

Commodity Program Decisions in the 2008 Farm Bill

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The 2002 Farm Bill Safety Net

- Direct Payments
 - Fixed annual payment decoupled from price and production
- Counter-Cyclical Payments
 - Payments made when market price falls below effective target price
 - Payments made on historical production (base acres and yields)
- Marketing Loan Program
 - Payments made when market price falls below loan rate
 - Payments made actual production



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





Average Crop Revenue Election
(ACRE)


and


Supplemental Revenue Assistance Program
(SURE)




- 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
 - Signup by FSA farm number
 - Must stay in program once enrolled
 - All producers must agree to enroll
 - Must enroll all crops on farm
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- 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
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- Mechanics of ACRE**
- State
 - State Revenue Guarantee =
*(Benchmark State Yield * Benchmark Price * 90%)*
 - Benchmark State Yield =
5-Year Olympic Average State Yield per Planted Acre
 - Benchmark Price =
2-Year National Average Market Year Price
 - 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.
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- Mechanics of ACRE**
- Farm
 - Benchmark Farm Revenue =
*(Benchmark Farm Yield * Benchmark Price) + Crop Insurance Premiums Paid*
 - Benchmark Farm Yield =
5-Year Olympic Average Farm Yield per Planted Acre
 - Actual Farm Revenue =
*Actual Farm Yield per Planted Acre * MYA Price*
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- 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

- Irrigated and Non-irrigated State Guarantees
 - If a state has at least 25% of the acres of a crop that are irrigated and at least 25% of the acres of the crop that are non-irrigated then the Secretary shall calculate separate irrigated and non-irrigated ACRE program guarantees
 - In Kansas
 - Corn
 - Cotton
 - Sunflowers



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)

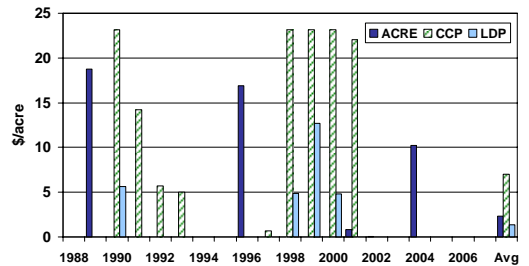


Average Direct Payments for Primary Kansas Crops

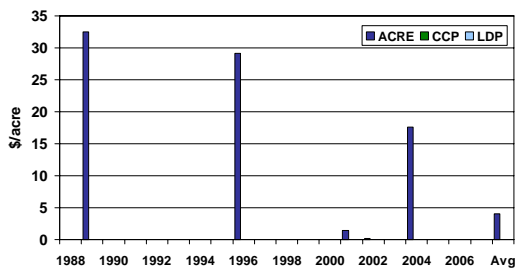
	Wheat	Corn	Sorghum	Soybeans
Payment Yield (bu/ac)	34.1	102.1	54.4	22.1
Payment Rate (\$/bu)	0.52	0.28	0.35	0.44
Direct Payment (\$/ac)	17.73	28.59	19.04	9.72
ACRE Reduction (\$/ac)	3.55	5.72	3.81	1.94



Historical Commodity Payments for Kansas Wheat



Historical Commodity Payments for Kansas Wheat (Adjusted Yields and Prices)



Wheat ACRE Example

Year	US MYA Price (\$/bu)	Kansas Yield (bu/planted acre)
2004	3.40	34.2
2005	3.42	39.9
2006	4.26	31.8
2007	6.48	32.6
2008	6.85	39.2
2009	5.30	38.3
2010	5.33	38.4
2011	5.42	32.0
2012	5.50	38.8

2009-2012 Prices Based on FAPRI March 2009 Baseline



Wheat ACRE Example

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	35.3	6.67	211.81	202.77	9.18
2010	36.7	6.08	200.58	204.81	0.00
2011	36.4	5.32	180.52	173.44	7.08
2012	36.4	5.38	176.22	213.18	0.00
Avg	--	--	--	--	4.07



State Yields for ACRE Kansas Yields per Planted Acre

Year	Wheat	Irr Corn	Dry Corn	Milo	Soybeans	Irr SF	Dry SF
2004	34.2	192.0	110.0	76.0	39.5	1,714	1,067
2005	39.9	187.0	94.0	75.0	36.5	1,714	1,067
2006	31.8	173.0	72.0	58.0	31.5	1,714	1,067
2007	32.6	193.0	97.0	79.0	32.5	1,714	1,067
2008	39.2	185.0	97.0	78.0	36.5	1,714	1,067
Olympic Average	35.3	188.0	96.0	76.0	35.0	1,714	1,067

Source: USDA Farm Service Agency.



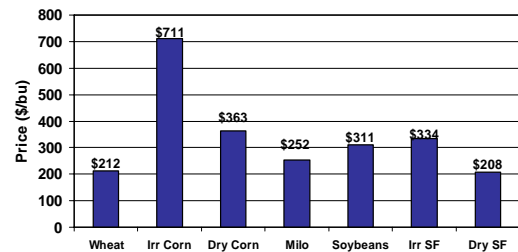
Market Prices for ACRE National Average Market Prices

Year	Wheat \$/bu	Corn \$/bu	Milo \$/bu	Soybeans \$/bu	Sunflower \$/lb
2007	\$6.48	\$4.20	\$4.08	\$10.10	\$0.2170
2008	\$6.85	\$4.20	\$3.30	\$9.65	\$0.2160
2007-08 Avg.	\$6.67	\$4.20	\$3.69	\$9.88	\$0.2165

Source: USDA National Agricultural Statistics Service and USDA World Agricultural Outlook Board, April 9, 2009.



Projected Kansas ACRE Guarantees



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?



Correlation between CRD and State Yields (1998-2007)

Crop	NE	EC	SE
Wheat	0.455	0.418	0.457
Irr Corn	0.594	0.455	0.320
Dry Corn	0.890	0.895	0.367
Sorghum	0.865	0.796	0.320
Soybeans	0.936	0.961	0.899



Correlation between CRD and State Yields (1998-2007)

Crop	NC	C	SC
Wheat	0.877	0.794	0.832
Irr Corn	0.550	0.427	0.471
Dry Corn	0.977	0.885	0.789
Sorghum	0.915	0.905	0.689
Soybeans	0.948	0.891	0.644



Correlation between CRD and State Yields (1998-2007)

Crop	NW	WC	SW
Wheat	0.608	0.629	0.645
Irr Corn	0.848	0.878	0.936
Dry Corn	0.730	0.809	0.968
Sorghum	0.793	0.906	0.954
Soybeans	0.200	0.309	0.522



Do I enroll in ACRE?

- 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?

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



Supplemental Agricultural Disaster Assistance

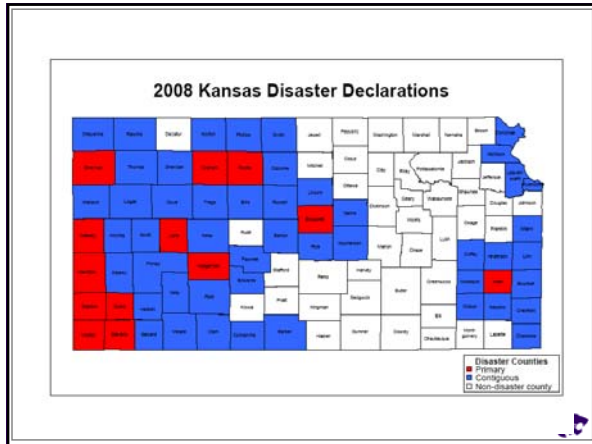
- Established through Agricultural Disaster Relief Trust Fund
- Programs include
 - Supplemental Revenue Assistance Program (SURE)
 - Livestock Indemnity Program (LIP)
 - Livestock Forage Disaster Program (LFP)
 - Emergency assistance for livestock, honey bees, and farm-raised fish (ELAP)
 - Tree Assistance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



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% revenue loss
- Must have at least a 10% yield loss on at least one major crop to be eligible
- Crop insurance or CAT coverage required for insurable crops
- NAP coverage required for non-insurable crops
- Crop insurance or NAP required for economically significant crops
 - Crop that accounts for at least 5% of a farm's expected revenue
- Guarantee determined by crop insurance selection





Farm Bill Disaster Program

SURE Mechanics

SURE guarantee calculated at farm level as sum of individual crop revenue guarantees:

SURE Insured Crop Guarantee

$$115\% \times \frac{\text{ins. price election}}{\text{ins. yield election}} \times \text{MAX} \left(\frac{\text{adj. APH}}{\text{CCP yield}} \right) \times \frac{\text{crop acres}}{\text{SURE guarantee}^*} = \text{SURE guarantee}^*$$

SURE Non-Insurable Crop Guarantee

$$120\% \times \frac{\text{NAP price election}}{\text{NAP yield}} \times \text{MAX} \left(\frac{\text{CCP yield}}{\text{crop acres}} \right) = \text{SURE guarantee}^*$$

* Guarantee limited to no more than 90% of yield x price x crop acres.

Farm Bill Disaster Program

SURE Mechanics

Revenue to count against SURE guarantee calculated as sum of individual crop revenue:

SURE Farm Revenue

$$\frac{\text{crop revenue}}{\text{crop revenue}} + 15\% \left(\frac{\text{DPs}}{\text{DPs}} \right) + \frac{\text{CCPs}}{\text{CCPs}} + \frac{\text{ACRE payments}}{\text{ACRE payments}} + \frac{\text{LDPs \& loan gains}}{\text{LDPs \& loan gains}} + \frac{\text{ins. indem.}}{\text{ins. indem.}} + \frac{\text{disaster payments}}{\text{disaster payments}} = \text{SURE farm revenue}$$

Farm Bill Disaster Program

SURE Mechanics

If county is an agricultural disaster county or if farm suffers 50% or greater production loss and farm suffers at least 10% yield loss in at least one major crop:

SURE Payment

$$60\% \times \left(\frac{\text{SURE guarantee}}{\text{SURE guarantee}} - \frac{\text{farm revenue}}{\text{farm revenue}} \right) = \text{SURE payment}$$

- ## Payment Limitations
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- Direct attribution of payments
 - Eliminates three-entity rule
 - Spouse 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
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- 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

Summary and Conclusions

- DCP Enrollment
 - Began in late December for 2009 crops
- ACRE Enrollment
 - All rules have not been issued
 - Enrollment will start on April 27, to be completed by August 14
- Payment Limitations and Eligibility
 - Goes into effect for the 2009 crop
 - USDA has specified stricter definition of those “actively engaged” in the farming operation



Questions???

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