2002 Farm Bill
Decision Time
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Purdue University

What is in the Commodity Title of the Bill?
• Three Basic Support Mechanisms
  – Marketing Loans
  – Direct Payments
  – Counter-Cyclical Payments
• Soybeans and Peanuts become complete program crops
• Lentils, small chickpeas, wool, mohair, and honey are new commodities
• Dairy gets a counter-cyclical program

Comparison of Loan Rates

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Wheat ($/bu.)</td>
<td>2.58</td>
<td>2.80</td>
<td>2.75</td>
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<tr>
<td>Corn ($/bu.)</td>
<td>1.89</td>
<td>1.98</td>
<td>1.95</td>
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<tr>
<td>Sorghum ($/bu.)</td>
<td>0.5192</td>
<td>Relative to Corn 1.98</td>
<td>1.95</td>
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<tr>
<td>Cotton ($/lb.)</td>
<td>0.52</td>
<td>0.52</td>
<td>0.52</td>
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<tr>
<td>Rice ($/cwt.)</td>
<td>6.50</td>
<td>6.50</td>
<td>6.50</td>
</tr>
<tr>
<td>Soybeans ($/bu.)</td>
<td>5.26</td>
<td>5.00</td>
<td>5.00</td>
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</tbody>
</table>

Comparison of Direct Payment Rates

<table>
<thead>
<tr>
<th></th>
<th>1996 Farm Bill (2001)</th>
<th>2002 Farm Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat ($/bu.)</td>
<td>.46</td>
<td>.52</td>
</tr>
<tr>
<td>Corn ($/bu.)</td>
<td>.26</td>
<td>.28</td>
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<tr>
<td>Sorghum ($/bu.)</td>
<td>.31</td>
<td>.35</td>
</tr>
<tr>
<td>Cotton ($/lb.)</td>
<td>.057</td>
<td>.067</td>
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<tr>
<td>Rice ($/cwt.)</td>
<td>2.05</td>
<td>2.35</td>
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<tr>
<td>Soybeans ($/bu.)</td>
<td>N/A</td>
<td>.44</td>
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Counter-Cyclical Payment Rates

<table>
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<tbody>
<tr>
<td>Wheat ($/bu.)</td>
<td>3.86</td>
<td>3.92</td>
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<tr>
<td>Corn ($/bu.)</td>
<td>2.60</td>
<td>2.63</td>
</tr>
<tr>
<td>Sorghum ($/bu.)</td>
<td>2.54</td>
<td>2.57</td>
</tr>
<tr>
<td>Cotton ($/lb.)</td>
<td>.724</td>
<td>.724</td>
</tr>
<tr>
<td>Rice ($/cwt.)</td>
<td>10.50</td>
<td>10.50</td>
</tr>
<tr>
<td>Soybeans ($/bu.)</td>
<td>5.80</td>
<td>5.80</td>
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</table>
Computing Payments

• Direct Payments (DP)
  – DP per unit X Base acres X DP yield X 0.85 = Direct Payment

• Counter Cyclical Program Payments (CCP)
  – Target Price – DP per unit – higher of (loan rate or market price) = CCP per unit
  – CCP per unit X Base acres X CCP payment yield X 0.85 = CCP Payment

• Marketing Loan Payments (LDP)
  – (Loan Rate – Market Price) * Current Production

Payments Under Various Market Price Scenarios

<table>
<thead>
<tr>
<th></th>
<th>Corn Target</th>
<th>Corn Loan</th>
<th>Market Price</th>
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<tr>
<td></td>
<td>$2.60</td>
<td>$1.98</td>
<td>$1.69</td>
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<tr>
<td>LDP</td>
<td>$0.29</td>
<td>$0.21</td>
<td>$0.21</td>
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<tr>
<td>Fixed</td>
<td>$0.34</td>
<td>$0.27</td>
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<tr>
<td>Total</td>
<td>$2.46</td>
<td>$2.52</td>
<td>$2.81</td>
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Summary of Risk Impacts of 2002 Farm Bill

• Potential to substantially reduce downside cash flow risk

• Does not do a good job of protecting against yield drops

Impact of Yield Drops on Total Revenue

Updating Base Acres and Yields

• Five Basic Options
  – Make No Changes
  – Don’t update base acres or yields and simply add soybeans to fully base your acres
  – Maximize soybean base
  – Update base acres and CCP payment yields
    • Don’t update yields is an option
    • using 70% of the difference between 98-01 average yield and 1985 program yield
    • using 93.5% of the 98-01 average yield
  – Trade base acres of other crops for bean base
General Rules of Thumb for Updating Bases and Yield

- Corn is king
  - The more corn base you can have the better
- Generally, 60 percent based in corn or more would lead you to option 2 if you have been planting less corn.
- Need to prove soybean yields no matter what option if at all possible
  - Or else 75% of county * 78% for direct pmt yields
- Fruits and vegetables will tend to lead you to option 1.

What to bring the FSA.

- Historical Farm Acreage (1998-2001)
  - FSA has sent a letter with this information
- Historical Farm Yields (1998-2001)
  - Don’t have to have the proof at sign-up
  - Must verify upon request
- Select appropriate option for each farm
  - Options 1-5

Verifiable Production Records Stored or Sold Off-Farm

- Warehouse receipts
- Warehouse ledgers
- Load summaries
- Settlement sheets
- Scale tickets or weight slips supported by a sales document
- LDP Records

Verifiable Production Records Stored or Used On-Farm

- LDP Records
- FSA measurements for grain that was fed or is still stored on the farm
- FSA appraisals
- RMA appraisals (loss purposes only)
- RMA measured production if commodity fed or still on the farm
- Farm records for seed used on the farm.

Purdue University Decision-Support Spreadsheet

- Here is the website for Farm Bill Spreadsheet:
  - http://www.agecon.purdue.edu/ext/policy.asp
  - Spreadsheet Example

Contact Information

- gray@purdue.edu
- falwella@purdue.edu
Corn Safety Net

<table>
<thead>
<tr>
<th>Effective Price</th>
<th>Market Price</th>
</tr>
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<tbody>
<tr>
<td>$0.00</td>
<td>$0.00</td>
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<tr>
<td>$0.50</td>
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<td>$1.00</td>
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<td>$2.00</td>
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<td>$3.00</td>
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</table>

- Market Price
- LDP
- Direct
- CCP

Critical Issues
- WTO negotiations
- Competitiveness
- Market responsiveness
- Value of land and farmland rents
- Budget costs
- Treating symptoms versus curing problems

WTO Negotiations
- Substantial increases in legislated amber box spending
- 19 to 20 percent chance of exceeding the $19.1 Billion spending limit in ’02 market yr.
- Seem to be playing games with the rules
- Negotiators are in a tough position

Competitiveness
- World prices versus U.S. prices
- Incentives for continued efficiency gains
- Market share or profits?
**Market Responsiveness**

- Overproduction
  - Buffered from market signals
  - Would likely produce anyway
- Adjustments in resource prices
- Increased efficiency
- Soybean base reduces flexibility

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**Returns to Land Under Alternative Government Programs**

--- Notes Here ---

**Budget Costs**

**Soybeans Safety Net**
Treating Symptoms or Curing Problems?

- Will this farm bill reduce dependence on government?
- Will this farm bill improve crop prices?
- Will this farm bill encourage free trade and competition?
- Will this farm bill provide opportunities or maintain status quo?

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