



The 2008 Farm Bill

Allan Gray and Luc Valentin

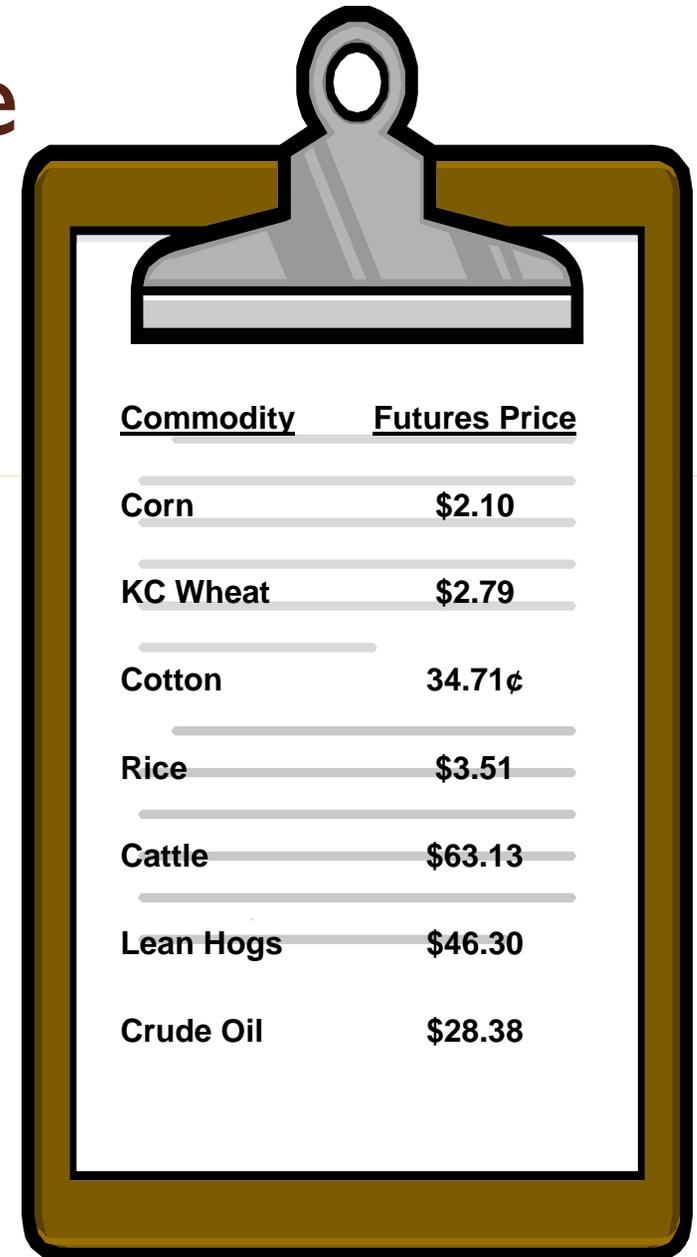
Department of Agricultural Economics

Purdue University

Farm Bill Timeline

May 13, 2002

- *Farm Security and Rural Investment Act of 2002* enacted.

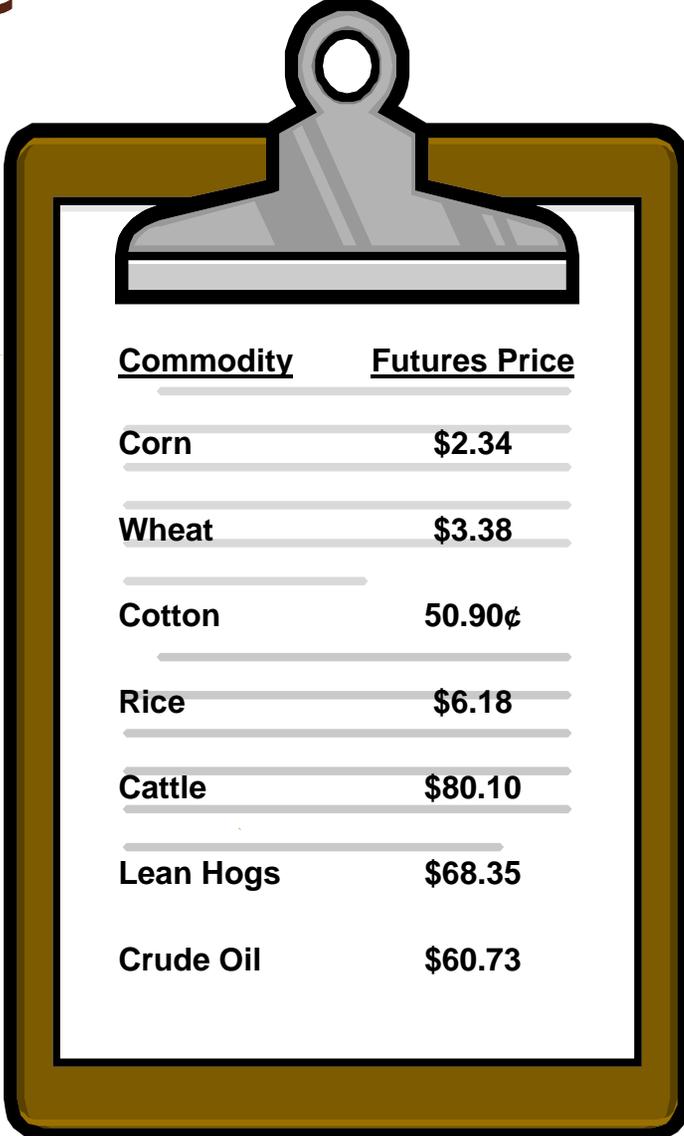
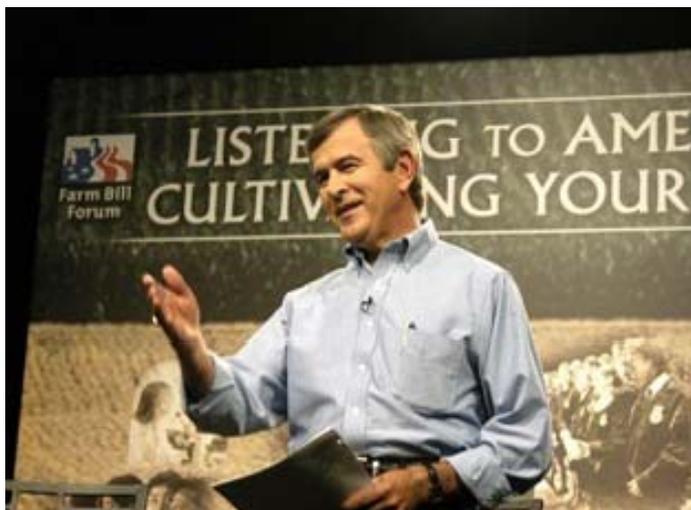


<u>Commodity</u>	<u>Futures Price</u>
Corn	\$2.10
KC Wheat	\$2.79
Cotton	34.71¢
Rice	\$3.51
Cattle	\$63.13
Lean Hogs	\$46.30
Crude Oil	\$28.38

Farm Bill Timeline

July 7, 2005

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

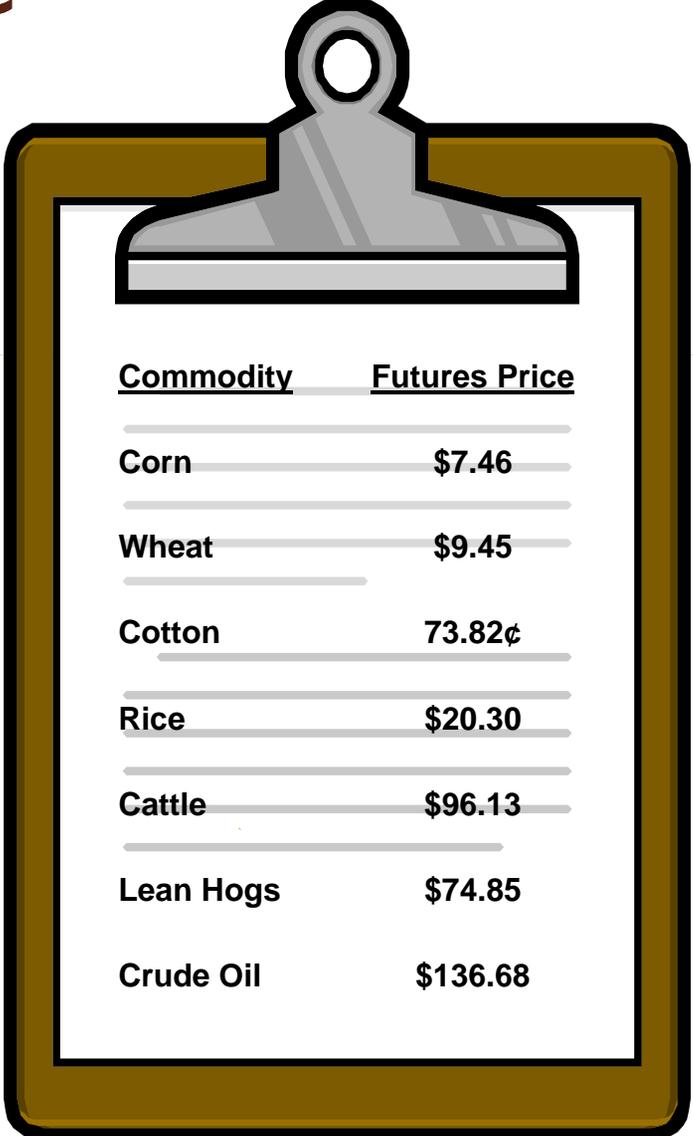


<u>Commodity</u>	<u>Futures Price</u>
Corn	\$2.34
Wheat	\$3.38
Cotton	50.90¢
Rice	\$6.18
Cattle	\$80.10
Lean Hogs	\$68.35
Crude Oil	\$60.73

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
 - 6-9 months of delay
 - 8 temporary extensions
 - 1 incomplete farm bill veto and override



<u>Commodity</u>	<u>Futures Price</u>
Corn	\$7.46
Wheat	\$9.45
Cotton	73.82¢
Rice	\$20.30
Cattle	\$96.13
Lean Hogs	\$74.85
Crude Oil	\$136.68

The 2008 Farm Bill

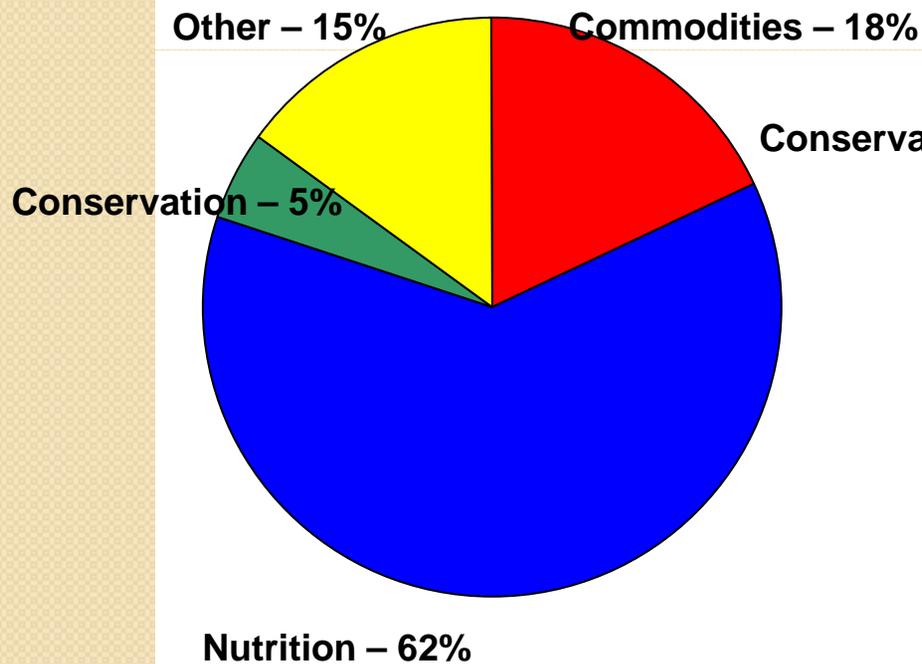
More than Just the Farm

- Commodity Programs
- Conservation
- Trade
- Nutrition
- Credit
- Rural Development
- Research and Related Matters
- Forestry
- Energy
- Horticulture and Organic Agriculture
- Livestock
- Crop Insurance and Disaster Assistance Programs
- Commodity Futures
- Miscellaneous
- Trade and Tax Provisions

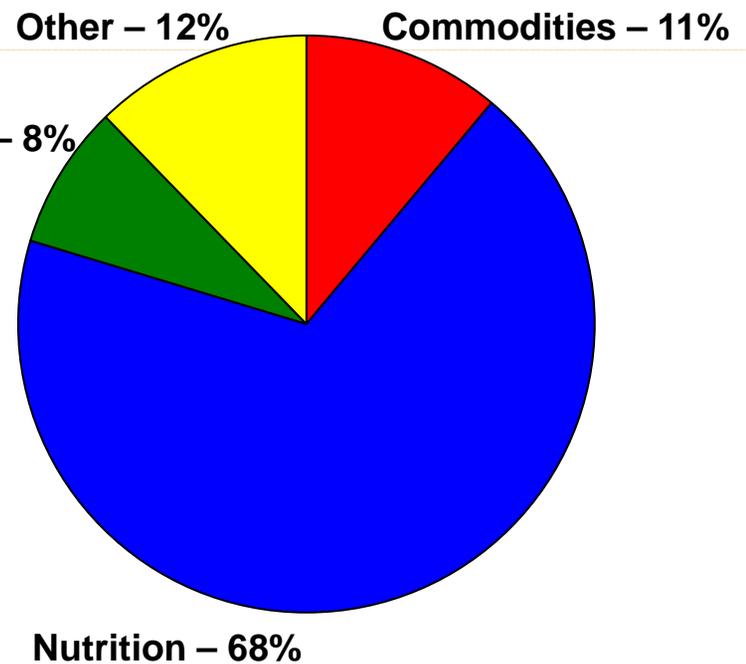
The Budget Picture

U.S. Farm Bill Spending by Category

2002 Farm Bill



2008 Farm Bill





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 x (base acres x **payment fraction**) x 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

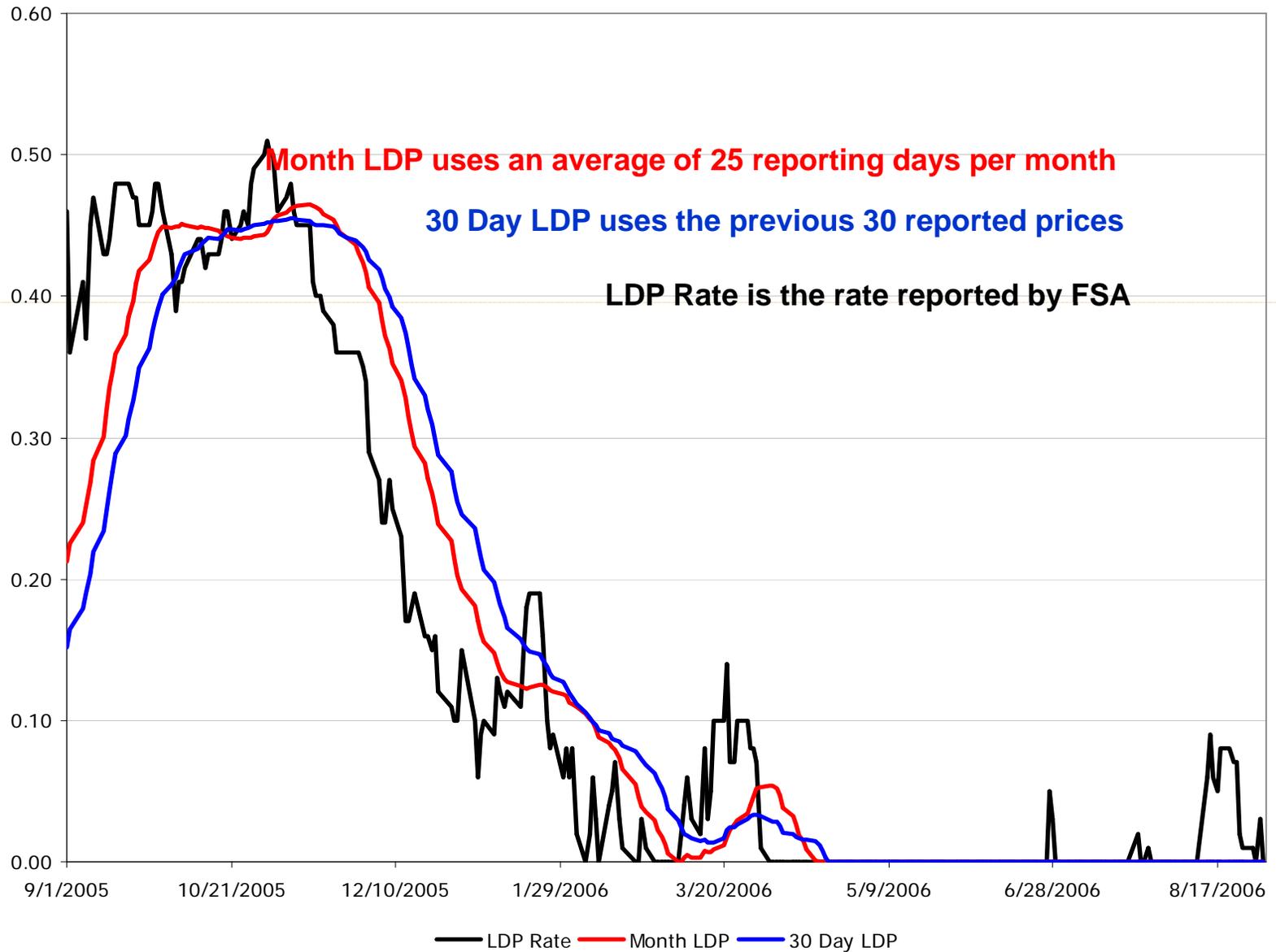
- For 2008, **advances began being issued July 7th**
- For 2009-2011, Beginning December 1 of the year before crop is harvested
- For 2012, advance direct payments are not available

- 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



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

State ACRE Guarantee = 90%
* 5-Year Olympic State Avg. Yield *
2-year Natl. Average Mkt. Yr.
Price
Restricted to < 10% change/year

>

Actual State Revenue =
Actual State Planted Acre Yield *
MAX[Natl. Average Mkt. Yr. Price OR
70% Loan Rate]

AND

Farm ACRE Benchmark =
Farm's 5-Year Olympic Avg. Yield *
2-year Natl. Average Mkt. Yr.
Price + Ins Premium

>

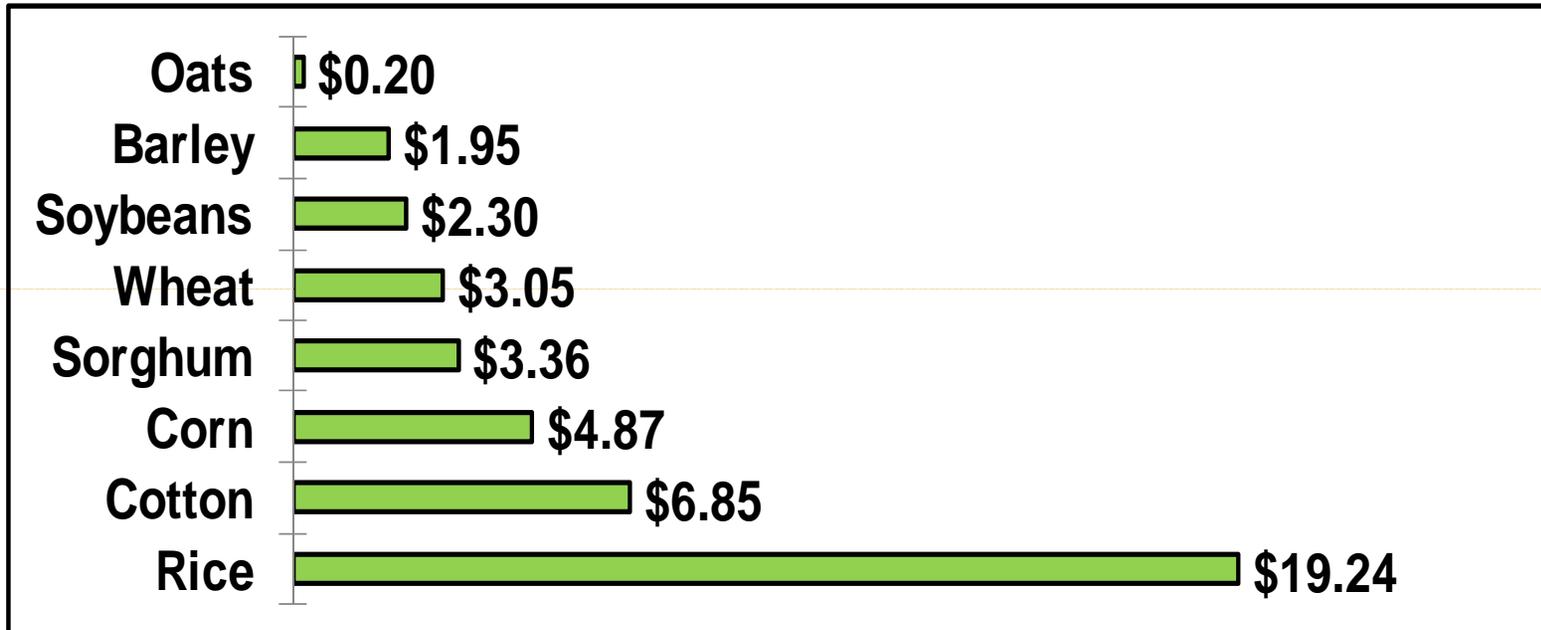
Actual Farm Revenue =
Actual Farm's Planted Acre Yield *
MAX[Natl. Average Mkt. Yr. Price OR
70% Loan Rate]

THEN

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

Note: All Yields are Planted Acre Yields

20% of Average U.S. Direct Payment Per Acre



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.

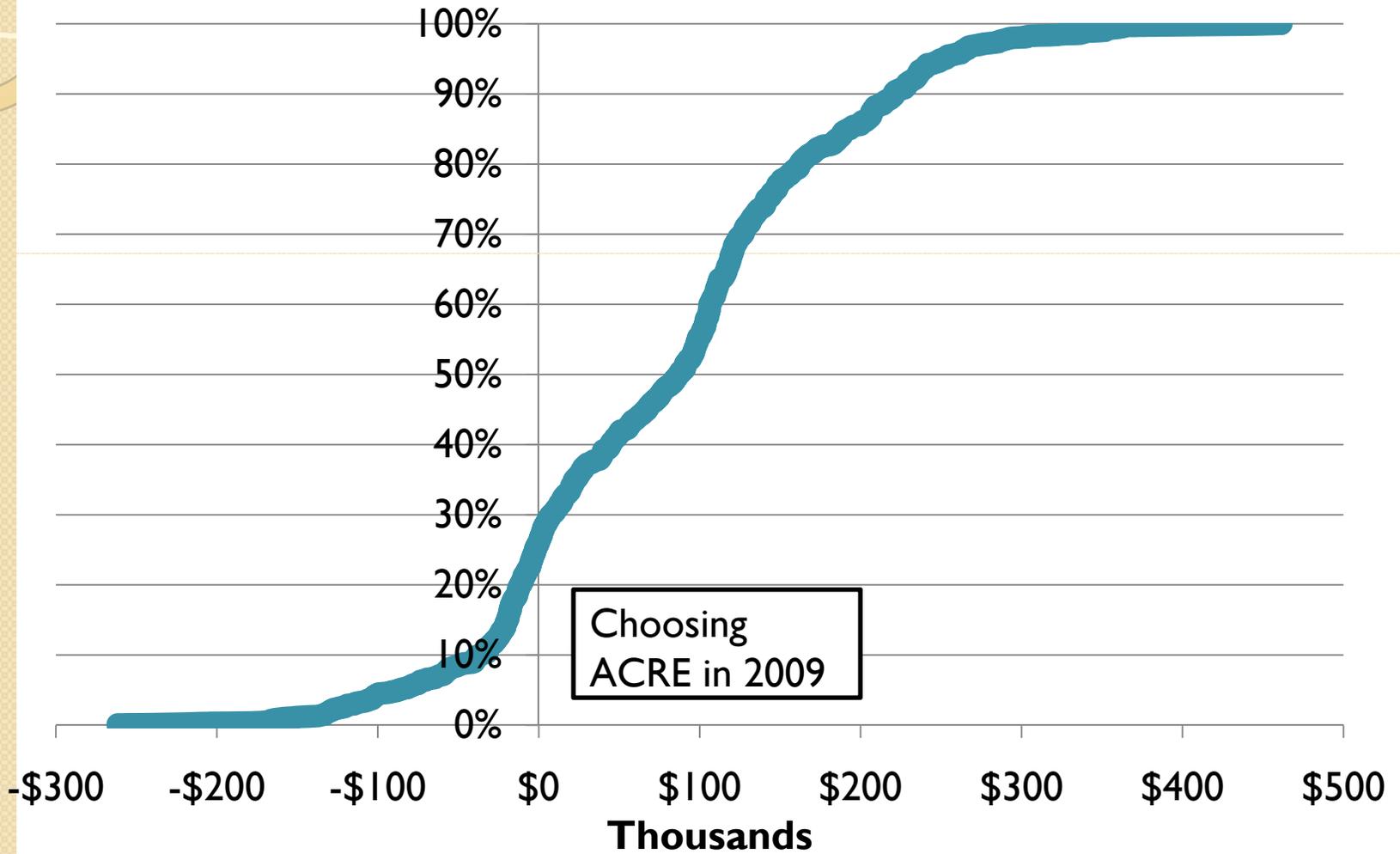
Calculation is made using data from the U.S. Department of Agriculture.

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

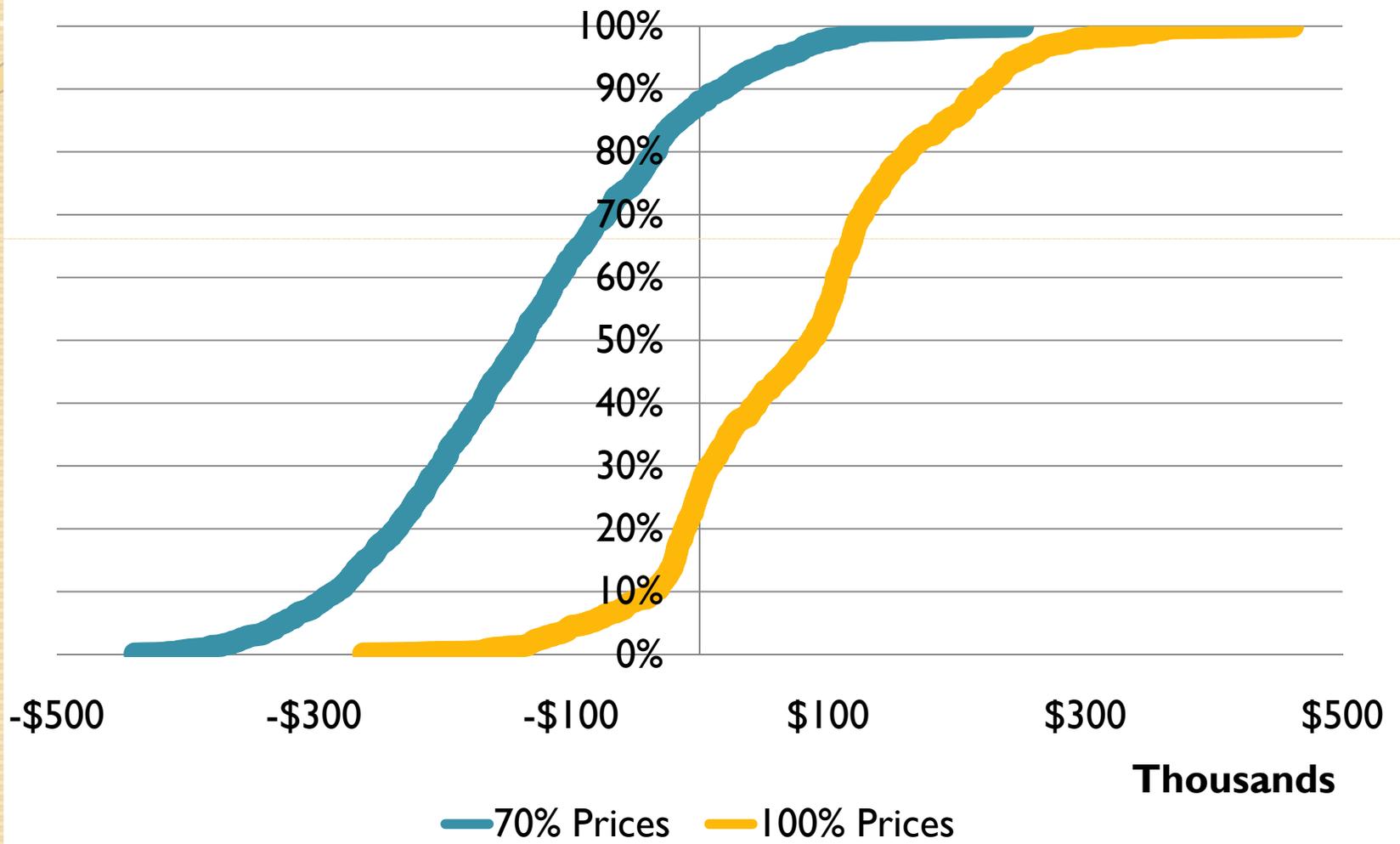
	2008	2009	2010	2011	2012
Corn	\$ 3.75	\$ 3.80	\$ 3.60	\$ 3.50	\$ 3.50
Soybeans	\$ 8.85	\$ 8.90	\$ 8.75	\$ 8.80	\$ 8.80
Wheat	\$ 5.50	\$ 5.00	\$ 4.65	\$ 4.50	\$ 4.50

ACRE Program Minus CC Program



Choosing
ACRE in 2009

Price expectation matters





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