.

A move away from counter-cyclical and shallow loss programs and toward margin coverage would be a major paradigm shift in farm policy, though, and deserves scrutiny.

Dairy Margin Coverage

Dairy Margin Coverage is a Title I program administered by FSA. It pays producers when the margin between the national all-milk price and the national average feed cost (the margin) falls below a certain level selected by the producer. The national average feed cost is calculated for alfalfa, corn and soybean meal and is fixed. Local prices are not considered.

Producers pay premiums similar to crop insurance, select a margin coverage level, and the coverage percentage of historical production. Catastrophic coverage is provided at no cost other than a $100 administrative fee which is waived in certain circumstances, and it provides a payment when the national dairy production margin is less than $4.00/cwt. Buy-up coverage is available in 50 cent increments up to $9.50/cwt. Farmers also select a coverage percentage of the operation's production history ranging from 5% to 95%, in 5% increments. For most operations, production history is based on the highest milk production in 2011, 2012, and 2013. Newer dairy operations have other options.

Payments are made to eligible farmers monthly if the margin falls below their coverage level. Payments are made on 1/12 of the covered production.

The program was first created in the 2014 Farm Bill as the Dairy Margin Protection Program (MPP) and had serious shortcomings. During the first year of the program, 25,162 dairies enrolled nationwide, paid nearly $73 million in premiums and received total indemnities of only $727,000. Because of dissatisfaction with the program and the trend of most participants opting in at the CAT level, Congress elected to make changes to MPP through budget reconciliation before the 2018 farm bill. Farmers who participated in previous years were eligible for a refund on premiums paid. Farmers could choose either a cash refund of 50% of the premiums or a 75% refund as a credit on future premiums.

In recent years, approximately 72% of eligible farms are enrolled in the program. In 2021, over $1.1 billion in payments were received by those enrolled. The average payment per operation was $62,406, but that is of course dependent on production history and program coverage level.

Margin Protection Federal Crop Insurance

Margin Protection (MP) is a federal crop insurance product authorized in Title XI. It was developed by private industry in partnership with USA Rice. It is available in select counties for rice, corn, soybeans, and wheat. (In Arkansas, it is only available for rice.) MP insurance provides coverage against an unexpected decrease in the operating margin. It uses county-level estimates of average revenue and input costs to establish the coverage level and indemnity payments.

MP can be purchased independently, or in conjunction with a Yield Protection or Revenue Protection policy purchased from the same Approved Insurance Provider that issued the MP policy. If a producer buys a Yield or Revenue Protection policy, then they will receive a Margin Protection premium credit to reflect that indemnity payments from one policy can offset payments from the other.

MP provides coverage that is based on an expected margin for each applicable crop, type, and practice. The expected margin is expected revenue minus expected costs. Expected revenue per acre is defined as the expected county yield multiplied by the projected commodity price, and expected cost per acre is the dollar amount determined by multiplying the quantity of each allowed input by the input's projected price.

For rice, MP covers the cost of diesel, interest, urea, DAP, and potash. The price discovery period for projected inputs are in January and February and based on futures prices. The harvest input price discovery periods vary by input.

Farmer participation in MP insurance has been low. The price discovery period for inputs only accounts for changes during the crop year, so increases seen over the winter, as experienced in 2021/2022, are not covered. Premium subsidies are relatively low compared with other products. The highest levels of MP coverage have a premium subsidy of only 44%.

Conclusion

Congress has already begun to hold hearings on the 2023 Farm Bill and will continue to seek input from the farm sector to determine the best way to support farmers in this time of high inflation. Current margin protection programs could serve as a template for the 2023 Farm Bill, assuming they can be expanded and improved to work on a much broader scale.

***Arkansas Farm Bureau Policy**
239-National Farm Policy

9.2.1 Commodity Programs:
9.2.21.1. We support:
9.2.1.1.1. Continuation of a counter-cyclical program like the Price Loss Coverage (PLC) program and a revenue program like the ARC program, including using RMA data as the primary source to determine a more accurate county yield as long as RMA data at the farm level data is protected from FOIA. If ARC-County is continued, we support changes to make the program more effective and fairer to all farmers;
9.2.1.1.2. If existing programs continue, the opportunity for farmers to re-elect and/or re-enroll;
9.2.1.1.3. Basing Title I payments on historic, rather than planted, acres;

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