

The 2008 Farm Bill: A New Era in Farm Policy?

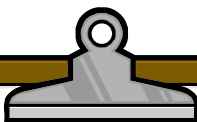
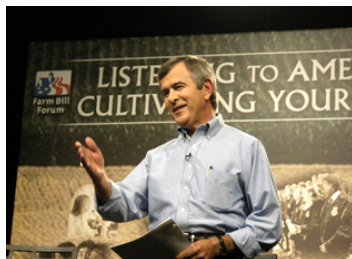
Troy Dumler
Extension Agricultural Economist
Kansas State University



Farm Bill Timeline

July 7, 2005

- Secretary Johanns and Orion Samuelson conduct first Farm Bill Listening Session at RFD-TV studio in Nashville.

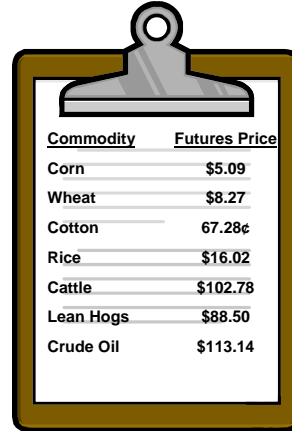


Commodity	Futures Price
Corn	\$2.34
Wheat	\$3.38
Cotton	50.90¢
Rice	\$6.18
Cattle	\$80.10
Lean Hogs	\$68.35
Crude Oil	\$60.73

Farm Bill Timeline

June 18, 2008

- House and Senate override Presidential veto of H.R. 6124
- *Food, Conservation and Energy Act of 2008* becomes P.L. 110-246
 - 3 years of deliberation
 - 9 months of delay
 - 8 temporary extensions
 - 2 Presidential vetoes
 - 2 Congressional overrides
 - 1 missing farm bill title
 - 1 farm bill



Commodity	Futures Price
Corn	\$5.09
Wheat	\$8.27
Cotton	67.28¢
Rice	\$16.02
Cattle	\$102.78
Lean Hogs	\$88.50
Crude Oil	\$113.14

The 2008 Farm Bill

More than Just the Farm

- | | |
|---|---|
| <ul style="list-style-type: none"> I. Commodity Programs II. Conservation III. Trade IV. Nutrition V. Credit VI. Rural Development VII. Research & Related Matters VIII. Forestry | <ul style="list-style-type: none"> IX. Energy X. Horticulture and Organic Agriculture XI. Livestock XII. Crop Insurance and Disaster Assistance Programs XIII. Commodity Futures XIV. Miscellaneous XV. Trade and Tax Provisions |
|---|---|


 United States Department of Agriculture


 America's Farm Bill 2008

Primary Driving Factors of 2008 Farm Bill

- Pay-As-You-Go (PAYGO) Budget Rule
 - Any increases in spending in a bill must be offset by spending cuts or tax increases

- Non-agricultural Interest Groups
 - Nutrition
 - Conservation



The 2002 Farm Bill Safety Net

- Direct (Fixed) Payments

- Counter-Cyclical Payments

- Marketing Assistance Loans and Loan Deficiency Payments



Direct Payment Rates

Commodity	2002 Farm Bill	2008 Farm Bill
Corn (bu)	\$0.28	\$0.28
Sorghum (bu)	\$0.35	\$0.35
Barley (bu)	\$0.24	\$0.24
Oats (bu)	\$0.024	\$0.024
Wheat (bu)	\$0.52	\$0.52
Soybeans (bu)	\$0.44	\$0.44
Other oilseeds (cwt)	\$0.80	\$0.80
Upland cotton (lb)	\$0.0667	\$0.0667
Rice (cwt)	\$2.35	\$2.35



Counter-Cyclical Target Prices

Commodity	2002 Farm Bill	2008 Farm Bill	
		2008-09	2010-2012
Corn (bu)	\$2.63	\$2.63	\$2.63
Sorghum (bu)	\$2.57	\$2.57	\$2.63
Barley (bu)	\$2.24	\$2.24	\$2.63
Oats (bu)	\$1.44	\$1.44	\$1.79
Wheat (bu)	\$3.92	\$3.92	\$4.17
Soybeans (bu)	\$5.80	\$5.80	\$6.00
Other oilseeds (cwt)	\$10.10	\$10.10	\$12.68
Upland cotton (lb)	\$0.7240	\$0.7125	\$0.7125
Rice (cwt)	\$10.50	\$10.50	\$10.50



Marketing Loan Rates

Commodity	2002 Farm Bill	2008 Farm Bill	
		2008-09	2010-2012
Corn (bu)	\$1.95	\$1.95	\$1.95
Sorghum (bu)	\$1.95	\$1.95	\$1.95
Barley (bu)	\$1.85	\$1.85	\$1.95
Oats (bu)	\$1.33	\$1.33	\$1.39
Wheat (bu)	\$2.75	\$2.75	\$2.94
Soybeans (bu)	\$5.00	\$5.00	\$5.00
Other oilseeds (cwt)	\$9.30	\$9.30	\$10.09
Upland cotton (lb)	\$0.52	\$0.52	\$0.52
Rice (cwt)	\$6.50	\$6.50	\$6.50



The 2002 Farm Bill Safety Net

- Direct (Fixed) Payments
 - Payments will be made on 83.3% of base acres in 2009-2011 (85% in 2008, 2012)
- Counter-Cyclical Payments
 - Payments will be made on 85% of base acres
- Marketing Assistance Loans and Loan Deficiency Payments
 - 30-day moving average calculation of PCP
- No payments if farm is less than 10 acres



Revenue Counter-Cyclical Program and Permanent Disaster Assistance



Photo Courtesy of USDA NRCS



Average Crop Revenue Election (ACRE)

- Optional revenue program that replaces price counter-cyclical program
 - Revenue guarantee based on state-level yields and national prices
 - Paid on 83.3% (85% in 2012) of planted acres on farm up to total base acres
 - Signup for 2009-2012 crop years
 - Must stay in program once enrolled
 - Must enroll all crops on farm



Mechanics of ACRE

- ACRE payment made if
 - Actual **state** crop revenue is less than the **state** revenue guarantee for the crop

AND

- Actual **farm** crop revenue is less than the **farm** benchmark revenue



Mechanics of ACRE

- State
 - *Benchmark State Yield =*
5-Year Olympic Average State Yield per Planted Acre
 - *Benchmark Price =*
2-Year National Average Market Year Price
 - *State Revenue Guarantee =*
*(Benchmark State Yield * Benchmark Price * 90%)*
 - *Actual State Revenue =*
*Actual State Yield per Planted Acre * MYA Price*

* State Revenue Guarantee cannot increase or decrease more than 10% from one year to the next.



Mechanics of ACRE

➤ Farm

- *Benchmark Farm Yield =
5-Year Olympic Average Farm Yield per Planted Acre*
- *Benchmark Farm Revenue =
(Benchmark Farm Yield * Benchmark Price) + Crop
Insurance Premiums Paid*
- *Actual Farm Revenue =
Actual Farm Yield per Planted Acre * MYA Price*



Mechanics of ACRE

➤ ACRE Payment Rate =

*The lesser of (State Revenue Guarantee – Actual
State Revenue) or (25% * State Revenue Guarantee)
* (Benchmark Farm Yield/Benchmark State Yield)*

➤ ACRE Payment =

*ACRE Payment Rate * Planted Acres * 83.3%
(85% in 2012)*



Other ACRE Considerations

- To participate in ACRE, producers must
 - Reduce direct payments by 20%
 - Reduce marketing loan rates by 30%

- Payments will not be made until October 1, or as soon as practicable after the applicable marketing year (one year after harvest)



Average Direct Payments for Primary Kansas Crops

	Wheat	Corn	Sorghum	Soybeans
Payment Yield (bu/ac)	34.1	102.1	54.4	22.1
Payment Rate (\$/bu)	0.52	0.28	0.35	0.44
Direct Payment (\$/ac)	17.73	28.59	19.04	9.72
ACRE Reduction (\$/ac)	3.55	5.72	3.81	1.94



ACRE Example (Wheat)

Year	US MYA Price (\$/bu)	Kansas Yield (bu/planted acre)
2004	3.40	31.5
2005	3.42	38.0
2006	4.26	29.7
2007	6.65	27.3
2008	7.50	37.0
2009	5.23	36.8
2010	5.21	37.1
2011	5.31	37.4
2012	5.35	37.7



ACRE Example (Wheat)

Year	Benchmark State Yield (bu/plt ac)	Benchmark Price (\$/bu)	State Rev Guarantee (\$/plt ac)	Actual State Rev (\$/plt ac)	ACRE Payment (\$/plt ac)
2009	32.7	7.08	208.43	192.46	15.97
2010	34.5	6.37	197.63	193.29	4.34
2011	34.5	5.22	177.87	198.59	0.00
2012	37.0	5.26	175.00	201.70	0.00
Avg	--	--	--	--	5.07



ACRE Example (Grain Sorghum)

Year	US MYA Price (\$/bu)	Kansas Yield (bu/planted acre)
2004	1.79	68.9
2005	1.86	70.9
2006	3.29	52.7
2007	3.89	75.7
2008	5.60	61.3
2009	3.66	60.4
2010	3.56	60.6
2011	3.66	60.8
2012	3.62	61.1



ACRE Example (Grain Sorghum)

Year	Benchmark State Yield (bu/plt ac)	Benchmark Price (\$/bu)	State Rev Guarantee (\$/plt ac)	Actual State Rev (\$/plt ac)	ACRE Payment (\$/plt ac)
2009	67.0	4.75	286.33	221.06	65.27
2010	64.2	4.63	267.52	215.74	51.78
2011	60.8	3.61	240.77	222.53	18.24
2012	60.9	3.61	216.69	221.18	0.00
Avg	--	--	--	--	45.10



Do I enroll in ACRE?

- What are prices and yields going to be over the next 4 years?
- Will ACRE payments (with reduced direct payments and lower loan rates) on average be greater than current commodity program payments?
- Even if ACRE payments are not greater than current commodity program payments, will it provide more risk management protection?



Do I enroll in ACRE?

- What is the price-yield correlation between state yields and national prices?
- What is the correlation between state yields and farm yields?
- How does ACRE compare with each crop in the crop mix? Does it work better for some crops than others?
- How complementary is ACRE with crop insurance and disaster assistance?



FAPRI ACRE Conclusions

- In any given year for any given state and any given commodity, the most likely outcome is that ACRE payments will be zero
- When ACRE payments occur, they may be much greater than the “premium” (reduced direct payment and loan rates) producers must pay to participate in the program
- ACRE payments greater than “premium” for corn, soybeans, wheat, sorghum, barley, oats, and sunflowers



ACRE Conclusions

Don't be in a hurry to make a decision!



Supplemental Agricultural Disaster Assistance

- Established through Agricultural Disaster Relief Trust Fund
- Programs include
 - Supplemental Revenue Assistance Program (SURE)
 - Livestock Indemnity Program
 - Livestock Forage Disaster Program
 - Emergency assistance for livestock, honey bees, and farm-raised fish
 - Tree Assistance Program



Supplemental Revenue Assistance Program (SURE)

- Whole farm revenue assistance program
- Farm must be in a primary or contiguous county designated as a disaster county or farm must suffer 50% production loss
- Must insure at least 50% of yield and 55% of price for insurable crops
- Must purchase NAP coverage for non-insurable crops
- Guarantee determined by crop insurance selection



SURE Mechanics

- *SURE Guarantee (Insured Crops) =*
*(A) planted acres * (B) farmer-elected percent of insurance * (C) higher of farm's actual production history (APH) or counter-cyclical (CCP) payment yield * (D) insurance price elected by farmer * (E) 115%*

- *SURE Guarantee (Non-insurable Crops) =*
*(A) planted acres * (B) 100% of NAP price * (C) higher of NAP yield guarantee or CCP yield * (D) 120%*

- *Farm Guarantee (90% of Sum of Expected Revenue for Each Crop) =*
*(A) planted acres * (B) higher of APH or CCP yield or 100% of NAP yield * (C) 100% of insurance price guarantee or 100% of NAP price * (D) 90%*



SURE Mechanics

- *Actual Revenue*
Farm Revenue =
(A) Sum of insurance and NAP indemnities + (B) prevented planting payments + (C) other Federal disaster assistance + (D) 15% of direct payments + (E) CCP, ACRE, and marketing loan payments + (F) value of each crop

- *Payments*
*SURE Payment = 60% * (SURE Guarantee – Farm Revenue)*



Payment Limitations

- Direct attribution of payments
 - Eliminates three-entity rule
 - Spouse automatically qualifies for payments if other spouse is determined to be “actively engaged” in the farming operation
- Direct payments - \$40,000
- Counter-cyclical payments - \$65,000
- Marketing loan payments - no limits
- ACRE payments
 - Direct payments = \$40,000 – 20% reduction in direct payments
 - ACRE payments = \$65,000 + 20% reduction in direct payments
- SURE payments - \$100,000



Payment Eligibility

- 2002 Farm Bill
 - Ineligible for payments if AGI greater than \$2.5 million unless 75% is from farming
- 2008 Farm Bill
 - Ineligible if average *nonfarm* AGI exceeds \$500,000
 - Ineligible if average *farm* AGI exceeds \$750,000



Conservation Programs

- Retirement Programs
 - CRP extended through 2012, but acreage capped at 32 million for 2010-12
- Working Lands Programs
 - EQIP funding increased by \$3.4 billion
 - Gives increased priority to water conservation or irrigation efficiency applications that reduce water use
 - CSP funding increased by \$1.1 billion
 - Expected to enroll nearly 13 million acres per year
 - Tier payment system eliminated
 - Watershed-based eligibility eliminated
 - Funding allocated on State basis



Livestock Programs

- Mandatory Country of Origin Labeling (COOL)
 - Covered commodities
 - Muscle cuts and ground cuts of beef, lamb, pork, chicken, and goat
 - Fresh and frozen fruits and vegetables
 - Wild and farm-raised fish and shellfish
 - Peanuts, ginseng, pecans and macadamia nuts
 - To be implemented on September 30, 2008
 - Animals present in U.S. as of July 15, 2008 are designated to be of U.S. origin



COOL



➤ Labeling options for meat

(1) U.S. Country of Origin label for animals exclusively born, raised, and slaughtered in the U.S.

(2) Multiple Countries of Origin label for animals that were not exclusively born, raised, and slaughtered in the U.S.

(3) Imported for Immediate Slaughter label for animals imported in the U.S. for immediate slaughter

(4) Foreign Country of Origin label for meat products that are derived from an animal that is not born, raised, or slaughtered in the U.S.



COOL



➤ Ground meat

– Provisions allow for ground meat products to be labeled with a list of countries from which the products could be derived

➤ Verification of country of origin

- Existing business records
- Animal health papers
- Import or customs documents
- Producer affidavits



COOL



- Revised penalties
 - Upon violation, 30-day period to comply
 - \$1,000 fine per willful violation after 30 days
- Interim finale rule released in late July
- Estimated cost (USDA)
 - \$2.5 billion first year
 - \$500 million every year after



Questions

- Are we in a new farm policy era?
- Is the change (or lack of change) appropriate in today's environment?
 - Does this farm bill offer a sufficient safety net?
 - Does agriculture need a safety net?
- Who (what) will drive the next farm bill?

