



*Potential Farm Bill
Provisions and Analysis*

Daryll E. Ray

Milan No-Till Day

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Agricultural Policy Analysis Center - Institute of Agriculture

The University of Tennessee

Introduction

- **Premises and Expectations of 1996 Farm Bill**
- **Why Have We Not Seen The Expected Results?**
- **Incomes and Government Payments That Have Resulted**
- **Example Policy Alternatives**

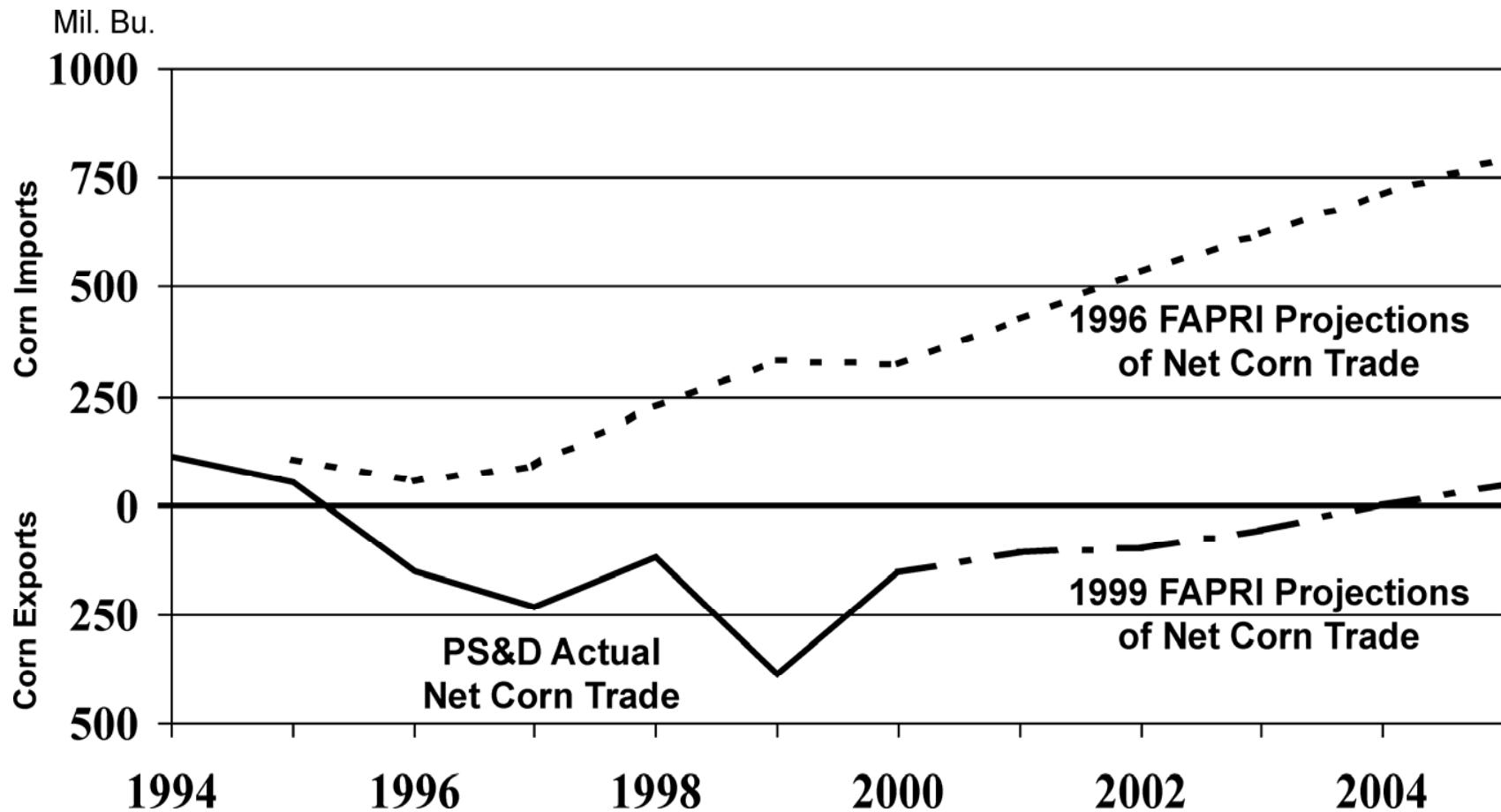
Premises and Expectations

- **Greater Competitiveness In Export Markets Resulting In:**
 - Increased Exports
 - Greater Market Share
- **Farmers Would Take Planting Signals From The Market Instead Of Farming Government Programs**
 - Change Mix Of Crops With Planting Flexibility
 - Adjust Production In Line With Market Demands

Premises and Expectations

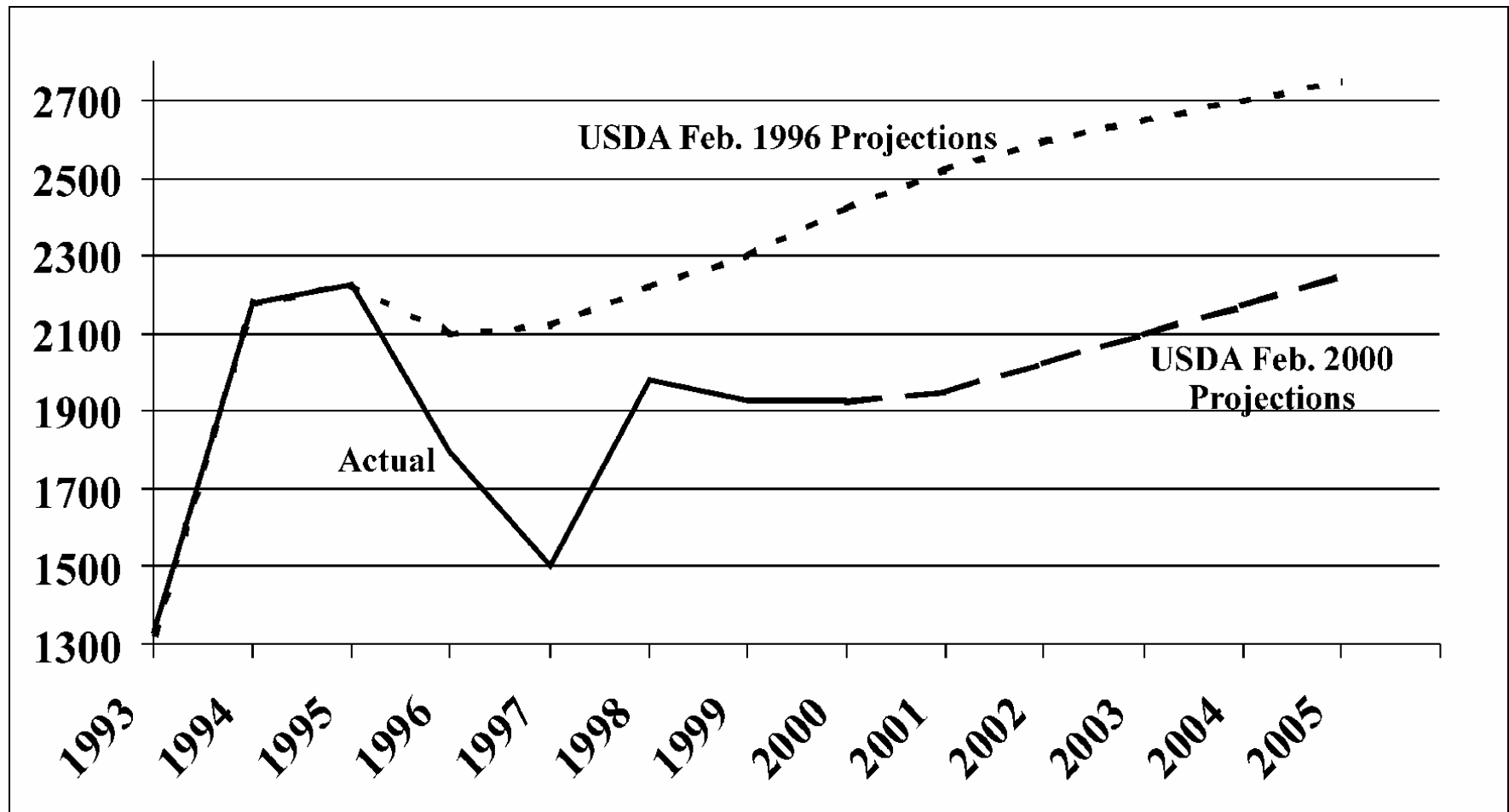
- **Less Dependence Upon Government Programs Leading To The Elimination Of The Need For a Farm Bill And Farm Programs**
 - Declining AMTA Payments
- **Market Would Manage Commercial Stocks Providing A Reserve At No Cost To The Government**

Net Corn Trade for China: Actual and Projections, 1994-2005



- **Expected Rapid Growth in Exports Not Sustained**

U.S. Corn Exports: Actual and Projections, 1993-2005



- **Expected Rapid Growth in Exports Not Sustained**

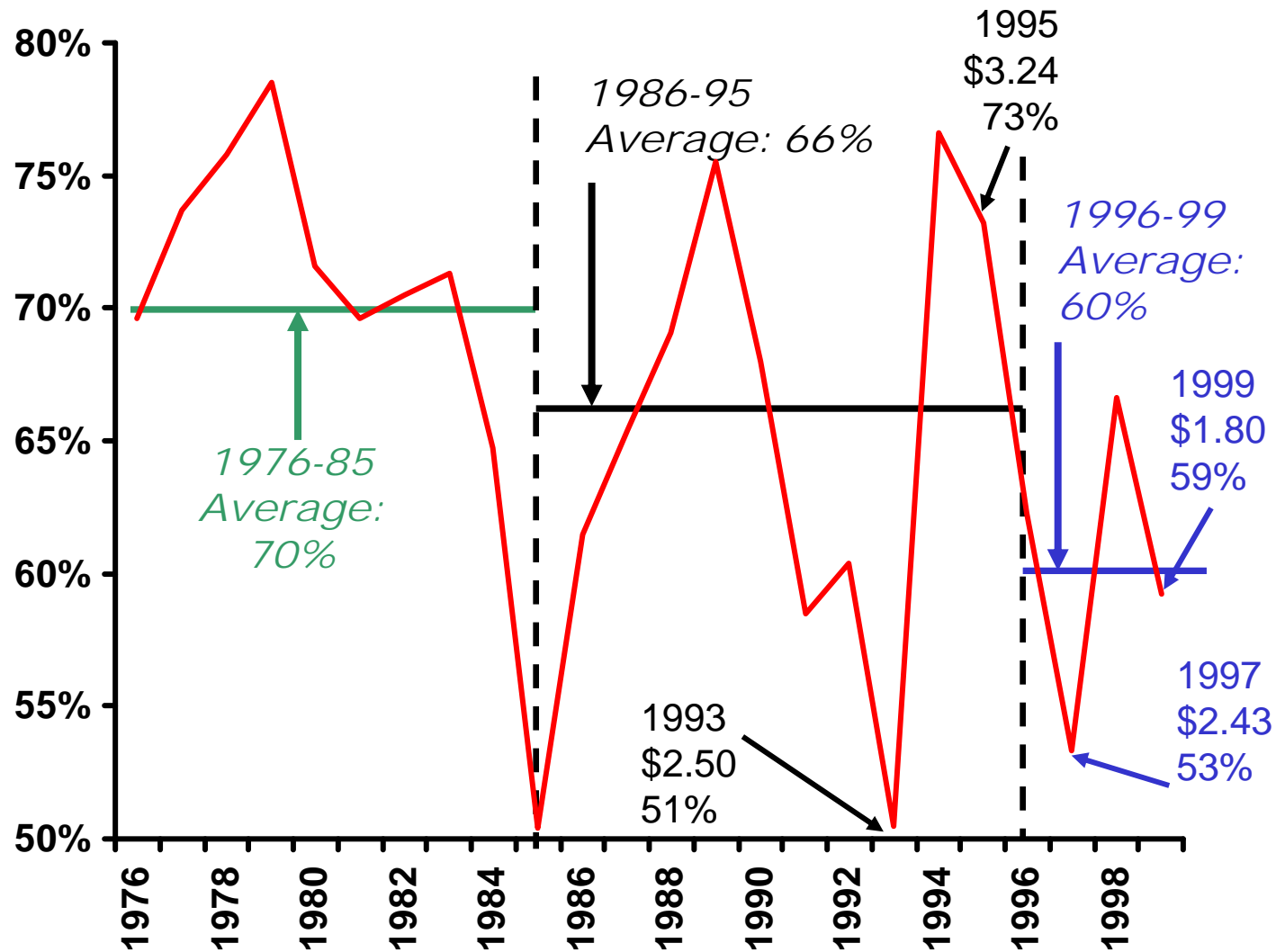
Low Prices Don't Trigger Large Increases In Demand

- **Since Food And Feed Are Biological Requirements, Demand Varies Little With Price**
 - **Difficult As Nation To Eat More Total Food**
- **Consumers Respond Quickly And Powerfully To Low Prices In Other Sectors**

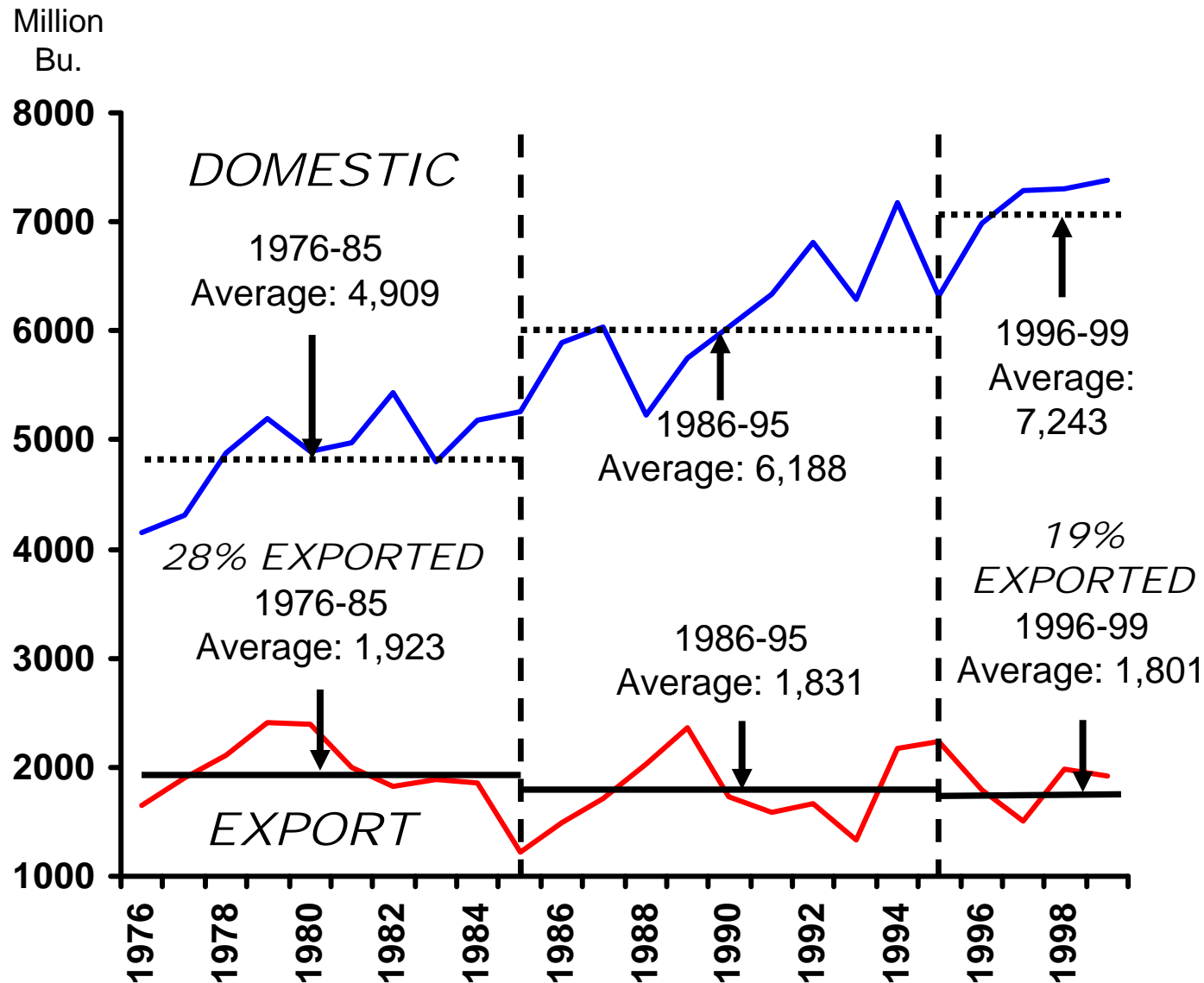
Exports Not Affected Much By Price Changes

- **Countries Import Food Staples Because They Have To – Not Because They Want To**

U.S. Share of World Exports



U.S. Domestic and Export Demand

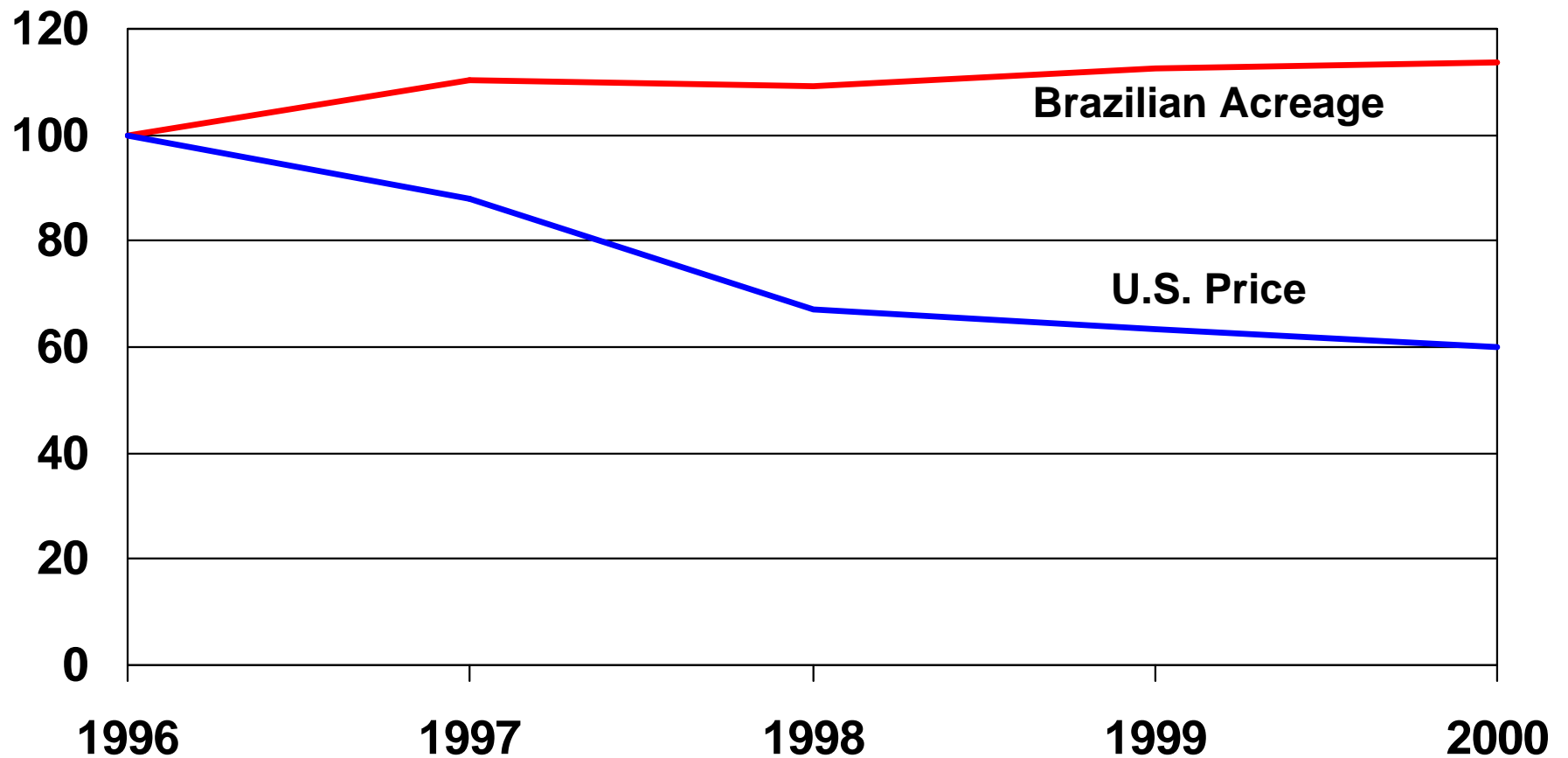


Exports Not Affected Much By Price Changes

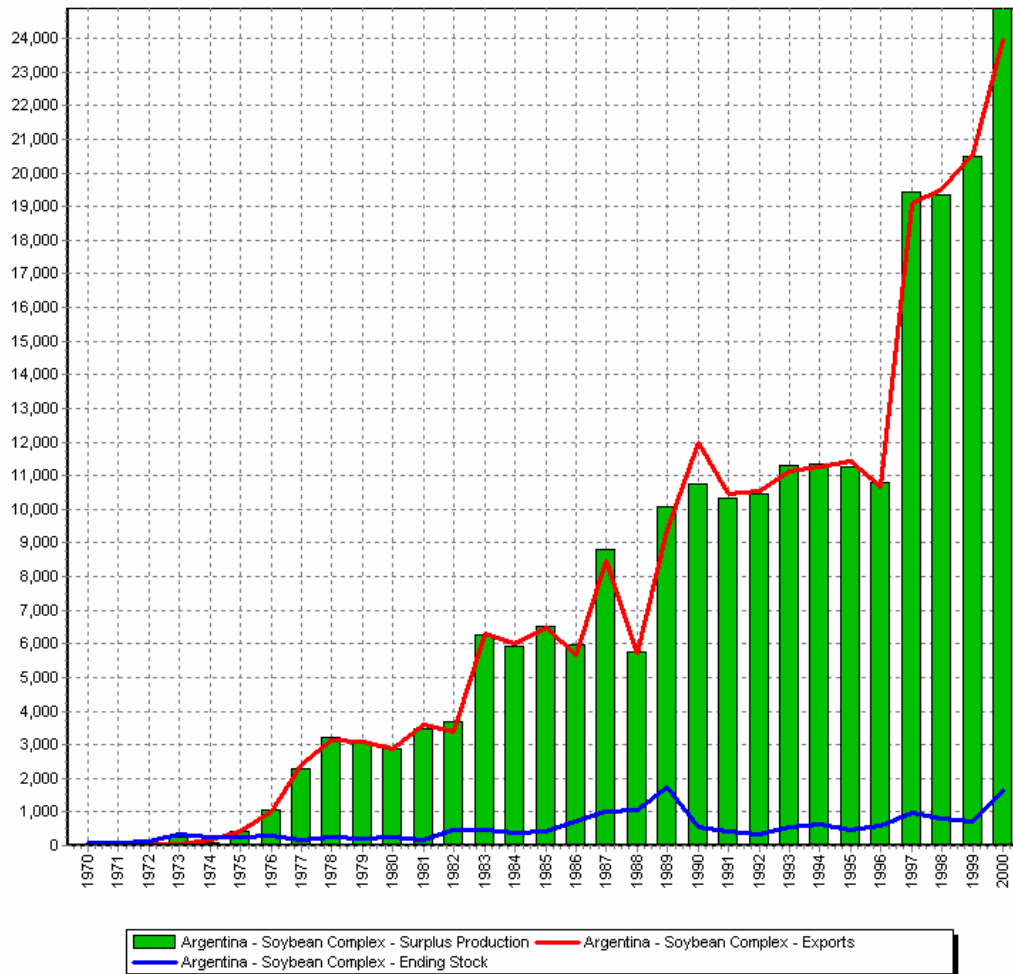
- Countries Import Food Staples Because They Have To – Not Because They Want To
- **Export Competitors, Like Our Farmers Respond Little to Price Changes**

Brazilian Soybean Acreage and U.S. Price

(Indexed: 1996=100)



Argentine Soybean Complex



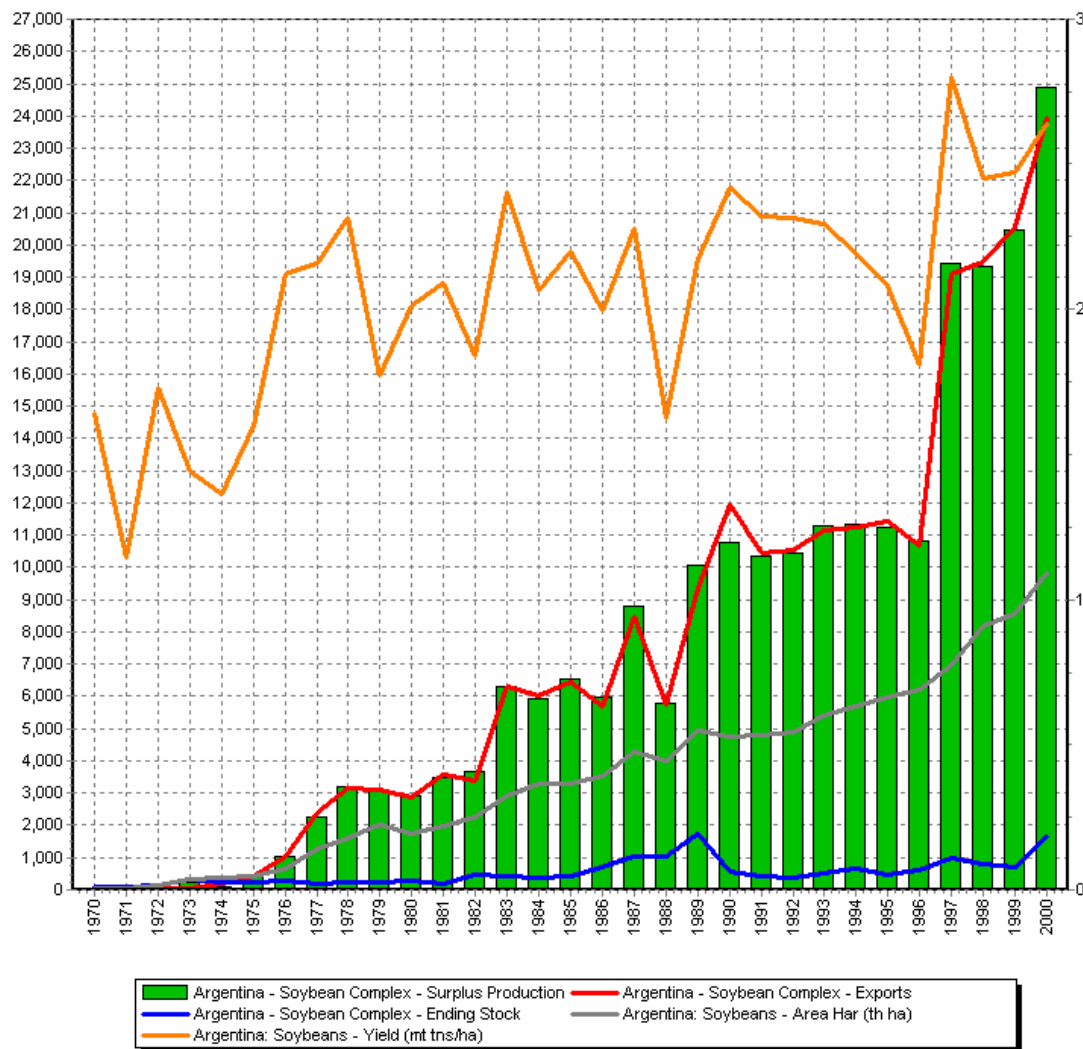
Year after year the Argentines have exported virtually all of their surplus soybean complex production in the year it was produced.

- Surplus production is defined as production plus imports less domestic demand.

- Soybean Complex includes soybeans, soybean meal and soybean oil

A comparison of Argentine surplus soybean complex production and exports

Argentine Soybean Complex



A comparison of Argentine surplus soybean complex production, exports, ending stocks, harvested area and yield.

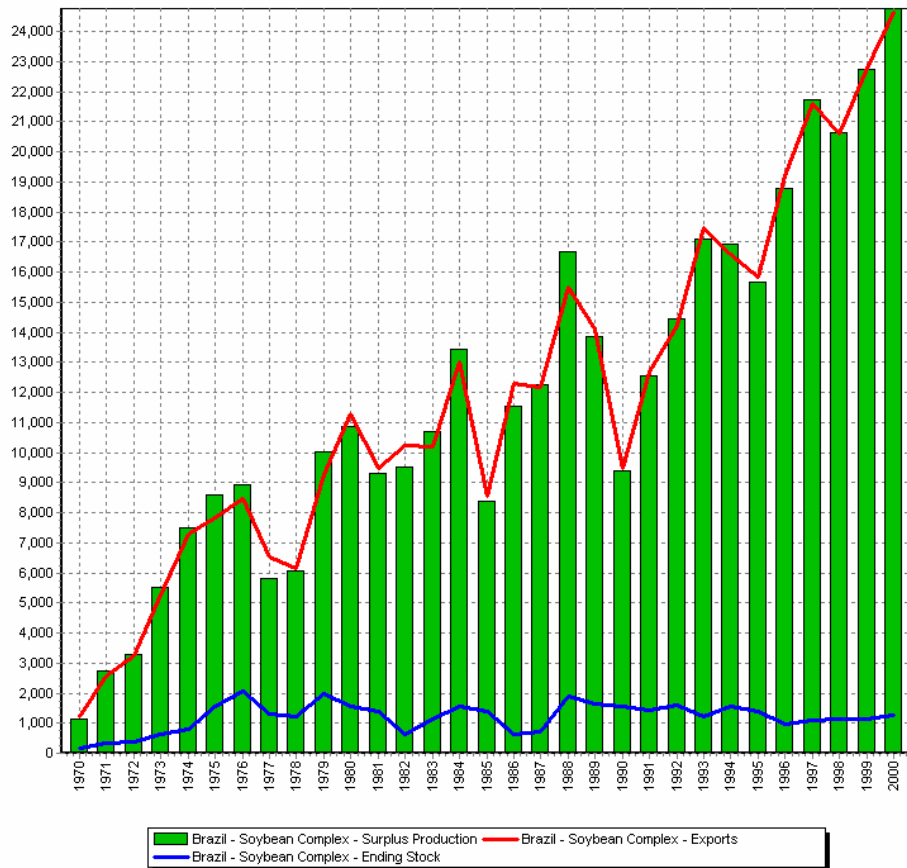
Argentine soybean harvested area has been increasing steadily over the years.

The production spurt in 1997 was directly related to yields.

- Surplus production is defined as production plus imports less domestic demand.

- Soybean Complex includes soybeans, soybean meal and soybean oil

Brazilian Soybean Complex



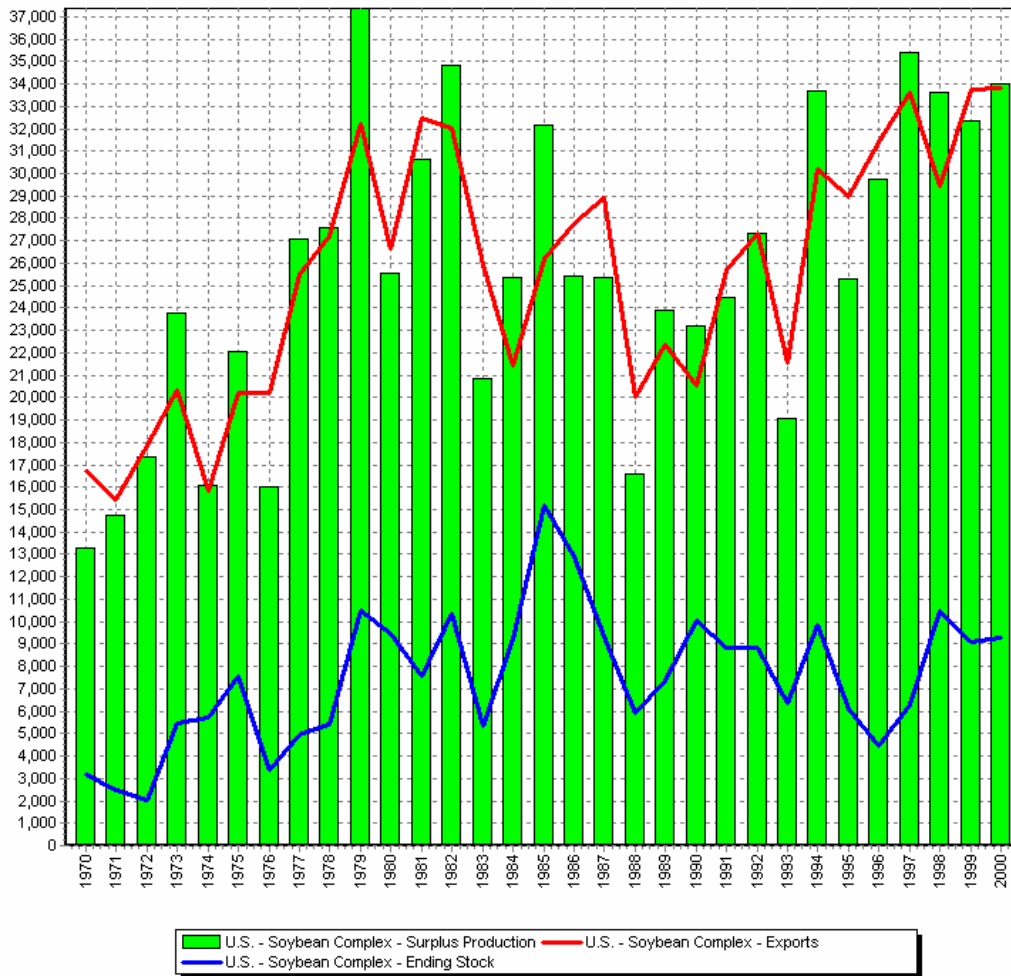
Year after year the Brazilians have exported virtually all of their surplus soybean complex production in the year it was produced.

- Surplus production is defined as production plus imports less domestic demand.

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A comparison of Brazilian surplus soybean complex production and exports

U.S. Soybean Complex

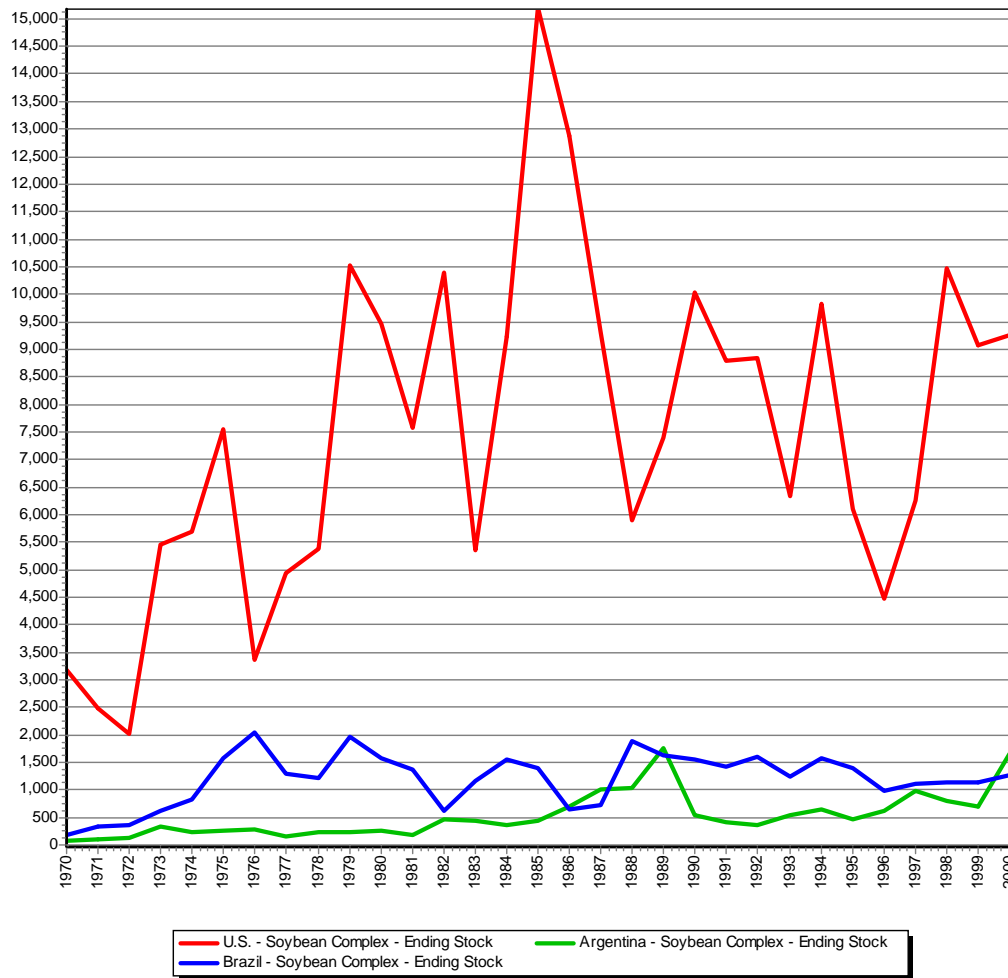


U.S. surplus soybean complex production and exports do not track closely giving rise to highly variable ending stock levels.

- Surplus production is defined as production plus imports less domestic demand.
- Soybean Complex includes soybeans, soybean meal and soybean oil

A comparison of U.S. surplus soybean complex production and exports (Thousand Metric Tons)

Soybean Complex Ending Stock



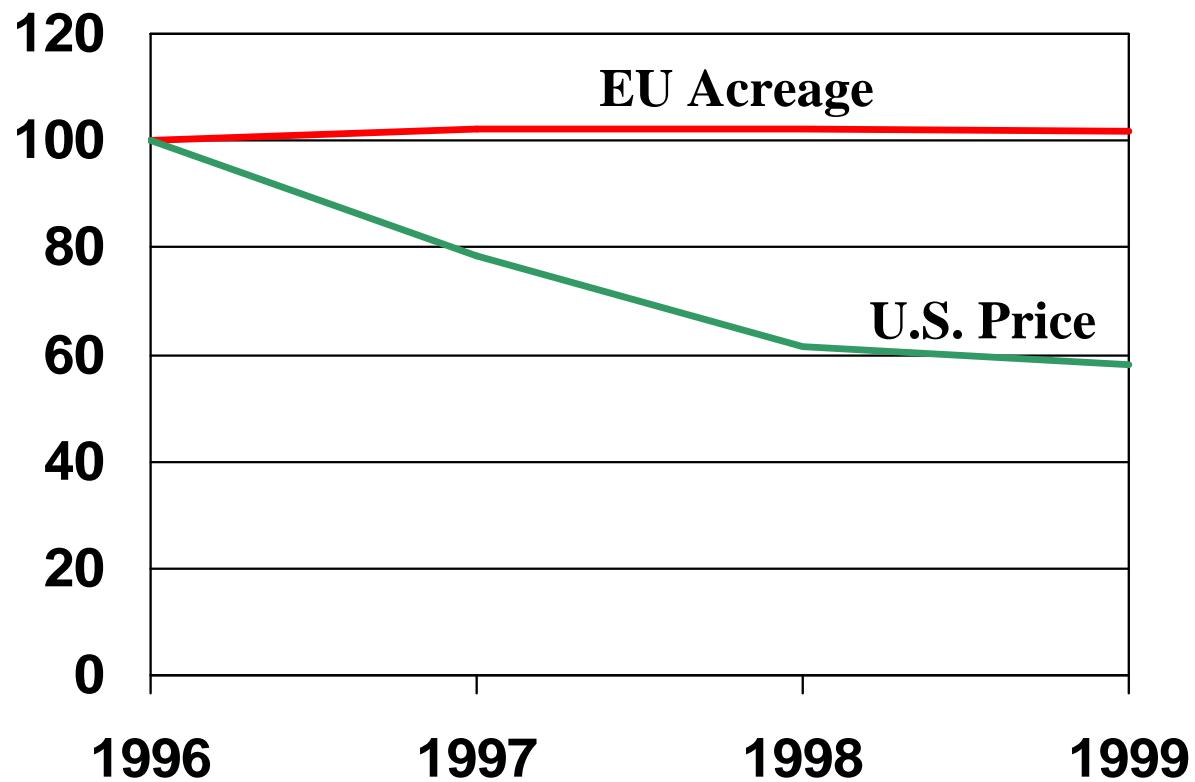
As the residual supplier, the United States holds the bulk of the world's soybean complex ending stocks.

The U.S. stocks serve as the world's reserve supply.

- Soybean Complex includes soybeans, soybean meal and soybean oil

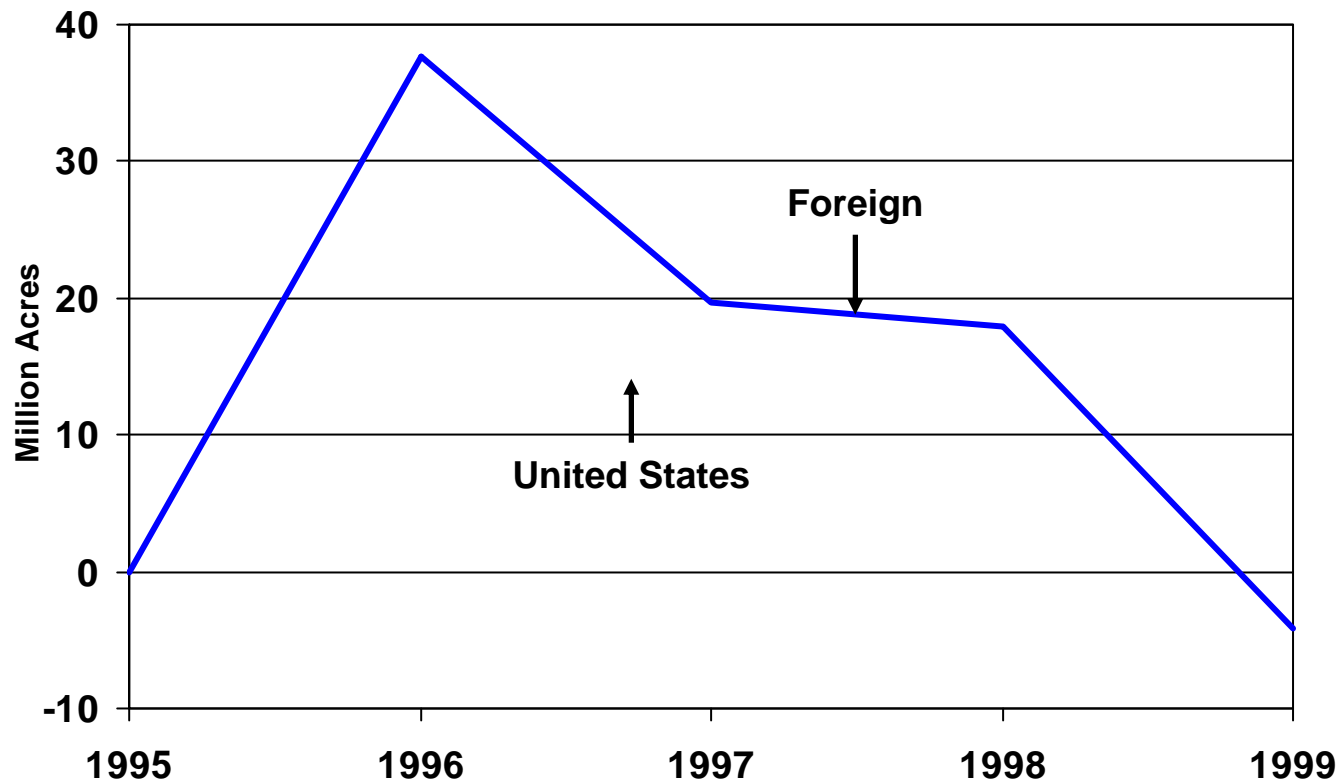
A comparison of U.S., Argentine and Brazilian Soybean Complex Ending Stocks (Thousand Metric Tons)

*Wheat Area European Union,
and U.S. Price*
(1996=100)



Crop Acreage

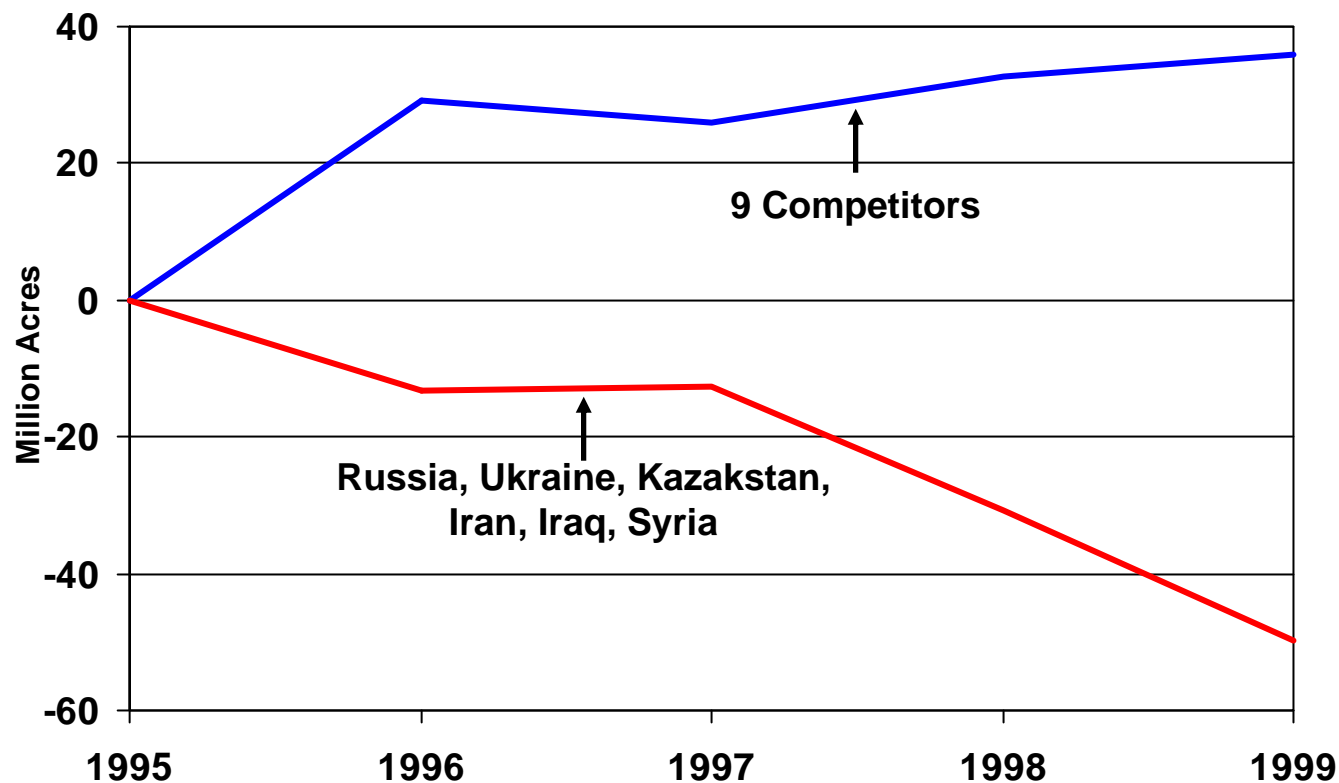
Some have cited the 1999 reduction in foreign harvested acreage as indicative of the benefits of eliminating set-asides



Gain or loss in foreign harvested acres when compared to 1995

Crop Acreage

What countries did we hope would reduce their acreage when we eliminated set-asides?

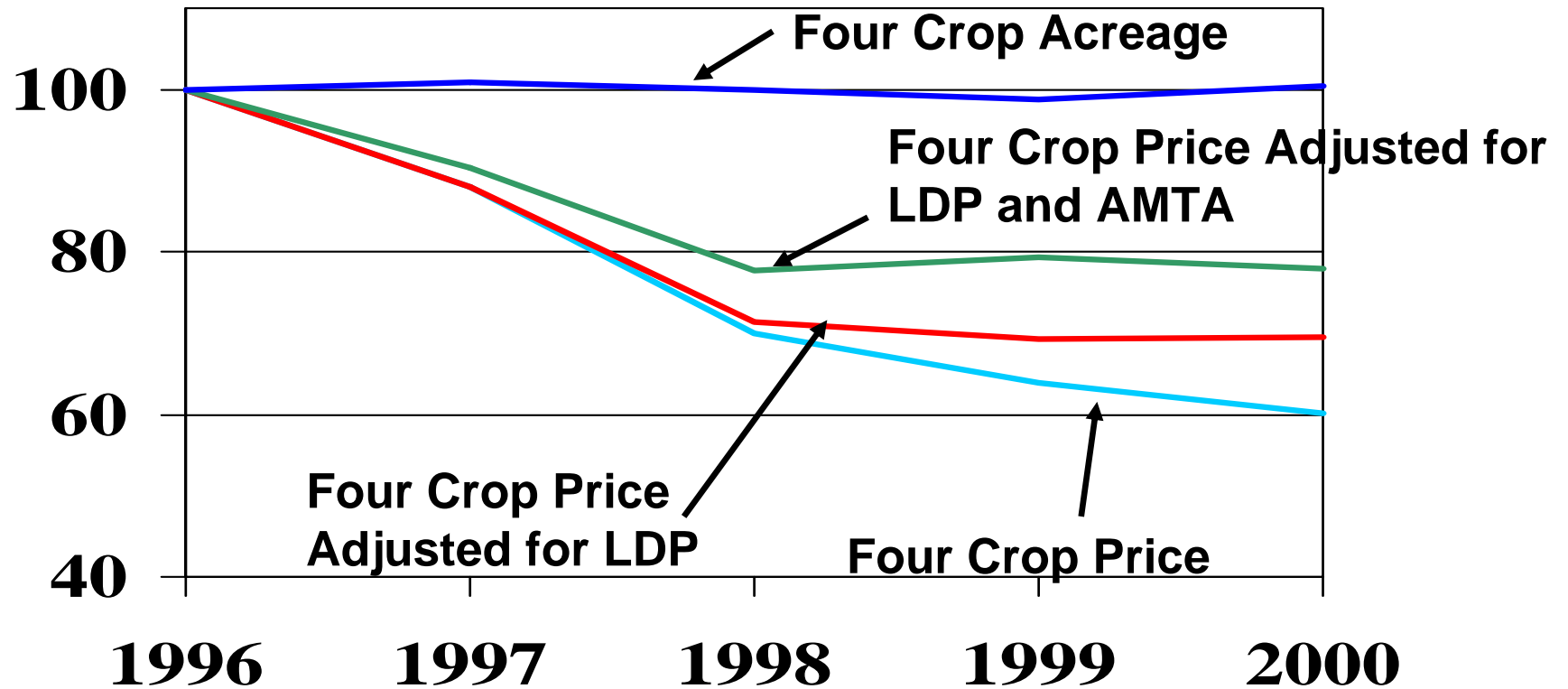


Gain or loss in competitors' and a grouping of 3 former Soviet Union and 3 Middle Eastern countries' harvested acres when compared to 1995.

Limited Ability To Adjust Production In The Short-Run

- **Farmers Do Not Make A Production Decision— They Make A Planting Decision Once A Year**
- **Farmers Change The Mix Of Crops But Use All Their Acreage**
- **Farmers Have Every Incentive To Produce Full Out**

Indexed Four Crop Acreage, Price and Price Adjusted for LDP and Contract Payments



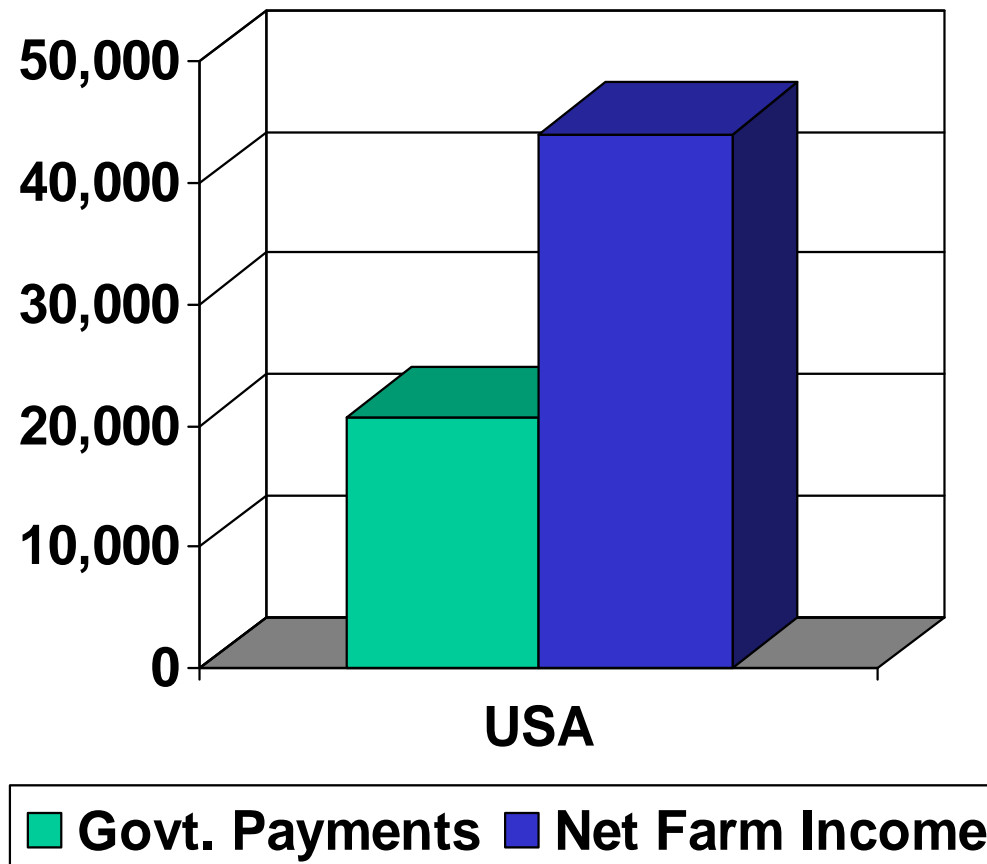
Limited Ability To Adjust Production In The Short-Run

- Farmers Do Not Make A Production Decision— They Make A Planting Decision Once A Year
- Farmers Change The Mix Of Crops But Use All Their Acreage
- Farmers Have Every Incentive To Produce Full Out
- **Other Industries Can, And Often Do, Adjust Production Weekly Or Daily**

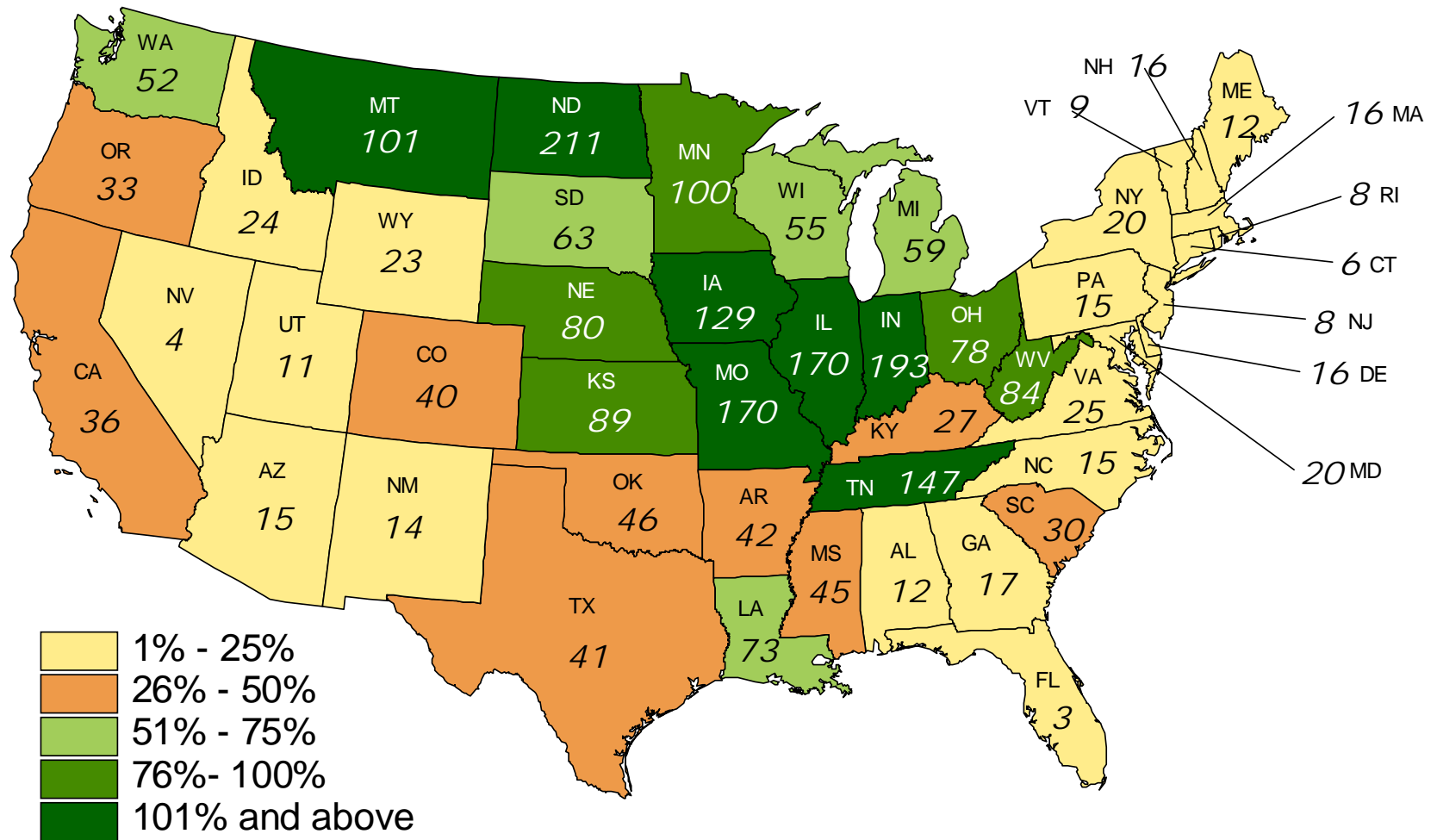
Limited Ability To Reduce Grain Production In The Long-Run

- **With Continued Overcapacity And Low Prices, Farmers Forced Out But Land Is Not**
 - Another Farmer (Often More Efficient) Takes Over
 - Productive Capacity Changes Little Or None
- **In Other Sectors, Plants Would Be Sold To Another Industry**
 - Productive Capacity Is Reduced

1999 Net Farm Income and Government Payments



1999 Government Payments as a Percent of Net Farm Income



Draft Farm Bill Concept Paper

Proposed by

Rep. Larry Combest, Chair

House Agriculture Committee

**Goal: Produce draft a Farm Bill by August 3
Congressional Recess**

Program Crops

- **Similar and equitable provisions for each of the program crops including oilseeds**
- **Maintain maximum flexibility for producers**
- **Provide counter-cyclical assistance**

Fixed, Decoupled Payments (AMTA)

- **Continued in new legislation**
- **Oilseeds added to list of crops receiving payments**
- **Payment rates**
 - **Current crops will be set at 2002 level**
 - **Soybeans at 34¢, comparable for other oilseeds**
- **Payment limit of \$40,000 for fixed, decoupled payments for all crops**

Counter-Cyclical Payments (Variable AMTA)

- **Eligible producers of an eligible crop would receive payment when crop's price, adjusted for AMTA is below a target price**
- **Target prices set at 1995 level, soybeans at \$5.76, comparable for minor oilseeds**
- **Payment limit of \$75,000 for Variable AMTA for all crops would be established**

Acres Update

- **Producers **MAY** update base acres**
 - a. **Current AMTA acres OR**
 - b. **Average acres planted to an AMTA crop and/or oilseed for 1998-2001 period**
- **Once updated for 2002, bases will be fixed**
- **Base acres will be used for both AMTA and Variable AMTA payments**
- **Payment acres for both are 85% of base acres**

Payment Yields

- **Current AMTA payment yields**
- **For oilseeds and farms without current AMTA payment yield, the Secretary will develop yields that are comparable to current AMTA yields in the area**
- **Payment yields will be used for both AMTA and Variable AMTA payments**

Marketing Loan Provisions (LDPs and MLGs)

- **Current loan rates would continue for all crops except:**
 - a. Soybeans set at \$4.92/bu. instead of \$5.26/bu.
 - b. Minor oilseeds at \$0.087 per pound
 - c. Grain sorghum at \$1.89 per bushel
- **Eligibility on 100% of current production**
- **Payment limit of \$75,000 for LDPs and MLGs for all crops**

Proposed Rates and Prices

Crop	Unit	Proposed Loan Rate	Proposed Fixed Decoupled Payment Rate	Proposed Target Price
Wheat	Bu.	\$2.58	\$0.53	\$4.04
Corn	Bu.	1.89	0.30	2.78
Sorghum	Bu.	1.89	0.36	2.64
Barley	Bu.	1.65	0.25	2.39
Oats	Bu.	1.21	0.03	1.47
Upland Cotton	Lb.	0.50 to 0.5192	0.0667	0.7360
Rice	Cwt.	6.50	2.35	10.82
Soybeans	Bu.	4.92	0.42	5.86
Minor Oilseeds	Lb.	0.087	0.007	0.1036

Conservation Security Act

Proposed by
Sen. Tom Harkin, Chair
Senate Agriculture Committee

Introduced May 22, 2001

Conservation Security Program

- **Allow farmers and ranchers to enter into 5 to 10 year contracts**
- **Chose from one of three tiers of conservation practices**
- **Payments based on number and type of practices and level of conservation on their land**

Conservation Security Program Tier I

- **Annual payment of up to \$20,000 for implementing a basic set of Tier I practices such as:**
 - a. **Nutrient Management**
 - b. **Soil conservation**
 - c. **Wildlife habitat management**

Conservation Security Program

Tier II

- **Annual payment of up to \$35,000**
- **Farmers would add to Tier I practices by choosing a minimum number of Tier II practices including:**
 - a. **Controlled, rotational grazing**
 - b. **Partial field practices like buffer strips and windbreaks**
 - c. **Wetland restoration**
 - d. **Wildlife habitat enhancement**

CSP Tier III

- **Annual payment of up to \$50,000**
- **Adopt comprehensive Tier III conservation practices on their whole farm under a plan that addresses all aspects of:**
 - a. **Air**
 - b. **Land**
 - c. **Water**
 - d. **Wildlife**

Other Possibilities

- **Energy Crop related policy**
It could happen
- **Continuation of current policy**
Low probability
- **Revise loan rates**
Lower probability
- **Buffer stocks/set-asides**
When pigs fly

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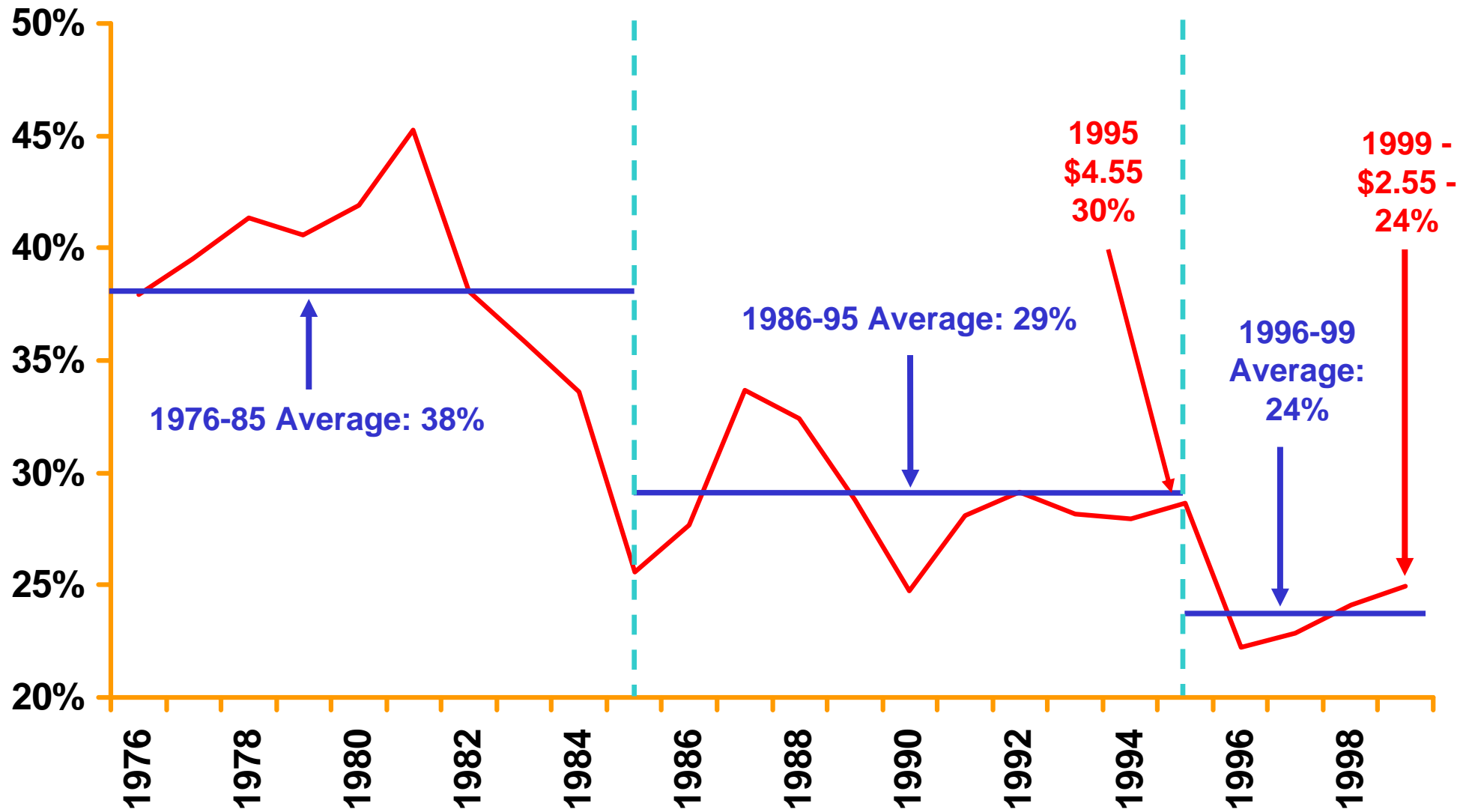
<http://agpolicy.org>

dray@utk.edu

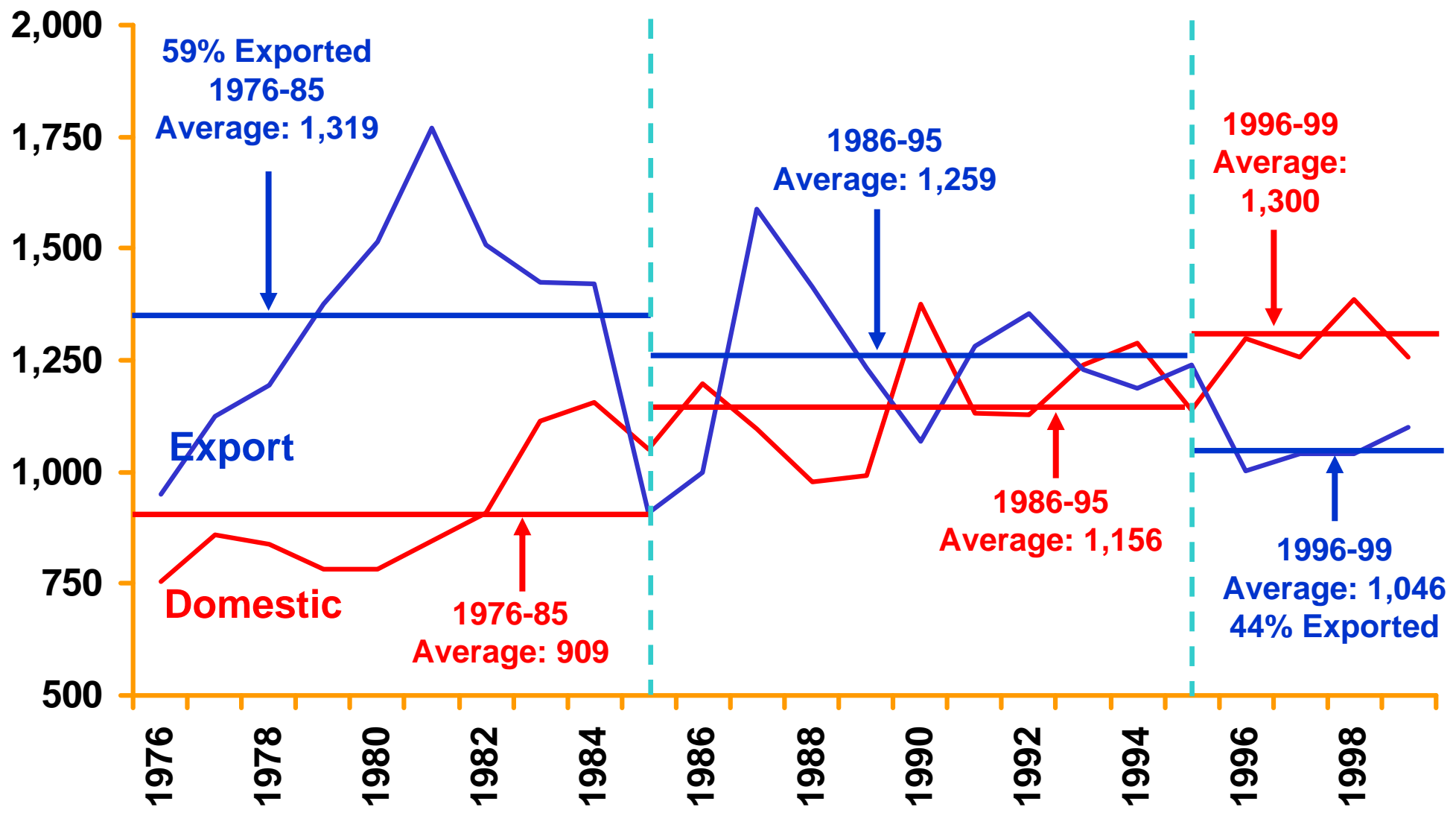
Policy Pennings

Published weekly in the Mid-America
Farmer Grower

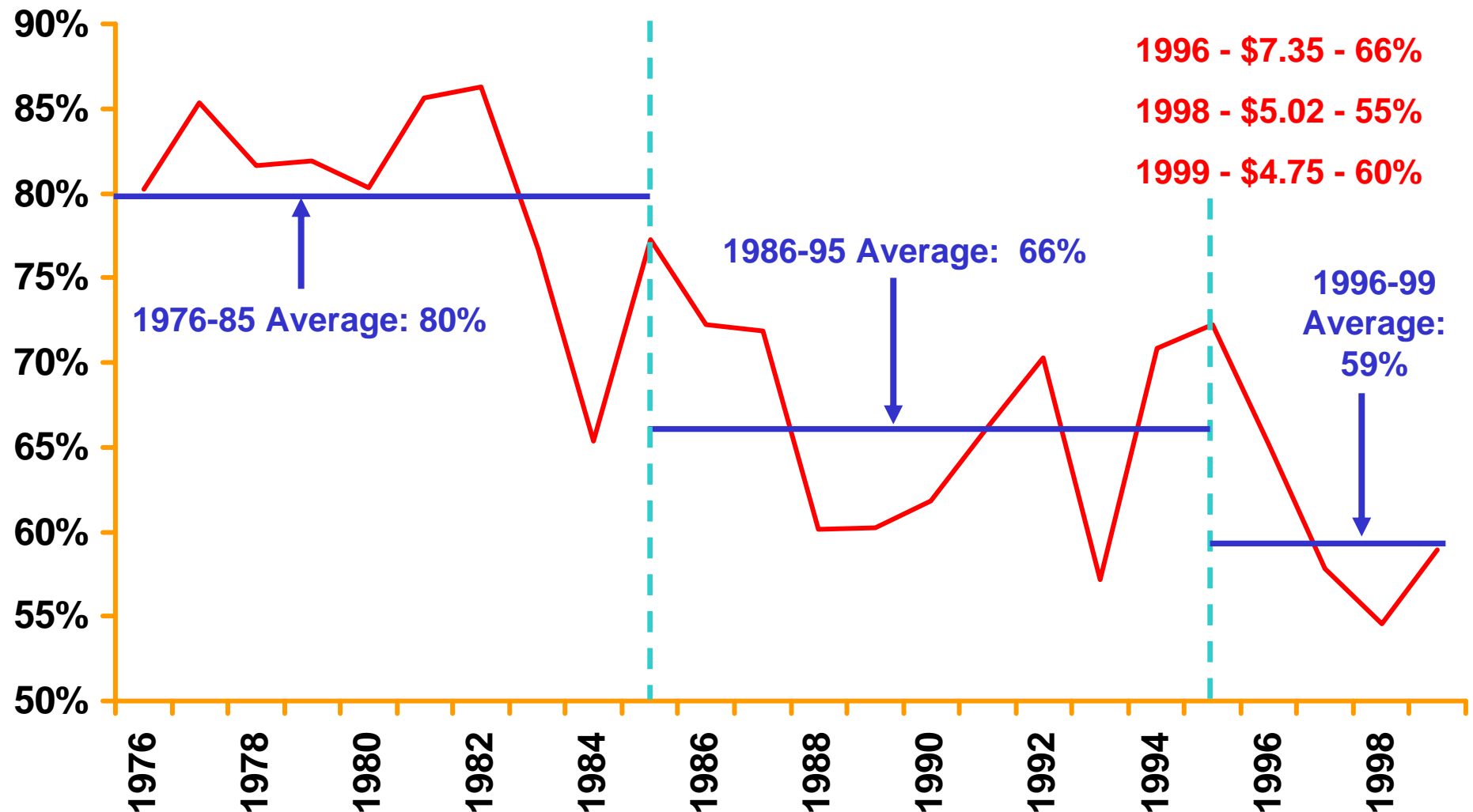
U.S. Share of World Exports



U.S. Domestic & Export Demand



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