Farm Program Decision: A Risk Management View

Frayne Olson, PhD
Crop Economist/Marketing Specialist
frayne.olson@ndsu.edu  701-231-7377

NDSU Extension Service
ND Agricultural Experiment Station
Dept. of Agribusiness & Applied Economics
Agricultural Act of 2014

• Enrollment deadline for program participation in the 2014 farm bill is March 31, 2015.

• Deciding which election to choose is not obvious.

• How do you make a choice?
Agricultural Act of 2014

• Many farmers are trying to make this election based upon which option will generate the largest potential payments.
• This is one way to evaluate the different elections.
• Are there others?
Agricultural Act of 2014

• How do the alternative 2014 farm bill options fit into an overall farm risk management program?
• Risk management requires that you consider all of the “bad things” that can happen.
• What risks keep you awake at nights?
• What safe guards do you have in place to protect against these risks?
Quick Overview

• PLC: Price Loss Coverage
  – Enroll by FSA Farm
  – Crop base by Crop base on the farm
  – Can mix and match with ARC-Co
  – Does NOT require planting the crop.

• Price protection only. Uses a reference price to determine if payments are made.
Quick Overview

• ARC-Co: Ag. Risk Coverage - County
  – Enroll by FSA Farm
  – Crop base by Crop base on the farm
  – Can mix and match with PLC
  – Does NOT require planting the crop

• Revenue protection using historical county yields and national average prices to establish a benchmark revenue.
Quick Overview

• ARC-IC: Ag. Risk Coverage - Individual
  – Enroll by FSA Farm
  – Entire farm and ALL CROPS on the farm(s)
  – **Cannot** mix with PLC
  – Requires planting the crop to be eligible

• Revenue protection using historical **individual** yields and national average prices to establish a benchmark revenue.

• Requires annual product production reporting.
What risk protection is offered?

**PLC**

- Price protection only. Uses a *reference price* to determine if payments are made.

- Provides protection against low national average average prices.

- Fixed reference prices listed in the legislation.

- Maximum PLC rate is Reference Price – National Loan Rate.

- Eligible for Supplemental Coverage Option (SCO).
# Reference Prices for PLC

<table>
<thead>
<tr>
<th>Crop</th>
<th>Reference Price</th>
<th>National Loan Rate</th>
<th>Max. PLC Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Barley</td>
<td>$4.95/bu</td>
<td>$1.95/bu</td>
<td>$3.00/bu</td>
</tr>
<tr>
<td>Corn</td>
<td>$3.70/bu</td>
<td>$1.95/bu</td>
<td>$1.75/bu</td>
</tr>
<tr>
<td>Dry Peas</td>
<td>$11.00/cwt</td>
<td>$5.40/cwt</td>
<td>$5.60/cwt</td>
</tr>
<tr>
<td>Oats</td>
<td>$2.40/bu</td>
<td>$1.39/bu</td>
<td>$1.11/bu</td>
</tr>
<tr>
<td>Canola</td>
<td>$20.15/cwt</td>
<td>$10.09/cwt</td>
<td>$10.06/cwt</td>
</tr>
<tr>
<td>Flax</td>
<td>$11.28/bu</td>
<td>$5.25/bu</td>
<td>$6.03/bu</td>
</tr>
<tr>
<td>Sunflower</td>
<td>$20.15/cwt</td>
<td>$10.09/cwt</td>
<td>$10.06/cwt</td>
</tr>
<tr>
<td>Soybean</td>
<td>$8.40/bu</td>
<td>$5.00/bu</td>
<td>$3.40/bu</td>
</tr>
<tr>
<td>Wheat</td>
<td>$5.50/bu</td>
<td>$2.94/bu</td>
<td>$2.56/bu</td>
</tr>
</tbody>
</table>
## PLC Example

<table>
<thead>
<tr>
<th>Crop</th>
<th>Reference Price</th>
<th>Marketing Year Price</th>
<th>PLC Payment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>$5.50</td>
<td>$6.10</td>
<td>-0-</td>
</tr>
<tr>
<td>Corn</td>
<td>$3.70</td>
<td>$3.65</td>
<td>$0.05</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$8.40</td>
<td>$10.20</td>
<td>-0-</td>
</tr>
</tbody>
</table>

- Marketing year price is the January estimate by USDA
- Payment rate is multiplied by the farm’s payment yield times base acres times 85 percent
What risk protection is offered?

**ARC-Co**

- Revenue protection using historical county yields and national average prices to establish a benchmark revenue.
- Provides protection against below average revenue.
- Rolling benchmark using 5 year Olympic average county yields and national average prices.
- Maximum payment limited to 10% of benchmark and applied individually to each crop.
- Payments made on 85% of base acres.
What risk protection is offered?

**ARC-IC**

- Revenue protection using historical **individual** yields and national average prices to establish a benchmark revenue.
- Provides protection against below average revenue.
- Rolling benchmark using 5 year Olympic average individual yields and national average prices.
- Maximum payment limited to 10% of benchmark and applied collectively to ALL covered crops.
- Payments made on **65%** of base acres of all covered crops.
What risk protection is offered?

ARC-Co vs. ARC-IC

• Uses same 5 year Olympic average national prices.
• Both capped at maximum of 10% loss.
• What is correlation between your individual yields and the county average yields?
• ARC-IC requires weighted average loss across ALL covered commodities.
• ARC-IC uses planted acres to determine payment rate.
• Payment on 85% of base (ARC-Co) vs. 65% of base (ARC-IC).
Historical National Average Prices

Corn

Dollars per Bushel

- MY Corn
- PLC
- ARC
- Loan Rate

Years:
- 1985
- 1986
- 1987
- 1988
- 1989
- 1990
- 1991
- 1992
- 1993
- 1994
- 1995
- 1996
- 1997
- 1998
- 1999
- 2000
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
Historical National Average Prices

Soybean

Dollars per Bushel


MY Soybean  PLC  ARC  Loan Rate
Historical National Average Prices

All Wheat

Dollars per Bushel

[Graph showing historical prices for wheat from 1985 to 2014, with lines indicating different categories such as 'MY Wheat', 'PLC', 'ARC', and 'Loan Rate'.]
Questions?