

Impacts of Farm Policy Alternatives on Representative Tennessee Cotton Farms

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Southern Agricultural
Economics Association
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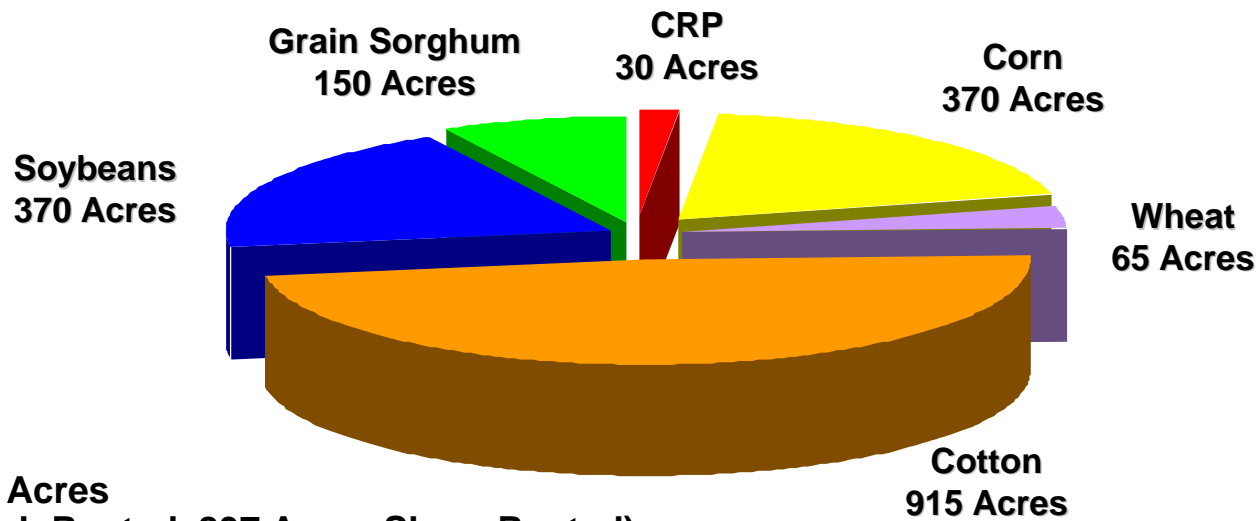
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Why a Rep Farm Approach?

- Allows a policy focus
 - Integrated with national policy models
 - Anchored to a policy baseline
- Typical of region
- Allows risk analysis, stochastic simulation model
- Credibility
- Relevance

West Tennessee Moderate-Size Cotton Farm

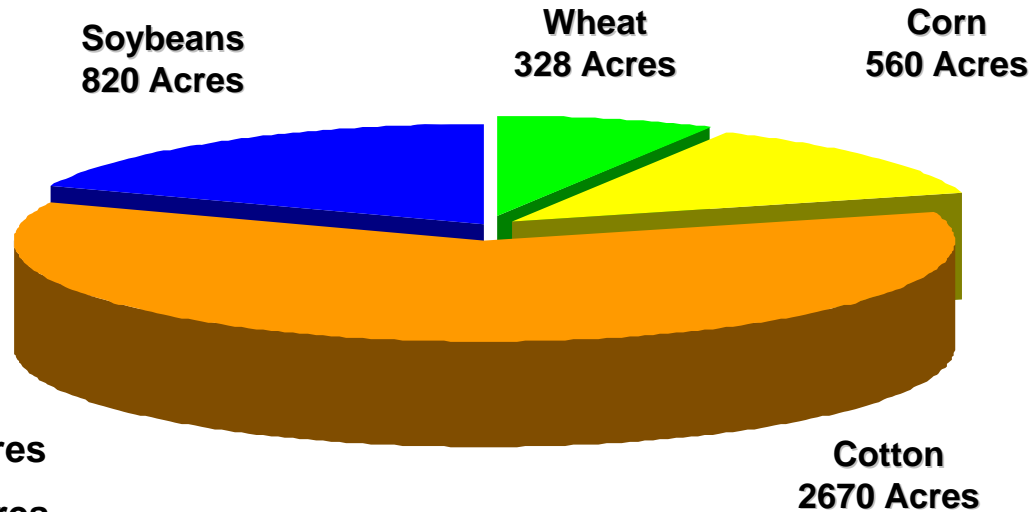


Owned: 225

Leased: 1675 Acres
(838 Acres Cash Rented, 837 Acres Share Rented)

- A 1,900-acre soybean farm in Fayette County, TN
- 2/3 No-Till
- No off-farm income considered
- Farm assets are \$1,342,800
 - Real Estate: \$665,000
 - Machinery: \$377,800
 - Other Assets: \$300,000

West Tennessee Large Cotton Farm



Owned: 1,000 Acres

Leased: 3,050 Acres

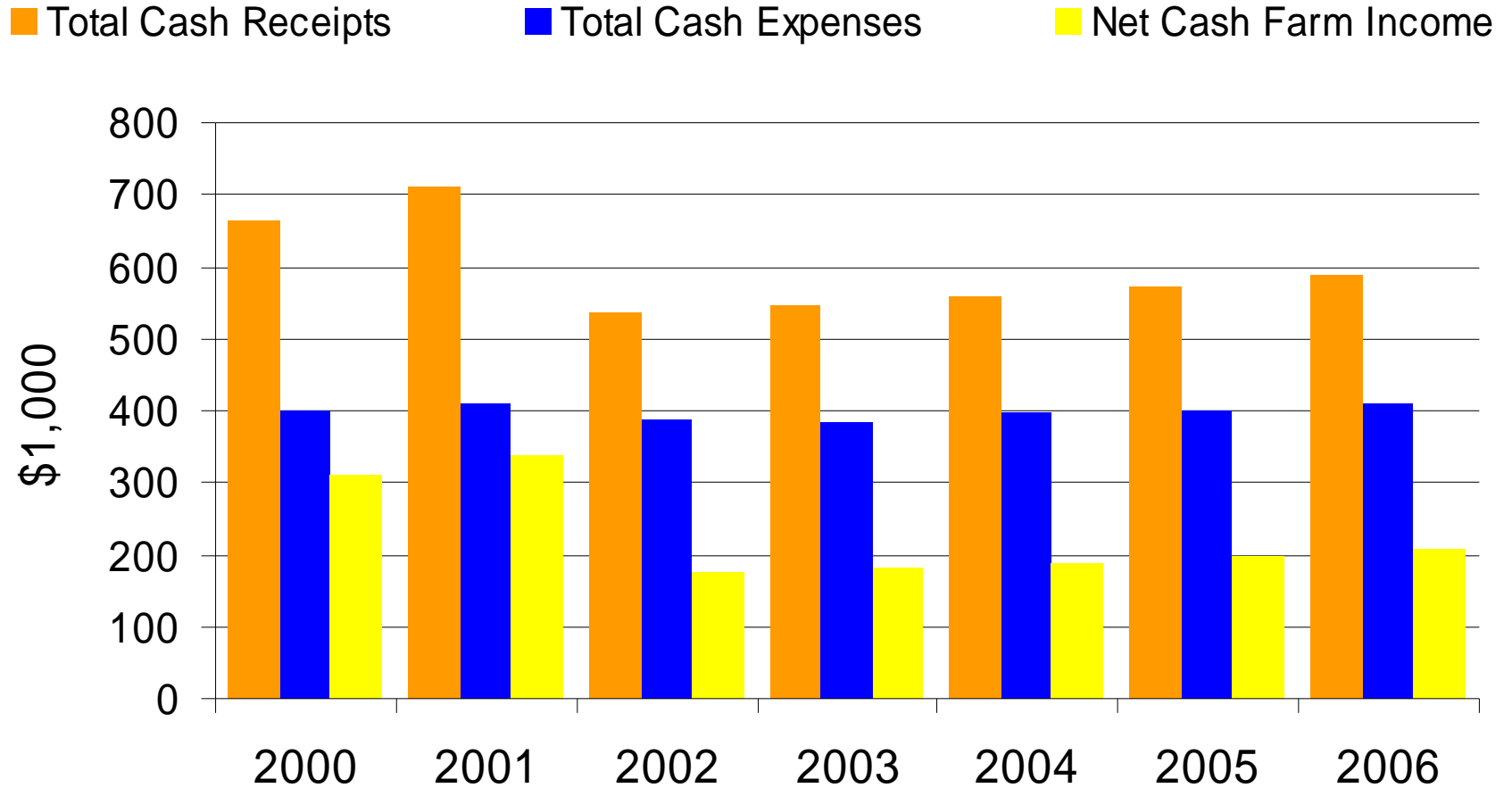
(610 Acres Cash Rented, 2,440 Acres Share Rented)

- A 4,050-acre cotton farm in Haywood County, TN
- Implementing no-till practices
- No off-farm income considered
- Farm assets are \$3,224,100
 - Real Estate: \$1,680,000
 - Machinery: \$1,322,100
 - Other Assets: \$200,000

Baseline Scenarios

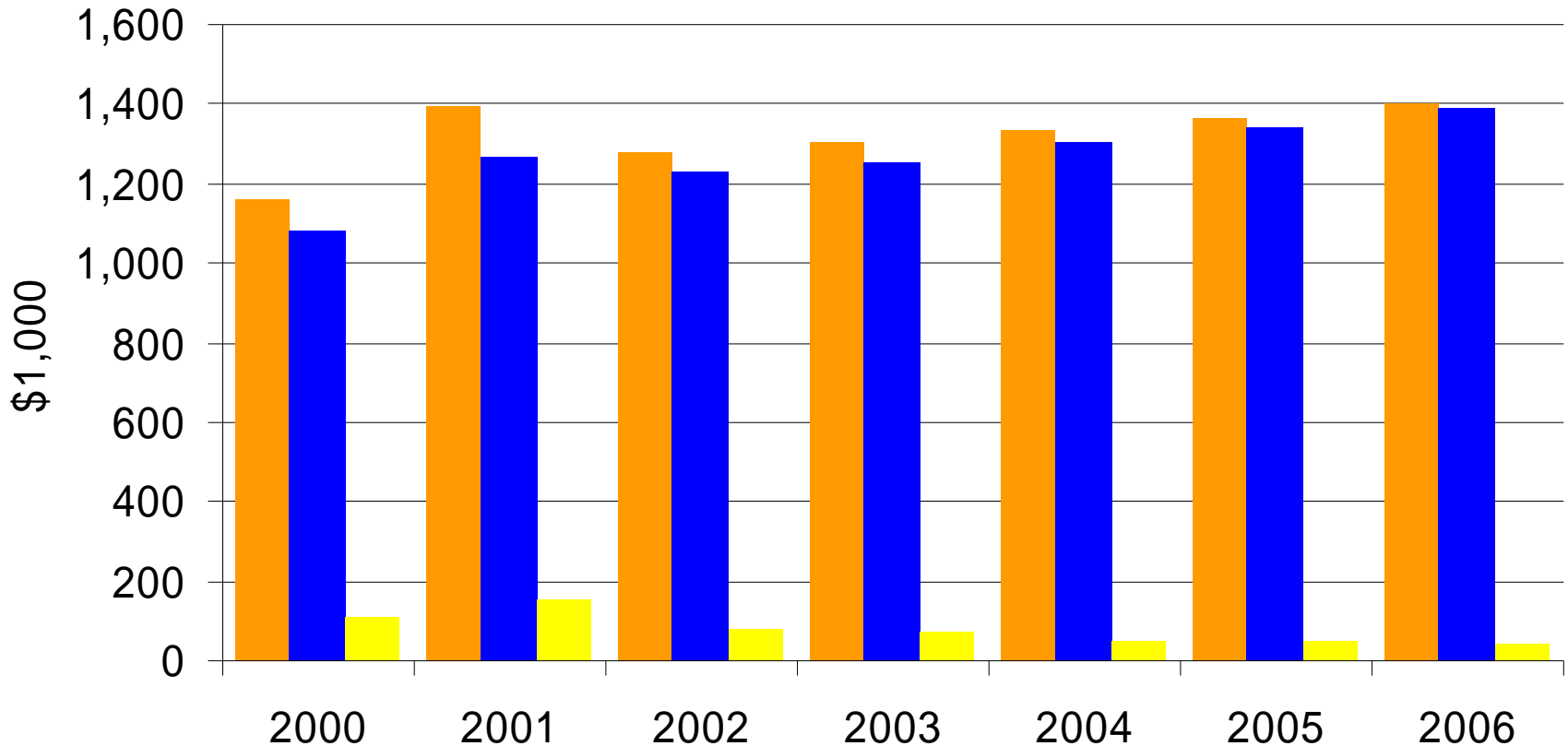
- Farm projections made using the 2001 FAPRI baseline projections
- Baseline assumes that 1996 Farm Bill provisions continue at 2002 levels without additional payments
- Incorporates price and yield risk
- Projects net farm income, cash flow, long-term survivability, financial strength

Moderate TN Cotton Farm



Large TN Cotton Farm

■ Total Cash Receipts ■ Total Cash Expenses ■ Net Cash Farm Income



Baseline Outlook (2000-2006)

- Net cash farm income averages \$172,930 for the moderate farm, \$77,640 for the large farm
- Moderate farm has 20% probability of a cash flow deficit, 81% for large farm
- Moderate farm has 0% probability of negative net cash farm income, 33% for large
- Large farm has 64% probability of losing real net worth

Farm Bill Analysis

- Estimate the impacts of farm bill alternatives on the two farms
 - House version H.R. 2646
 - Senate version S. 1731
- Projects the future annual impacts of alternative scenarios, incorporating yield and price uncertainty

House Proposal: H.R. 2646

- Fixed, decoupled payments, expanded to include soybeans and oilseeds
- Continues marketing loan provisions
- Retains planting flexibility, option to update farm's base acreage
- Addition of counter-cyclical payments
- Payment limits: \$75,000 for CCP, \$150,000 for marketing loan gains and LDPs
- Projected cost: \$168 billion over 10 years

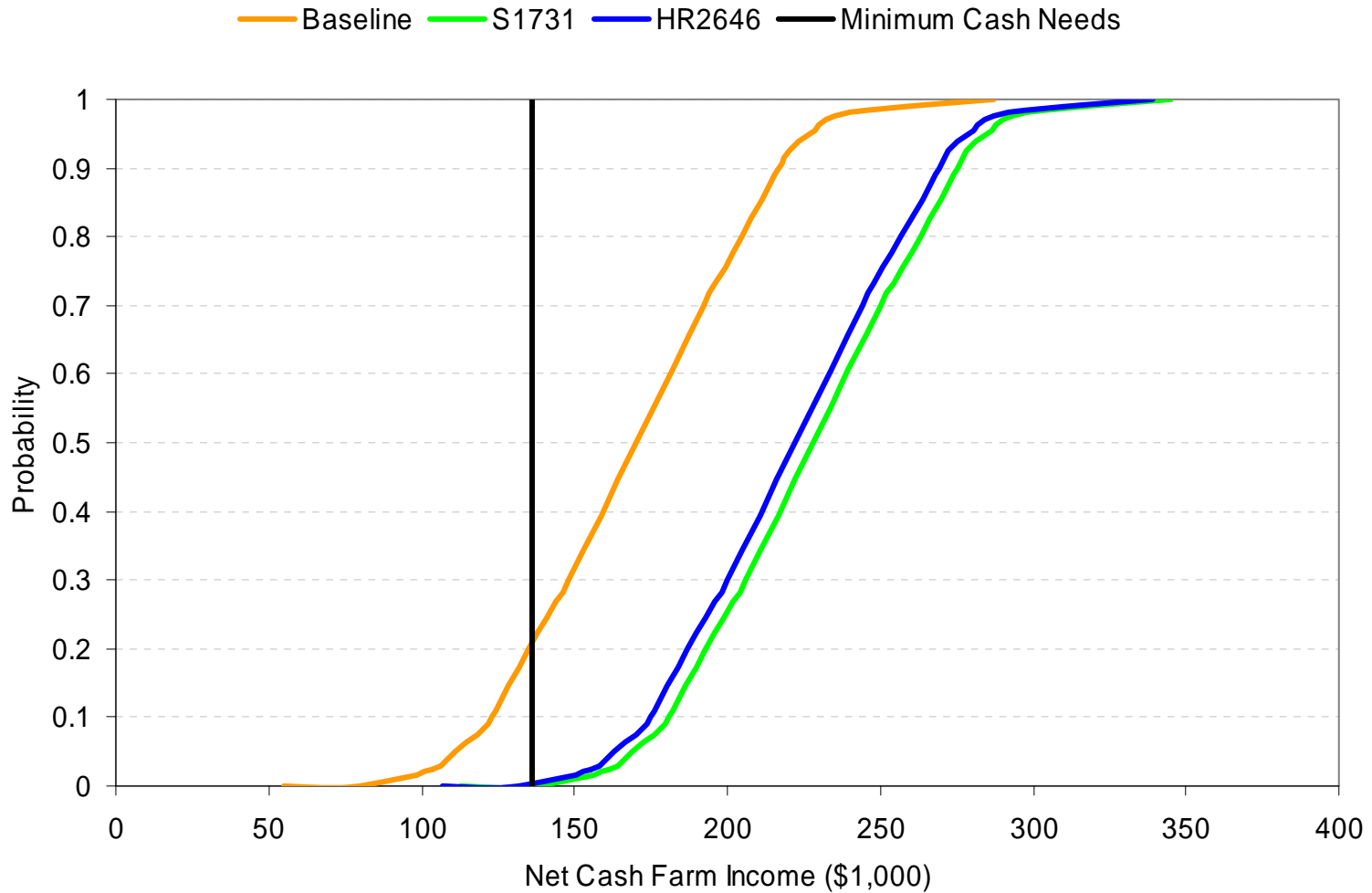
Senate Proposal: S. 1731

- Retains fixed annual payments, updating base acreage, yields, and rates and includes soybeans and oilseeds as program crops
- New counter-cyclical payments based on target prices
- Continues marketing loans
- 3-tiered payment plan for conservation
- Payment limits: \$100,000 for fixed and CCP
- Projected cost: \$170 billion over 10 year

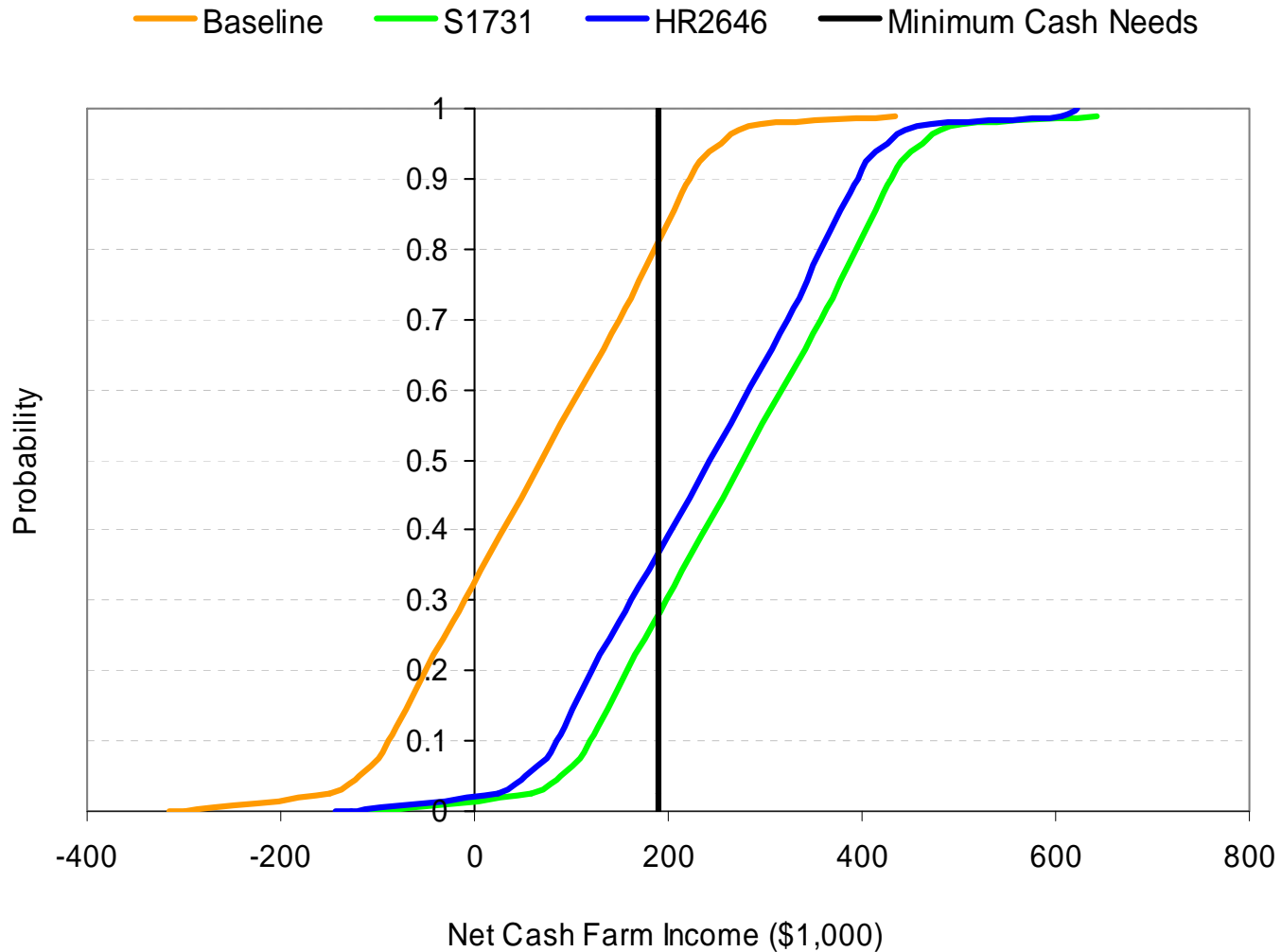
Policy Provisions

		Loan Rate			Fixed Decoupled Payment Rate			Target Price	
Crop	Units	2001	H.R.	S.	2001	H.R.	S.	H.R.	S.
		Baseline	2646	1731	Baseline	2646	1731	2646	1731
Wheat	\$/Bu.	2.58	2.58	3.00	0.46	0.53	0.25	4.04	3.45
Corn	\$/Bu.	1.89	1.89	2.08	0.26	0.30	0.15	2.78	2.35
Sorghum	\$/Bu.	1.69	1.89	2.08	0.31	0.36	0.17	2.64	2.35
Up. Cotton	\$/Lb.	0.519	0.519	0.550	0.056	0.065	0.046	0.736	0.680
Soybeans	\$/Bu.	5.26	4.92	5.20	n.a.	0.42	0.25	5.86	5.75

Moderate Cotton Farm Results



Large Cotton Farm Results



Results Summary

- Both farms update base acres
- Both farms improve significantly
 - Average net cash farm income, moderate: \$214,000 - \$227,000
 - Average net cash farm income, large: \$242,000 - \$282,000
- Reduce probability of a cash flow deficit, near 0% for moderate, under 35% for large
- Slightly more improvement under S. 1731, due to higher payment rates, higher base, front loading
- Comparatively, the large farm benefits more, primarily because they had a much less positive outlook under baseline and they increase base

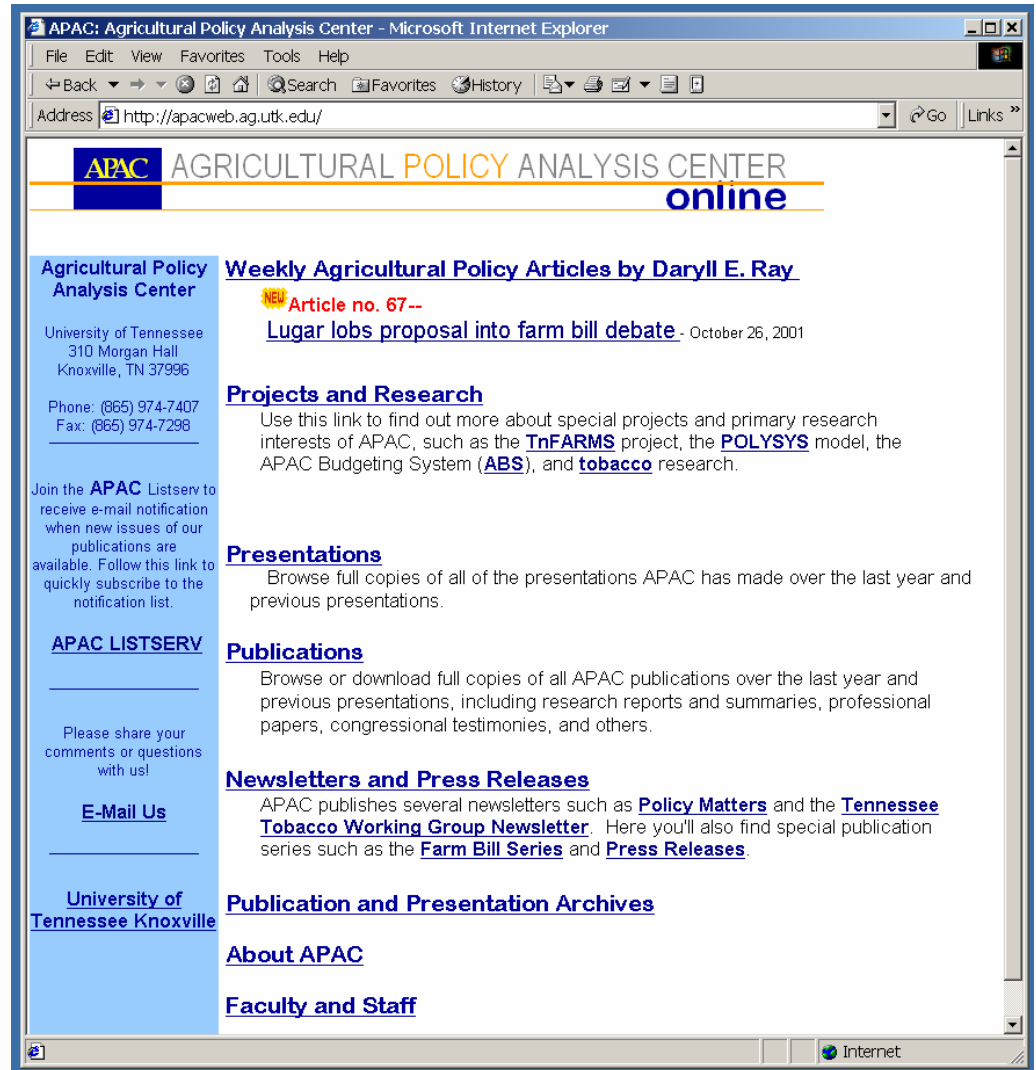
For More Information ...

www.agpolicy.org

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The screenshot shows a web browser window titled "APAC: Agricultural Policy Analysis Center - Microsoft Internet Explorer". The address bar shows "http://apacweb.ag.utk.edu/". The page content includes the APAC logo and the text "AGRICULTURAL POLICY ANALYSIS CENTER online". A sidebar on the left contains contact information for the Agricultural Policy Analysis Center at the University of Tennessee, including the address (310 Morgan Hall, Knoxville, TN 37996), phone number (865) 974-7407, and fax number (865) 974-7298. It also includes a link to join the APAC Listserv and a section for "APAC LISTSERV" with a "Please share your comments or questions with us!" message and an "E-Mail Us" link. The main content area features several sections: "Weekly Agricultural Policy Articles by Daryll E. Ray" with a "NEW Article no. 67--" and a link to "Lugar lobs proposal into farm bill debate" dated October 26, 2001; "Projects and Research" with a link to find out more about special projects and primary research interests of APAC, such as the TnFARMS project, the POLYSYS model, the APAC Budgeting System (ABS), and tobacco research; "Presentations" with a link to browse full copies of all presentations APAC has made over the last year and previous presentations; "Publications" with a link to browse or download full copies of all APAC publications over the last year and previous presentations, including research reports and summaries, professional papers, congressional testimonies, and others; "Newsletters and Press Releases" with a link to APAC publishes several newsletters such as Policy Matters and the Tennessee Tobacco Working Group Newsletter. Here you'll also find special publication series such as the Farm Bill Series and Press Releases; "Publication and Presentation Archives"; "About APAC"; and "Faculty and Staff". The browser's status bar at the bottom shows "Internet".