

Commodity Program Decisions in the 2008 Farm Bill

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The 2008 Farm Bill Safety Net

- 2002 Farm Bill
 - Direct Payments
 - Counter-Cyclical Payments
 - Marketing Loan Program

- 2008 Farm Bill
 - Average Crop Revenue Election (ACRE)
 - 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
 - Must stay in program once enrolled
 - All producers on farm must agree to enroll
 - 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

– *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.

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*

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
 - Corn in Kansas

Other ACRE Considerations

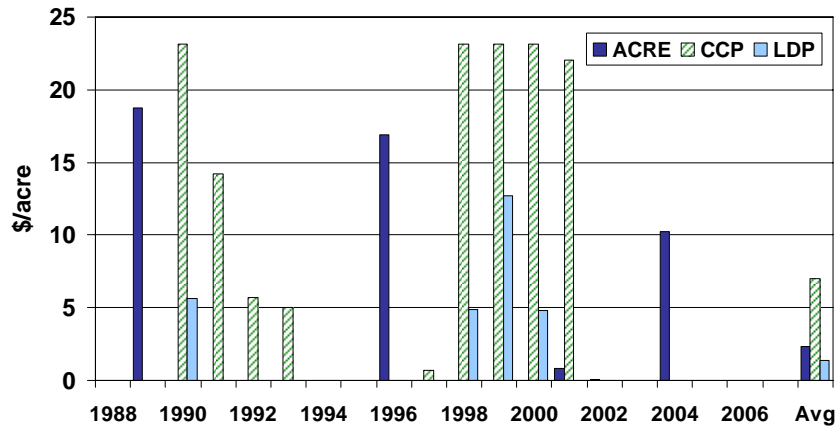
- To participate in ACRE, producers must
 - Reduce direct payments by 20%
 - Reduce marketing loan rates by 30%

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

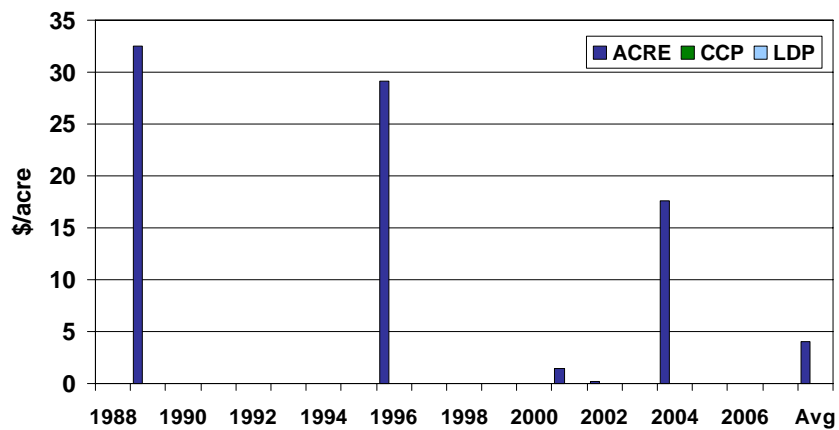
Average Direct Payments for Primary Kansas Crops

	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)



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?

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 not required for economically insignificant crops
 - Crop that accounts for at least 5% of a farm's expected revenue
 - NAP administrative fee exceeds 10% of coverage value
- 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

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

SURE Non-Insurable Crop Guarantee

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

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

Farm Bill Disaster Program

SURE Mechanics

If county is an agricultural disaster county or if farm suffers 50% or greater production loss:

SURE Payment

$$60\% \times \left(\frac{\text{SURE guarantee}}{\text{SURE guarantee}} - \frac{\text{farm revenue (crop revenue + 15\% x DP + ACRE + CCP + loan benefits + insurance payments + disaster payments)}}{\text{farm revenue (crop revenue + 15\% x DP + ACRE + CCP + loan benefits + insurance payments + disaster payments)}} \right) = \frac{\text{SURE payment}}{\text{SURE payment}}$$

SURE Summary

- While final rules for SURE are yet to be determined, it appears producers will want to insure at buy up levels and pay \$250 NAP fees on “significant” crops to maintain eligibility for 2009 SURE
- SURE favors single enterprise farm versus a diversified farm

Questions???

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