FARM BUREAU® 2018 Farm Bill Position

• Commodities • Conservation • Credit • Crop Insurance • Energy • Forestry • Nutrition • Research, Extension, and Related Matters • Rural Development • Specialty Crops & Horticulture • Trade •

December 2017

FARM BUREAU®
2018 Farm Bill

• Commodities • Conservation • Credit • Crop Insurance • Energy •
• Forestry • Nutrition • Research, Extension, & Related Matters •
• Rural Development • Specialty Crops & Horticulture • Trade •

Harvest Price Subsidy Prohibition Act
S. 2096 and H.R. 4305

ISSUE

One of the most likely amendments to be offered during consideration of the farm bill is to eliminate premium discounts for farmers who select coverage that includes the Harvest Price Option (HPO).

BACKGROUND

The HPO is revenue or price coverage within the crop insurance policy that provides protection on lost production at the higher of the price projected just before planting time or the price at harvest. Projected price is just an estimate of the final price, per se and farmers pay an additional premium for this type of price protection. It is similar to the concept of paying an indemnity at "replacement value," similar to what is available for homeowners' insurance. It enables the producer to acquire the lost production at its replacement cost.

A farmer has a choice to purchase HPO, but there is also a harvest price exclusion available to them. Farmers pay more in premium for the HPO, and currently about 70 percent of farmers pay more for HPO coverage.

LEGISLATION

Sens. Jeff Flake (R-Ariz.) and Jeanne Shaheen (D-N.H.) introduced S. 2096 to allow the HPO crop insurance option to continue to be offered to farmers, but not allowing for any premium subsidies for those who use the program. There are no Senate cosponsors.

Rep. John Duncan (R-Tenn.) introduced identical language in the House, H.R. 4305. There are no cosponsors.

The Congressional Budget Office has scored the bill as saving $21 billion over ten years.

POSITION

Farm Bureau opposes the legislation because:

Even with the HPO, farmers must meet a deductible for loss and pay a premium for coverage. Risk exists for these farmers. The HPO simply provides these farmers with the replacement value for their lost crop.

HPO is critical to farmers who use forward contracting as another means of mitigating their risk. If there is a natural disaster that results in a large drop in production of a commodity, the price of that commodity is likely to increase sharply. Many farmers enter forward contracts before harvest to sell a portion of their production at a set price. Usually these contracts pay the farmer for the production they deliver after harvest based on harvest prices. If the farmer loses the crop, they are still obligated to deliver under the forward contract. But since the crop is lost, the farmer would have to buy the commodity on the open market at the harvest price or financially settle at the harvest price to meet the obligations of their contract. HPO provides the farmer with sufficient funds to settle the forward contract, because with HPO the farmer's loss would be indemnified at the lower price projected at the start of the season.

HPO is critical to livestock producers who grow their own feed. If a disaster wipes out the feed production of a dairy, cattle, hog, poultry or other livestock producer, that farmer will have to enter the market and purchase feed at the going price. If the farmer enters the market to purchase feed at the end of the year because they lost their crop, they will need to buy feed at the harvest price. HPO ensures these farmers that they will have fund to afford the higher feed costs when they need to purchase feed.

FARM BUREAU POLICY SUPPORTS:

the availability of crop yield and/or revenue insurance for all producers of all commodities; and

the current legislatively approved farmer premium discount schedule.