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### **Rush to sign up for farm program?<sup>1</sup>**

Sara R. Wyant on [www.Agri-Pulse.com](http://www.Agri-Pulse.com) (a subscription based publication) reports Agriculture Secretary Ed Schafer announced that farmers can start signing up for the 2008 Direct and Counter-Cyclical payment program and receive an advance payment of 22%, but said that rules for ACRE and Permanent Disaster Assistance **probably won't be finalized until 2009.** Schafer also hinted that he may make a decision within the next couple of weeks about early release of 2009 Conservation Reserve Program (CRP) contracts.

**Rush to sign up for farm program?** Farmers will want to sign up for Counter-Cyclical and Direct Payments ASAP for 2008. The ACRE program does not start until 2009.

In 2009, farmers may want to opt for the ACRE program that requires a 20% reduction in direct payments and a 30% reduction in loans (the loan rate is so low that it appears to be a 30% reduction of nothing for feedgrains, wheat and soybeans). The ACRE program is a "put option" on expected state revenue. The strike price for 2009 ACRE is the two year average of 2008 and 2007 MYA price. Because of weather combined with demand, this strike price is likely to be very "high" and there is no limit on the price in the first year. At signup time next April one will be able to look at the harvest contracts and estimate the expected MYA price for 2009 corn and soybeans. If the ACRE program is in the money

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then the odds of collecting shift to the farmer but the “premium” remains the same, 20% of a farmer’s direct payment.

Once farmers elect ACRE they can not shift back to the old program, but in 2010 the ACRE guarantee can not decline by more than 10% from 2009. Therefore, if the current weather market of 2008 sets a very “high” ACRE guarantee for 2009 and because of the crop farmers would benefit from this 2009 guarantee in 2010. ACRE does require a farmer to show a farm level revenue loss below the expected farm revenue plus crop insurance premiums. However, if prices decline from the current historically high price to lower prices in 2009 it will clearly be easier for farmers to meet the farm level qualification for ACRE payments.

Congress changed the expected yield used to set ACRE from a 26 year linear trend yield to a 5 year moving Olympic average. This will be preferred by many wheat and grain sorghum states over the original plan. So ACRE may work for wheat and grain sorghum too, but likely farmers will want to do more analysis before making a decision.

Because of the weather market and demand, it is likely that ACRE will be attractive for corn and soybeans. The later the signup, the better one’s forecast for the 2009 MYA price that will settle ACRE claims. It all depends on the level of the two year average of 2008 and 2007 MYA price, so the later signup will make it easier to estimate this strike price.

While one will be able to get a good estimate of the amount ACRE is in the money; there are no absolute guarantees with ACRE as there is with direct payments. Farmers will be accepting a lower (20%) fixed payment in return for the possibility of a much larger payment. If farmers only signup for ACRE when it is in the money and increase the odds of a payment, ACRE can still expire worthless, like a Board traded option.

**SURE (Permanent Disaster Assistance)** for 2008 Iowa flood losses and other crop losses, is based on the level of crop insurance purchased back on March 15 (September 30, 2007 for wheat) so there really is no decision to make. However, when farmers consider their next crop insurance signup they may want to change the type and level of coverage because that decision will also set the SURE guarantee. SURE is a whole farm guarantee and requires all crops be insured either with crop insurance or NAP on uninsurable crops to qualify for SURE payments. Some of those farmers with current crop losses may not have signed up their NAP crops and they would be ineligible for SURE payments. Also SURE is settled on the USDA Marketing Year Average (MYA) price, therefore Iowa farmers with flood losses will not receive any SURE payments on 2008 flood losses until after September 1, 2009.

**The early release of CRP** might have the greatest impact. For people my age we remember the Soil Bank program which is the same as CRP. After the 1973 Russian grain deal, farmers broke out soil bank acres and planted them to crops. There is no reason that a significant number of these acres would not grow crops again. In some counties there was nearly 25% of the base acres enrolled in CRP. So there are a large

number of acres that would grow wheat and grain sorghum (maybe 20 million?)<sup>2</sup>. I would agree the number of CRP acres that could grow corn and soybeans is small but it doesn't really matter. Grain sorghum is clearly as substitute for corn as feed or ethanol production, but even wheat will substitute for corn at the right price. This public policy change would add grain production over the next few years and may change the market outlook.

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<sup>2</sup> Disclosure: The author owns a small amount of CRP acres, but those acres will remain in grass, irregardless of Washington policy.