The 2008 Farm Bill

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Department of Agricultural Economics
Purdue University
May 13, 2002


<table>
<thead>
<tr>
<th>Commodity</th>
<th>Futures Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$2.10</td>
</tr>
<tr>
<td>KC Wheat</td>
<td>$2.79</td>
</tr>
<tr>
<td>Cotton</td>
<td>34.71¢</td>
</tr>
<tr>
<td>Rice</td>
<td>$3.51</td>
</tr>
<tr>
<td>Cattle</td>
<td>$63.13</td>
</tr>
<tr>
<td>Lean Hogs</td>
<td>$46.30</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>$28.38</td>
</tr>
</tbody>
</table>
July 7, 2005

- Secretary Johanns and Orion Samuelson conduct first Farm Bill Listening Session at RFD-TV studio in Nashville.
June 18, 2008

- House and Senate override Presidential veto of H.R. 6124
  - 3+ years of deliberation
  - 6-9 months of delay
  - 8 temporary extensions
  - 1 incomplete farm bill veto and override

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<tr>
<th>Commodity</th>
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<tbody>
<tr>
<td>Corn</td>
<td>$7.46</td>
</tr>
<tr>
<td>Wheat</td>
<td>$9.45</td>
</tr>
<tr>
<td>Cotton</td>
<td>73.82¢</td>
</tr>
<tr>
<td>Rice</td>
<td>$20.30</td>
</tr>
<tr>
<td>Cattle</td>
<td>$96.13</td>
</tr>
<tr>
<td>Lean Hogs</td>
<td>$74.85</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>$136.68</td>
</tr>
</tbody>
</table>
The 2008 Farm Bill
More than Just the Farm

- Commodity Programs
- Conservation
- Trade
- Energy
- Horticulture and Organic Agriculture
- Livestock
- Crop Insurance and Disaster Assistance Programs
- Commodity Futures
- Miscellaneous
- Trade and Tax Provisions
- Nutrition
- Credit
- Rural Development
- Research and Related Matters
- Forestry
- Forestry
The Budget Picture
U.S. Farm Bill Spending by Category

2002 Farm Bill:
- Nutrition – 62%
- Commodities – 18%
- Conservation – 5%
- Other – 15%

2008 Farm Bill:
- Nutrition – 68%
- Commodities – 11%
- Conservation – 8%
- Other – 12%
Overview for Major Titles

- Commodity Title
  - Focus in this presentation

- Environment Title
  - Biggest changes in EQIP and CSP

- Nutrition Title
  - Big increases in Food stamps, WIC, etc

- Energy Title
  - Shift in focus to non-corn based bioenergy
Commodity Program Overview

- Five Major Changes Impacting Commodity Programs
  - ACRE
  - Payment limits
  - AGI eligibility criterion
  - LDP posted county prices
  - SURE

- As a condition to receive benefits, bill requires producers to submit annual acreage reports and annual production reports.
Overview (Cont.)

- Commodity provisions very close to previous programs
  - Continue direct payments
  - Continue marketing loan gains/LDPs
  - Maintain counter-cyclical payments (CCPs)

  or

- Provides producer option for Average Crop Revenue Election (ACRE) Payment
  - Producer has to agree to direct payment and loan rate reductions
Direct Payments

- **Same formula**
  
  Direct Payment = (payment rate \times (base acres \times \text{payment fraction}) \times \text{Direct payment yield})

  - Payment fraction is .85 for 2008 and 2012 and .833 for 2009 - 2011

- **Timing**
  
  - 2009-2012 not before October 1 of the calendar year in which the crop of the covered commodity is harvested

- **Advance Payments (22%)**
  
  - Producer Option
    - For 2008, advances began being issued July 7th
    - For 2009-2011, Beginning December 1 of the year before crop is harvested
    - For 2012, advance direct payments are not available
  
  - Remaining 78% paid after October 1st
Loan Deficiency Payments (LDPs)/Marketing Loan Gains (MLGs)

- Generally work as in the past except...
- Repayment of loans for loan commodities will be at the lesser of:
  - The loan rate established for the commodity plus interest or
  - A rate calculated based off of the average market prices for the loan commodity during the preceding 30-day period or
  - An alternative developed by the Secretary
New Grain PCP Calculations vs Actual LDP Rates for 05/06 Corn, Webster County, IA

Month LDP uses an average of 25 reporting days per month

30 Day LDP uses the previous 30 reported prices

LDP Rate is the rate reported by FSA
Counter-Cyclical Payments

- Increases wheat ($3.92 to $4.17) and soybean ($5.80 to $6.00) target prices in 2010

- 40% advance payments projected CCP
  - For 2008, after signup
  - For 2009-2010, after the first 180 days of the marketing year
  - No advance payments in 2011 or 2012

- Remaining 60% paid after October 1st
Average Crop Revenue Election (ACRE) Payment

- **Beginning with the 2009 crop year**
  - One-time irrevocable option to choose:
    - CCP, DP (with full payment rates), and MLG/LDPs (with full loan rates) or
    - ACRE, DP (with a 20% reduction in payment rates) and MLG/LDPs (with a 30% reduction in loan rates)
  - **Producers will have to determine if benefits from ACRE outweigh loss of guaranteed payments**
  - This election is for all the crops grown on each FSA farm #
    - A farmer could choose to select ACRE for certain farms (FSA farm #s) and not others
    - Failure of all producers on a farm to make the ACRE election by the deadline will result in the CCP option for all participants
### Average Crop Revenue Election

<table>
<thead>
<tr>
<th>State ACRE Guarantee</th>
<th>Actual State Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>90% * 5-Year Olympic State Avg. Yield * 2-year Natl. Average Mkt. Yr. Price</td>
<td>Actual State Planted Acre Yield * MAX[ Natl. Average Mkt. Yr. Price OR 70% Loan Rate]</td>
</tr>
<tr>
<td>Restricted to &lt; 10% change/year</td>
<td>70% Loan Rate</td>
</tr>
</tbody>
</table>

AND

<table>
<thead>
<tr>
<th>Farm ACRE Benchmark</th>
<th>Actual Farm Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm's 5-Year Olympic Avg. Yield * 2-year Natl. Average Mkt. Yr. Price + Ins Premium</td>
<td>Actual Farm's Planted Acre Yield * MAX[ Natl. Average Mkt. Yr. Price OR 70% Loan Rate]</td>
</tr>
</tbody>
</table>

THEN

\[
\text{Farm Payment} = 0.833 \ (0.85 \text{ in } 2012) \ * \ \text{Actual Planted or Considered Planted Acres} \ * \\
[ \text{Farm's 5-Year Olympic Average Yield} \ / \text{State's 5-year Olympic Average Yield} ] \ * \\
\text{MIN}[ (\text{State ACRE Guarantee} – \text{Actual State Revenue}) \ OR \text{State ACRE Guarantee} \ * \ 25%]
\]

Note: All Yields are Planted Acre Yields
20% of Average U.S. Direct Payment Per Acre

<table>
<thead>
<tr>
<th>Crop</th>
<th>Direct Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oats</td>
<td>$0.20</td>
</tr>
<tr>
<td>Barley</td>
<td>$1.95</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$2.30</td>
</tr>
<tr>
<td>Wheat</td>
<td>$3.05</td>
</tr>
<tr>
<td>Sorghum</td>
<td>$3.36</td>
</tr>
<tr>
<td>Corn</td>
<td>$4.87</td>
</tr>
<tr>
<td>Cotton</td>
<td>$6.85</td>
</tr>
<tr>
<td>Rice</td>
<td>$19.24</td>
</tr>
</tbody>
</table>

At breakeven price, (expected ACRE revenue payment minus expected marketing loan and counter-cyclical payments) equal ACRE’s 20% reduction in direct payments.

Reduction in direct payments can be considered an ACRE risk management fee. Calculation is made using data from the U.S. Department of Agriculture.
ACRE Calculation Assumptions

- Carroll County Indiana
- Corn and Soybeans 900 ac each, wheat 200 ac
- Log normal distribution correlated based on last 10 year data
- USDA price series

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$3.75</td>
<td>$3.80</td>
<td>$3.60</td>
<td>$3.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$8.85</td>
<td>$8.90</td>
<td>$8.75</td>
<td>$8.80</td>
<td>$8.80</td>
</tr>
<tr>
<td>Wheat</td>
<td>$5.50</td>
<td>$5.00</td>
<td>$4.65</td>
<td>$4.50</td>
<td>$4.50</td>
</tr>
</tbody>
</table>
Choosing ACRE in 2009
Price expectation matters

- 70% Prices
- 100% Prices
ACRE: Initial thoughts from rough analysis

- In Indiana, price risk seems to make the most difference in which option is the best.
- Results depend on correlation between prices, farm and state yields.
- In Indiana ACRE payments are expected to be more common than CC payments.
- Enroll early rather than late.
- In a volatile market with significant swings from one year to another ACRE > CC program.
- Results are going to be farm specific, size of farm may make a difference.
Payment Limitations and Direct Attribution

- $40,000 limit on direct payments and $65,000 limit on counter-cyclical payments and ACRE
  - If ACRE is chosen then reduction in DP is added to ACRE limitation
- LDP/MLG’s are not limited
- Eliminates 3 entity rule and uses Direct attribution to a living person
  - IF one spouse is assumed to be actively engaged then both spouses are assumed to be eligible
  - Payments for children under 18 are attributed to parent(s)
  - Will trace through 4 levels of ownership in legal entities to attribute payments
Adjusted Gross Income Test

- Replaces the $2.5 million adjusted gross income limitation to receive commodity, disaster, or conservation benefits with:
  - A person with more than $500,000 in average adjusted nonfarm income will be ineligible for DP, CCP, ACRE, LDP/MLG, MILC, and the noninsured assistance program.
  - A person with more than $750,000 average adjusted gross farm income will be ineligible for direct payments.
SURE: Thumbnail Sketch

- SURE’s coverage unit is entire farm (all crops; all counties)

- To be eligible for SURE, a producer must purchase insurance for all insurable crops

- To receive a SURE payment, a producer must farm in a declared disaster (or contiguous) county, or have adverse weather reduce farm’s total production 50% or more
SURE: Thumbnail Sketch

SURE’s payment = [60% of (farm’s SURE guarantee minus farm’s total crop revenue)]

- Guarantee is 115% of the selected per acre insurance coverage level capped at 90% of crop’s expected revenue.

- Farm’s revenue is the sum for all crops of
  (A) insurance indemnities,
  (B) prevented planting payments,
  (C) other Federal disaster aid for the same loss,
  (D) 15% of direct payments,
  (E) counter-cyclical, ACRE, and market loan payments, and
  (F) the value of a crop based on harvested acres, actual yields, and U.S. season average cash price.
Allan’s Take

- Toughest farm bill process I have observed
- Major gains for nutrition and environment
- Shift in commodity programs towards more risk management
- ACRE may be a significant new program but could be very costly to taxpayers
- Unexpected consequences should be expected