

Prospective Shortcomings of the 2002 Farm Bill

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Agricultural Policy Analysis Center - Institute of Agriculture
The University of Tennessee

Introduction

- **Why Do We Have Farm Programs?**
 - We Must Do A Better Job Telling the Story
 - Because Others Are Telling “Tree” Stories As If There Is No “Forrest”
- **The 1996 Farm Bill: A Classic Case of Reality Smashing Into Grandiose Expectations**
- **The House and Senate Bills**

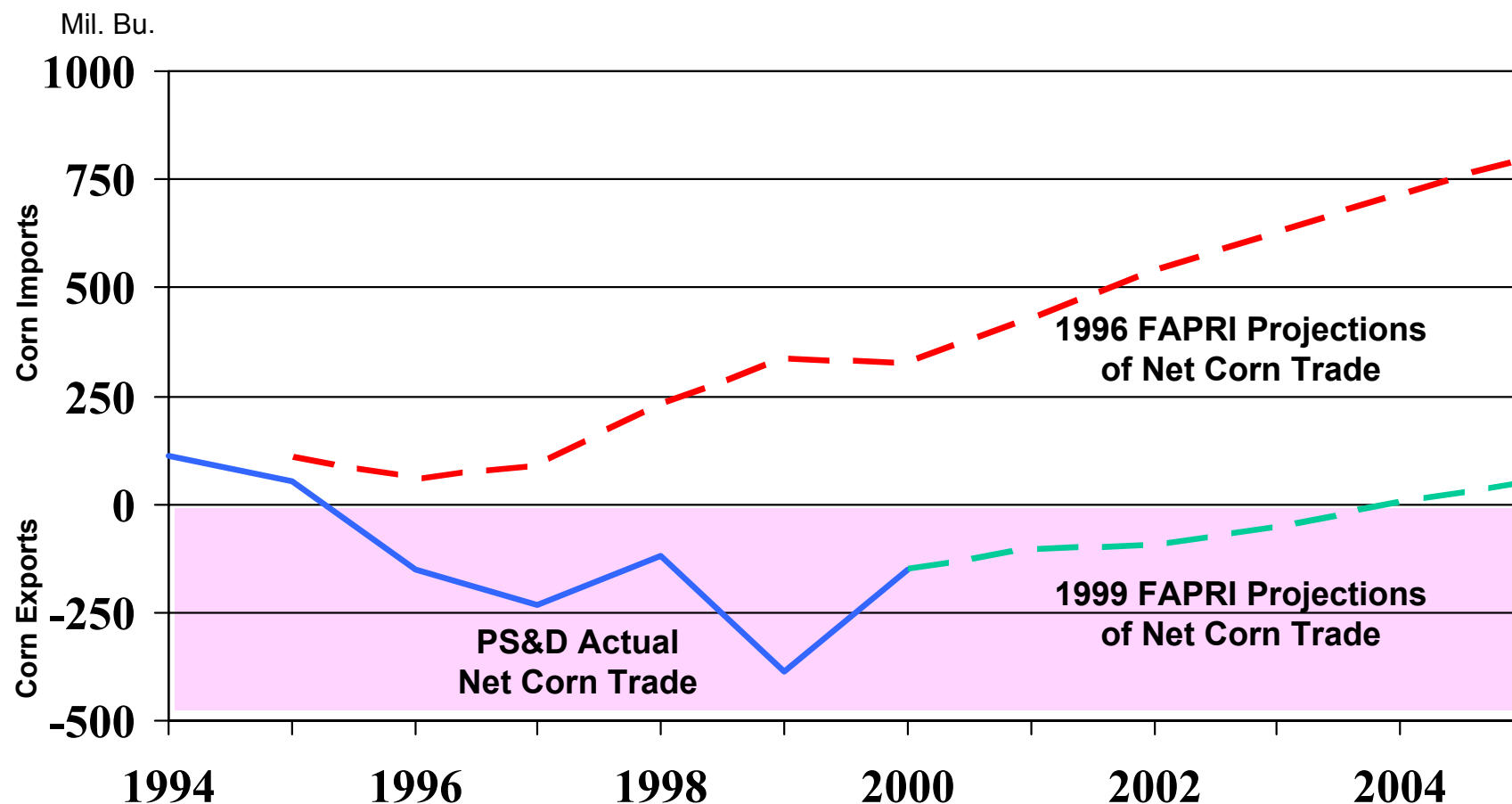
Other Industries Self-Correct

- **If Price Drops, What Should Happen?**
 - **Consumers Buy More**
 - **Yes, Except for Food**
 - **Producers Produce Less**
 - **Yes, Except in Agriculture**

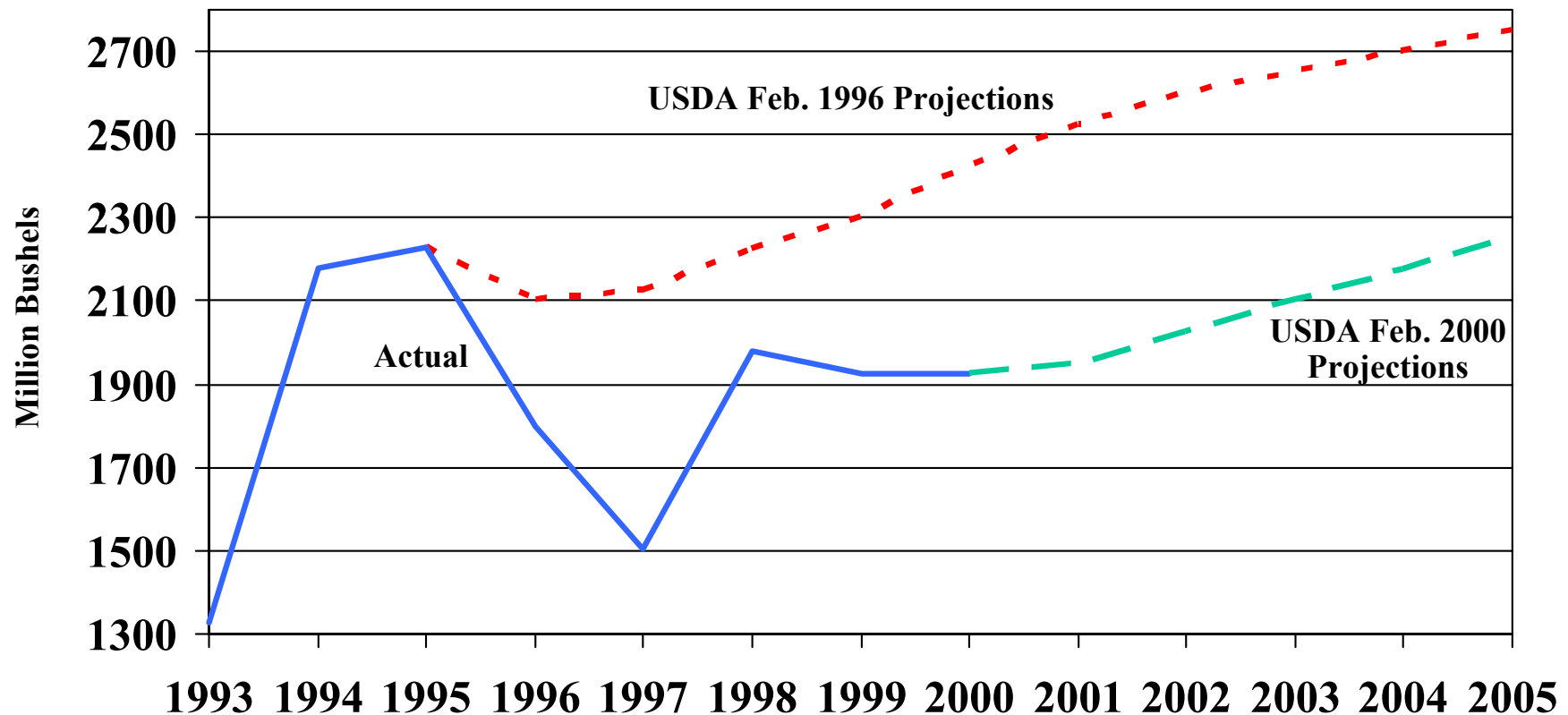
Expectations

- **“High” Prices and Incomes Like 1995/1996**
- **Because:**
 - **Rapid Per Capita Income Growth in China/Asia Will Increase Demand and U.S. exports**
 - **With Planting Flexibility & Decoupled Payments Farmers Would Plant for the Market – Reduce Production When Needed**
 - **With No Brake on Prices, Importers Will Import More From the U.S. When Prices Decline –Increase Consumption & Reduce Production When Needed**
 - **With Marketing Loans, Competitors Would Not Be Under U.S. Price Support Umbrella –Reduce Production When Needed**

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



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

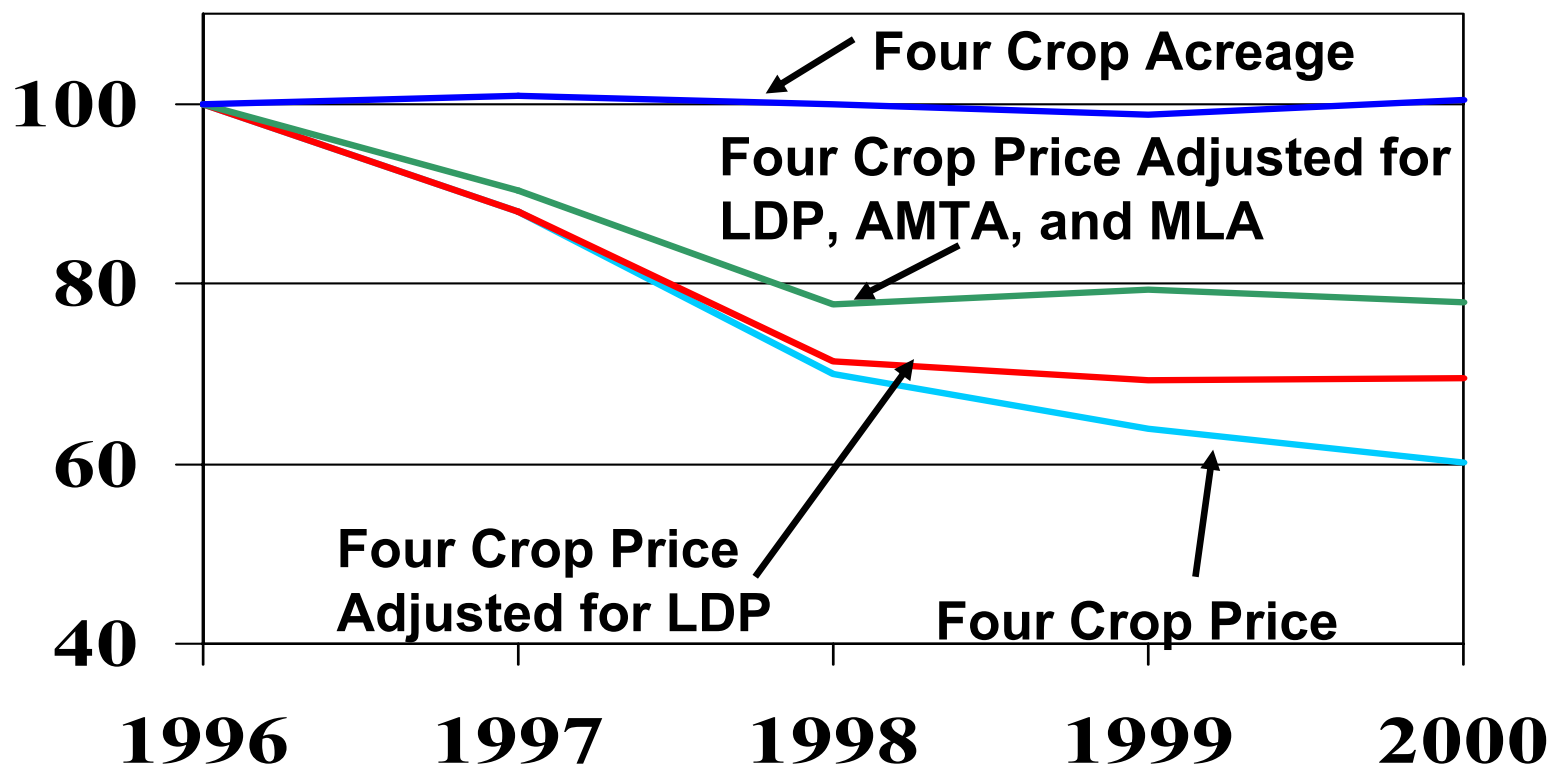


- Expected Rapid Growth in Exports Did Not Occur

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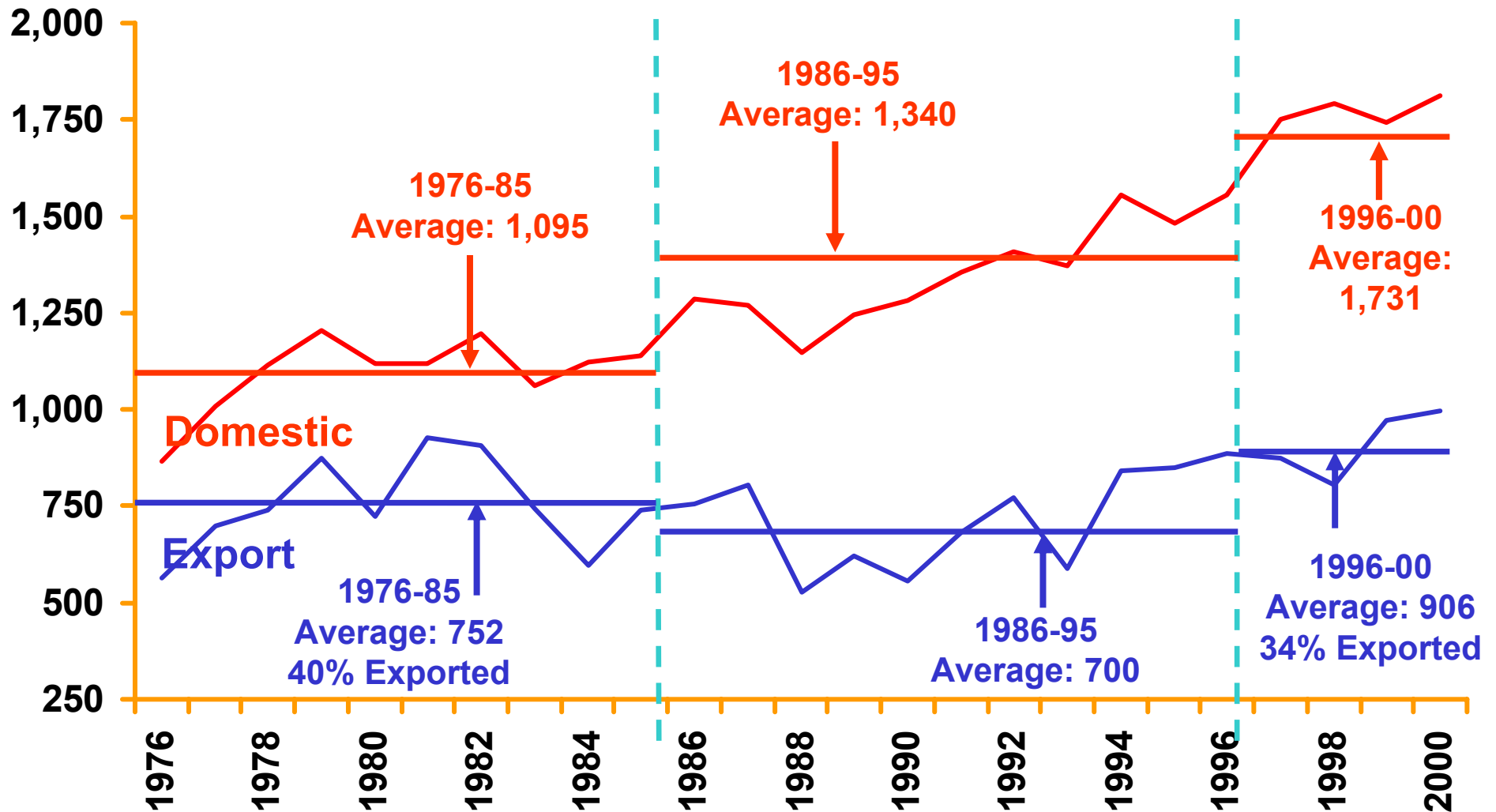
Indexed Four Crop Acreage, Price and Price Adjusted for LDP and Contract Payments



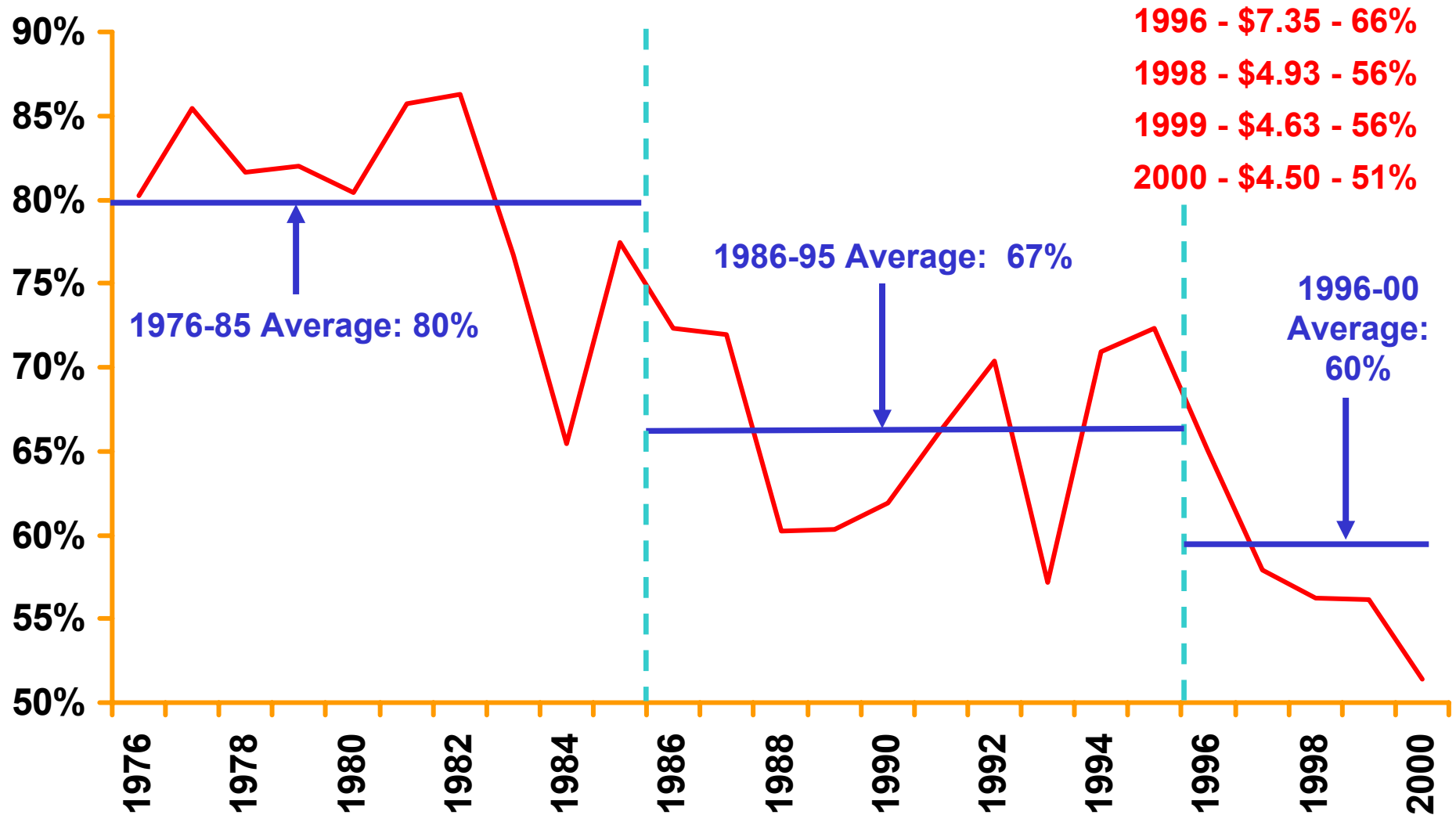
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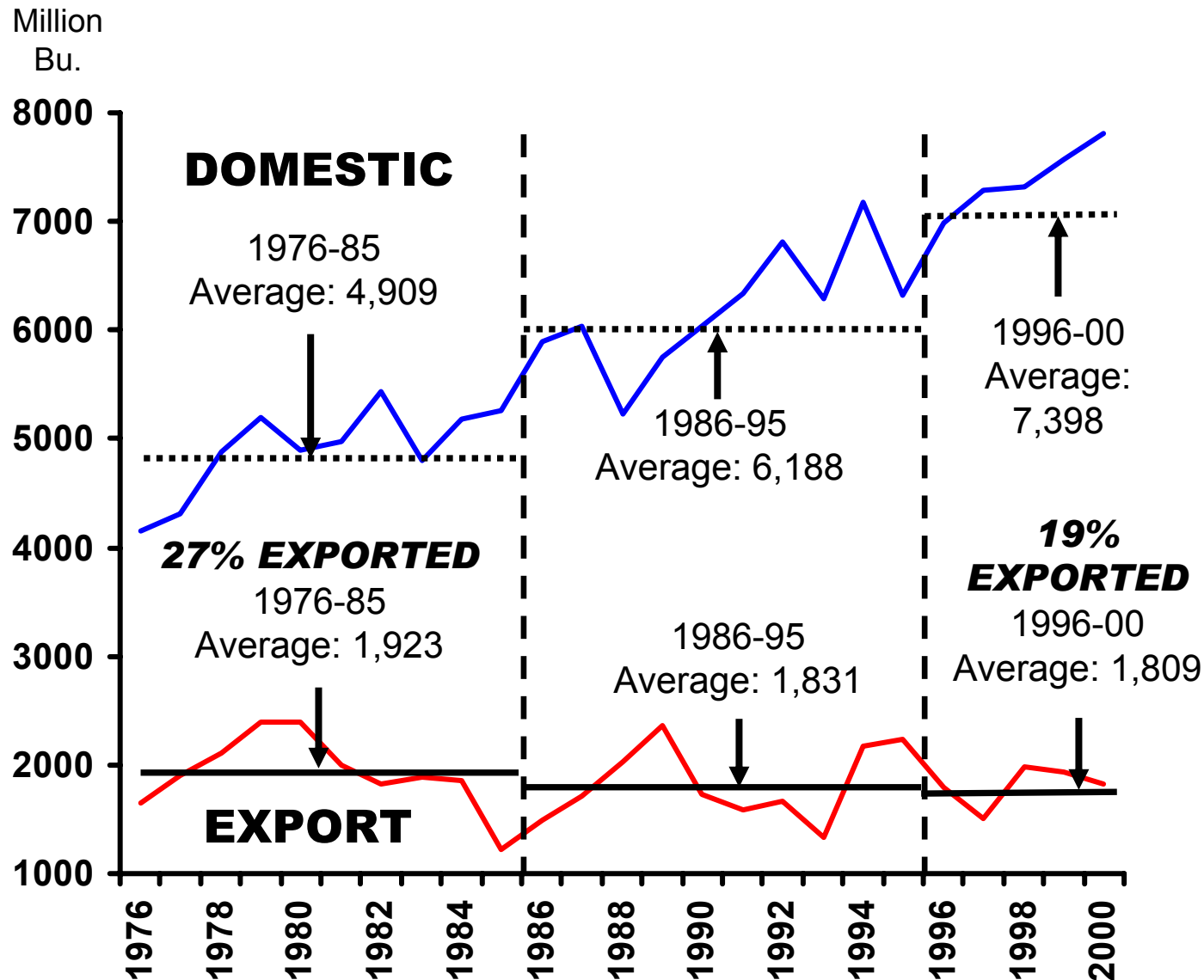
U.S. Domestic & Export Demand



U.S. Share of World Exports



U.S. Domestic and Export Demand

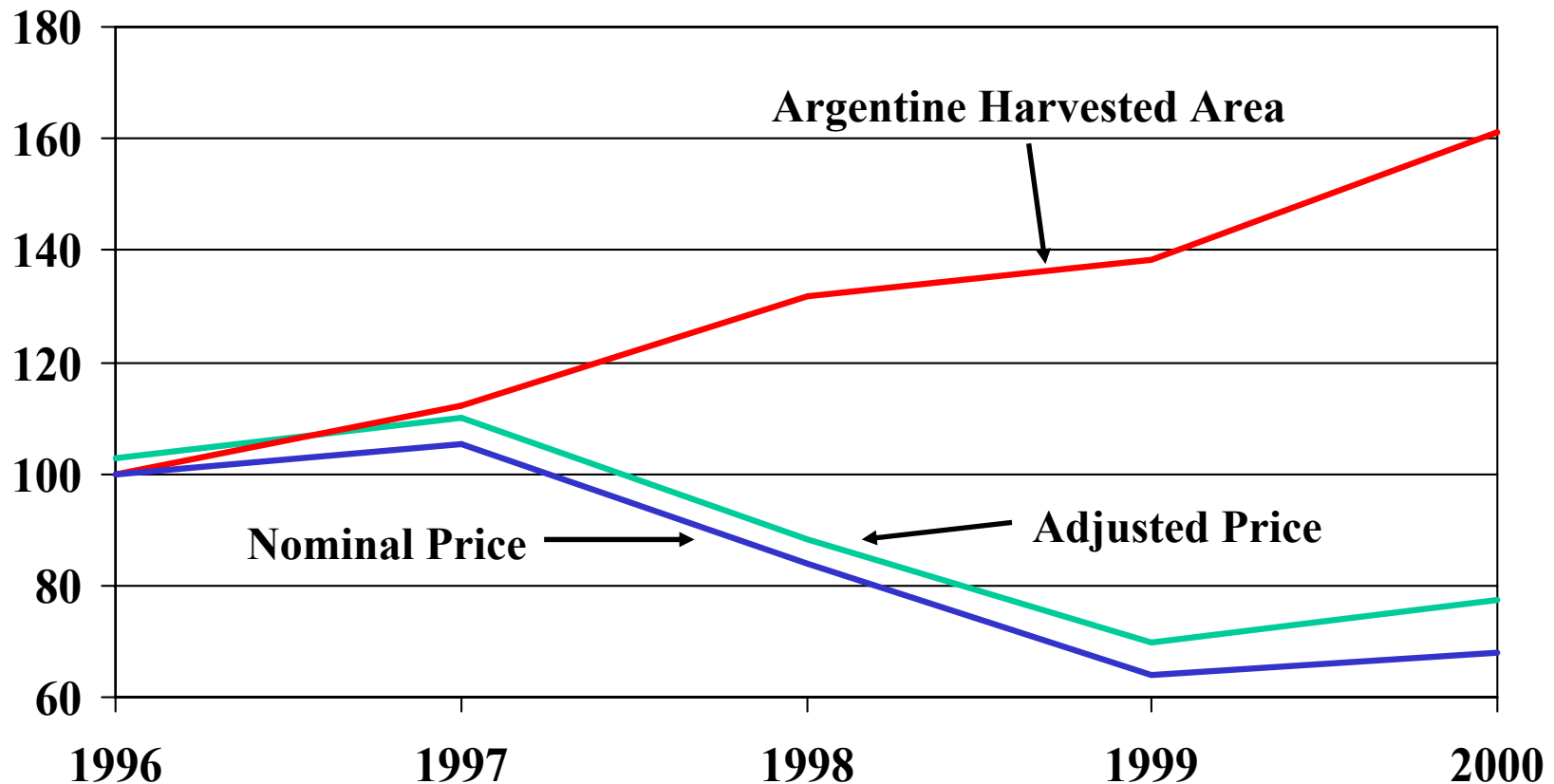


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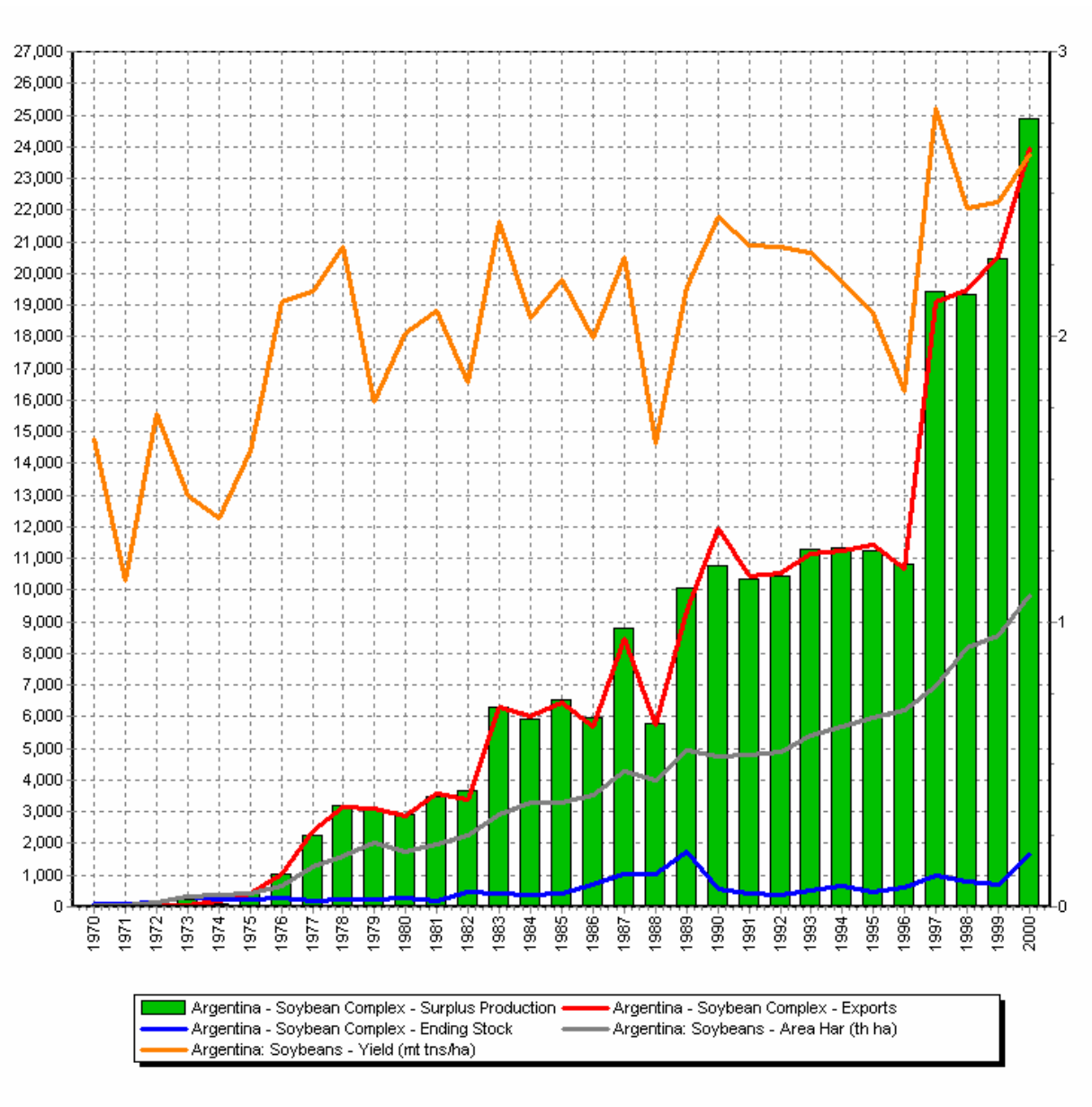
Argentine Soybean Price* and Harvested Area

Indexed 1996=100

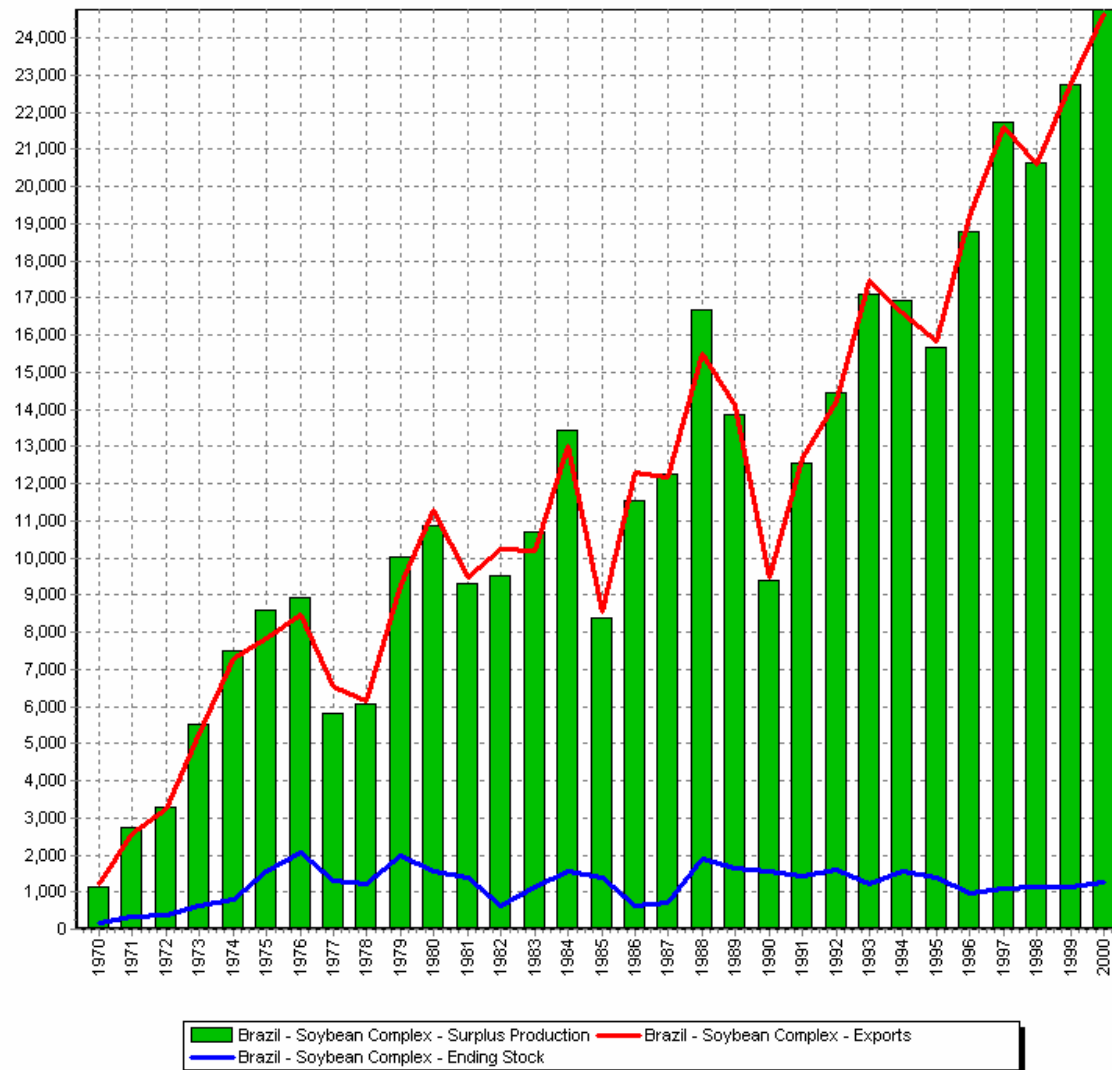


* Price is the export price posted by Abiove, the Brazilian Vegetable Oil Industry Association. Adjusted price is adjusted for changes in exchange rate and inflation.

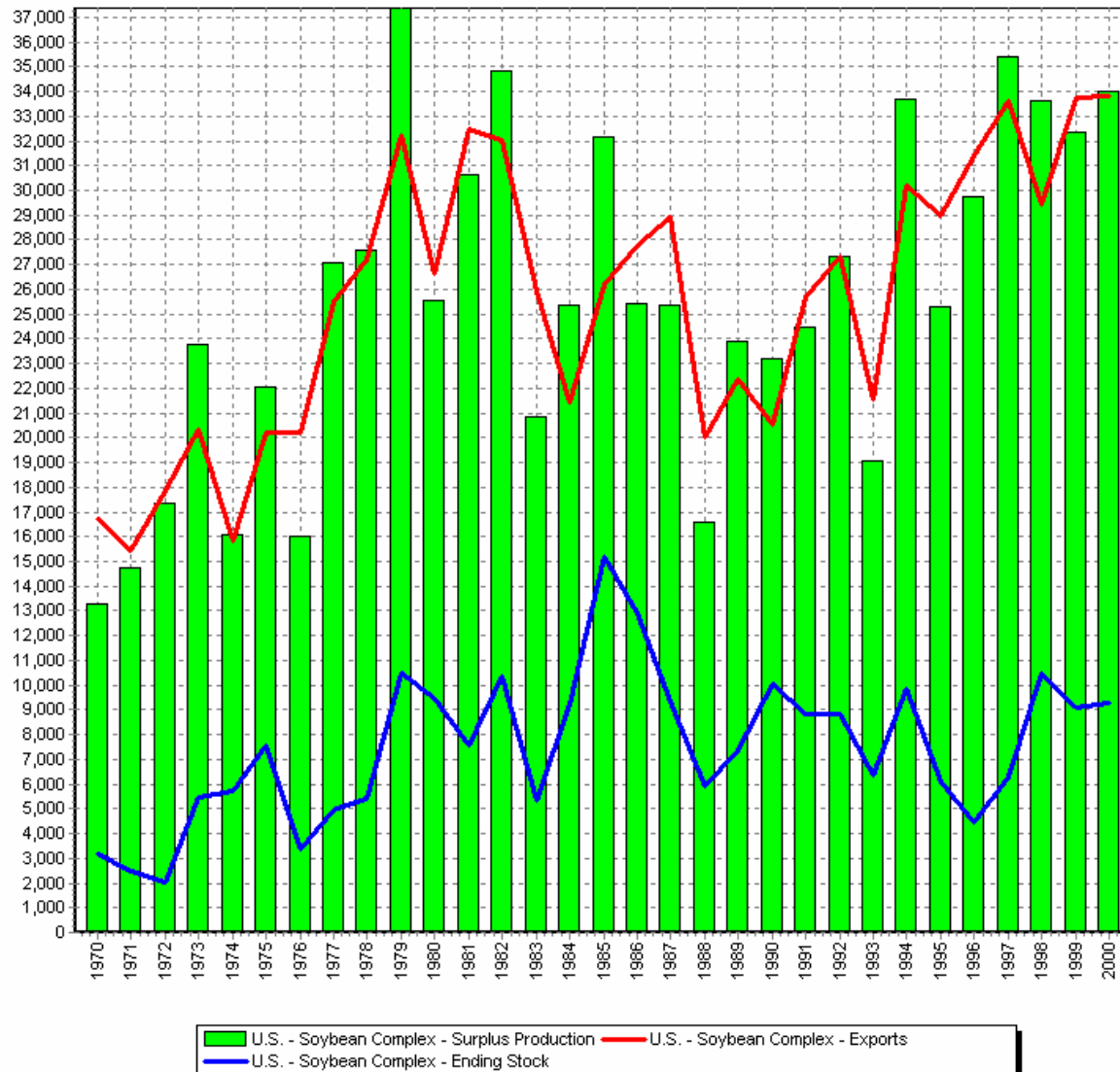
Argentine Soybean Complex Exports and Surplus Production



Brazilian Soybean Complex Exports and Surplus Production

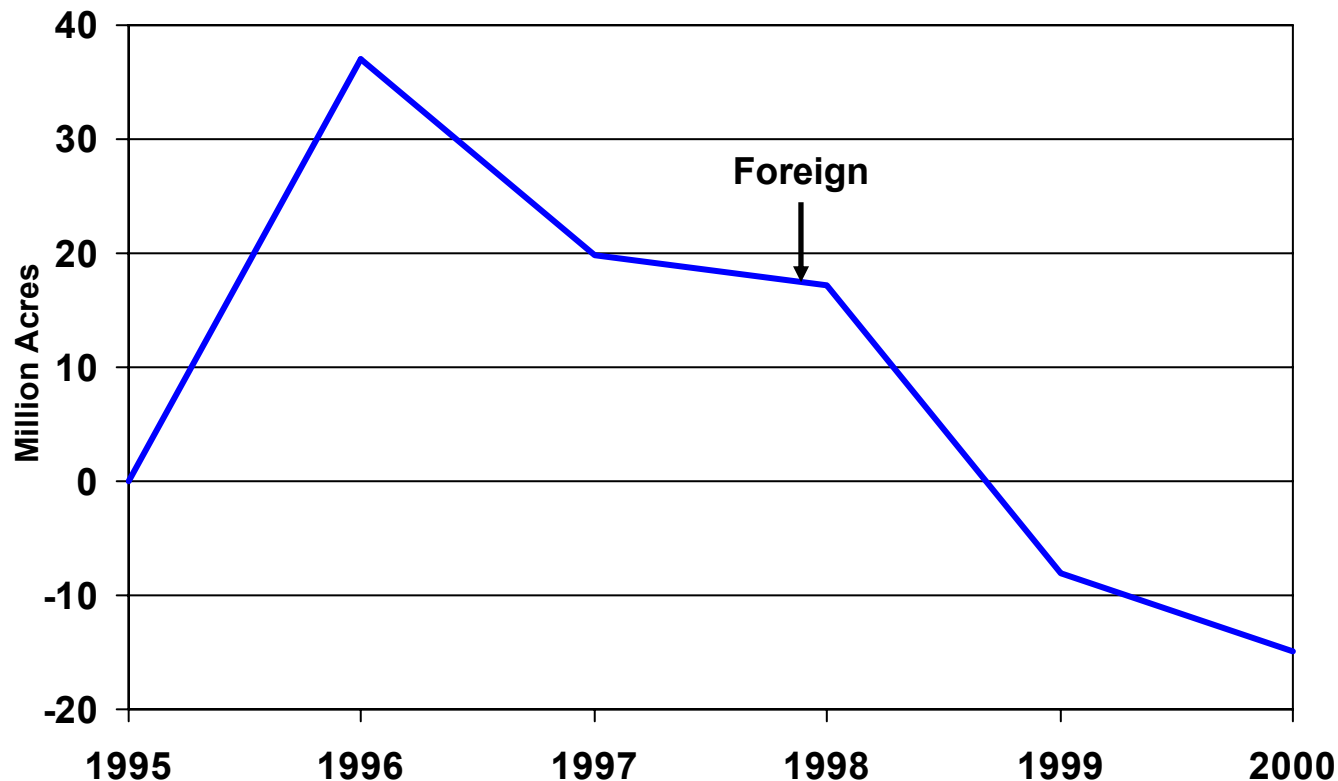


U.S. Soybean Complex Exports and Surplus Production



Foreign Crop Acreage

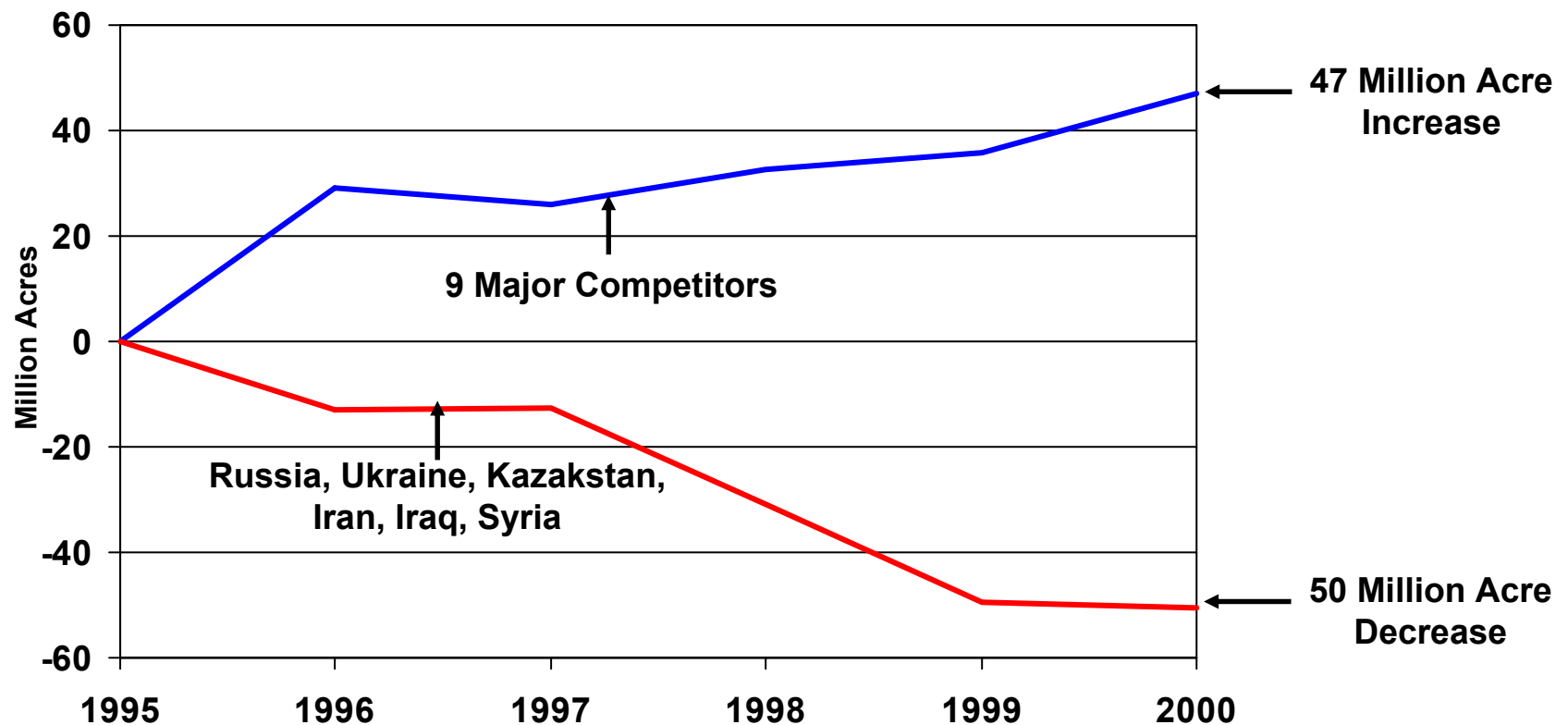
Some have cited the 1999 reduction in foreign harvested acreage as indicative of the benefits of eliminating set-asides



Gain or loss in foreign harvested acres when compared to 1995

Foreign Crop Acreage

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



Gain or loss in 9 competitors' and a grouping of 3 former Soviet Union and 3 Middle Eastern countries' harvested acres when compared to 1995.

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**

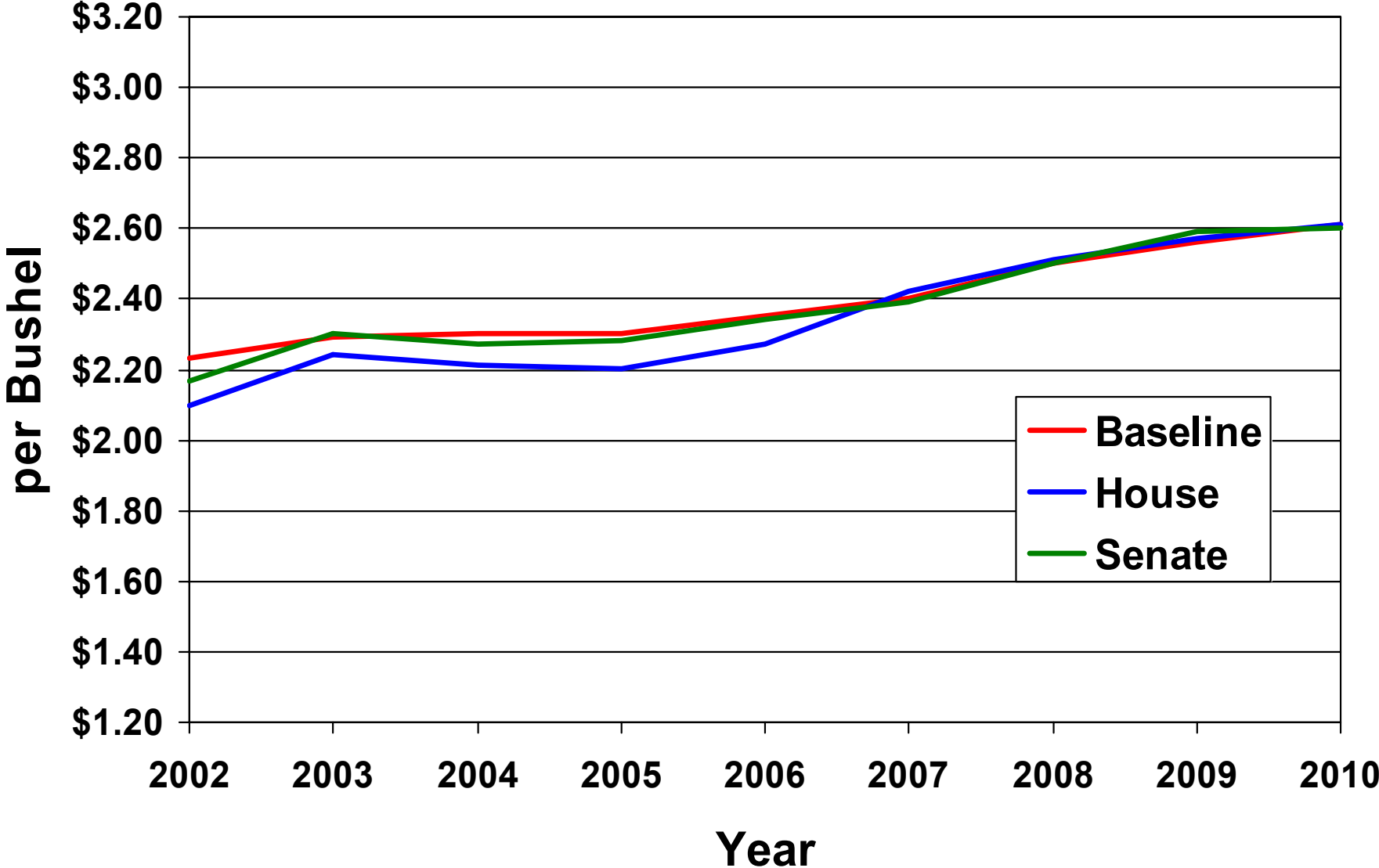
Senate Proposal: S. 1731

- **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**

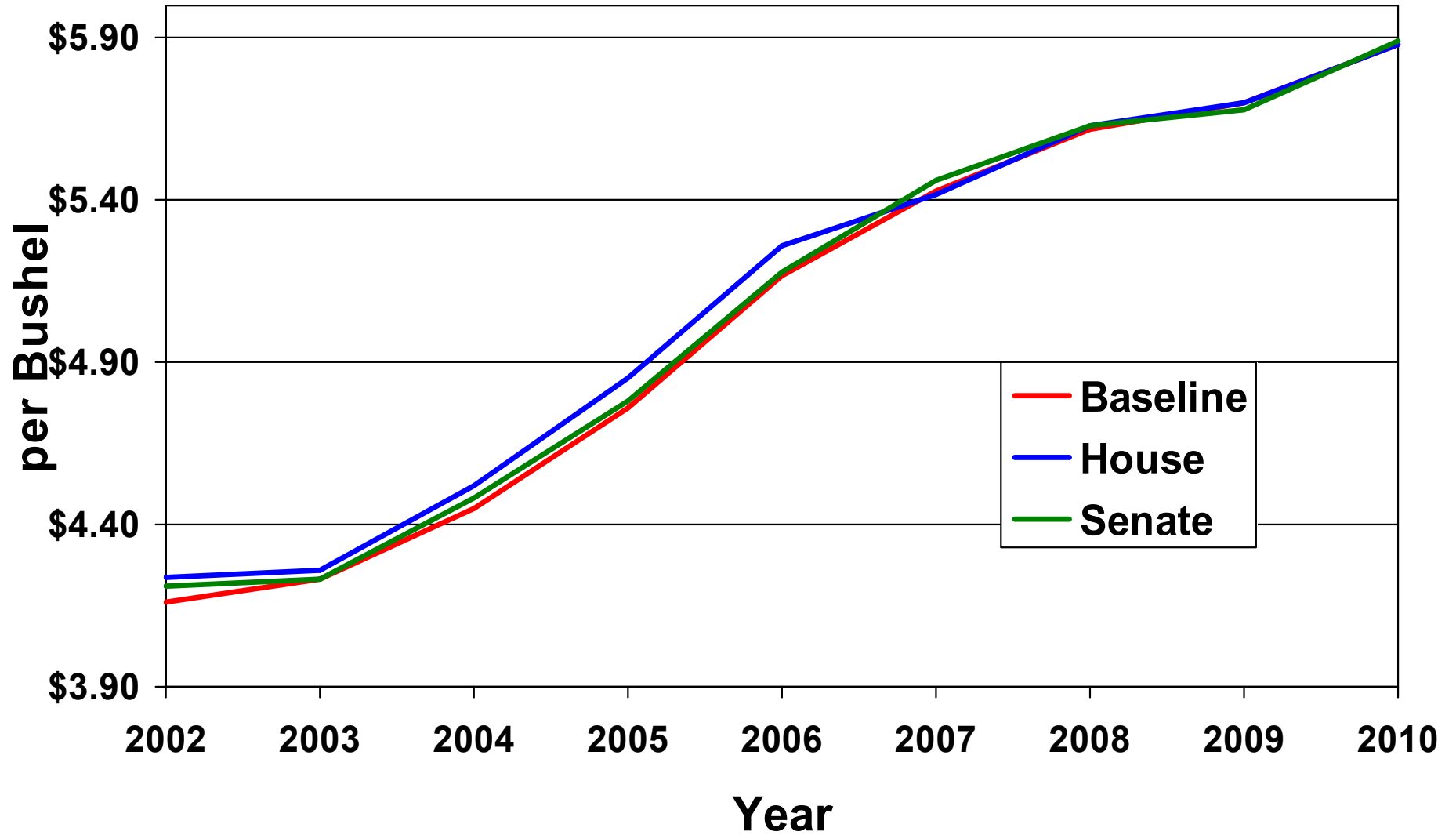
Policy Provisions

		Loan Rate			Fixed Decoupled Payment Rate			Target Price	
		2001 Baseline	H.R. 2646	S. 1731	2001 Baseline	H.R. 2646	S. 1731	H.R. 2646	S. 1731
Crop	Units								
Wheat	\$/Bu.	2.58	2.58	3.00	0.46	0.53	0.45	4.04	3.45
Corn	\$/Bu.	1.89	1.89	2.08	0.26	0.30	0.27	2.78	2.35
Sorghum	\$/Bu.	1.69	1.89	2.08	0.31	0.36	0.27	2.64	2.35
Up. Cotton	\$/Lb.	0.519	0.519	0.550	0.056	0.065	0.130	0.736	0.680
Soybeans	\$/Bu.	5.26	4.92	5.20	n.a.	0.42	0.55	5.86	5.75

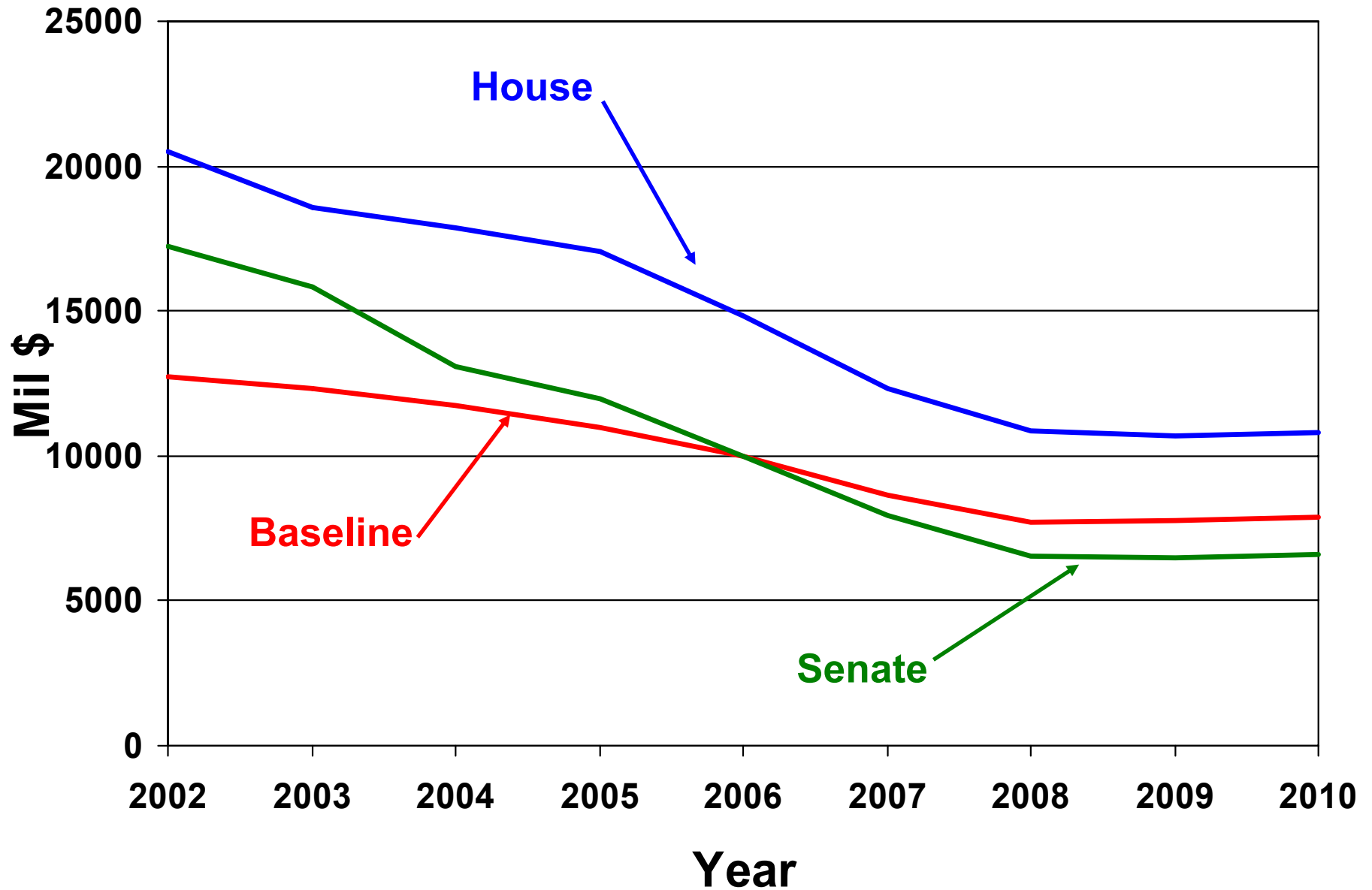
Corn Market Price



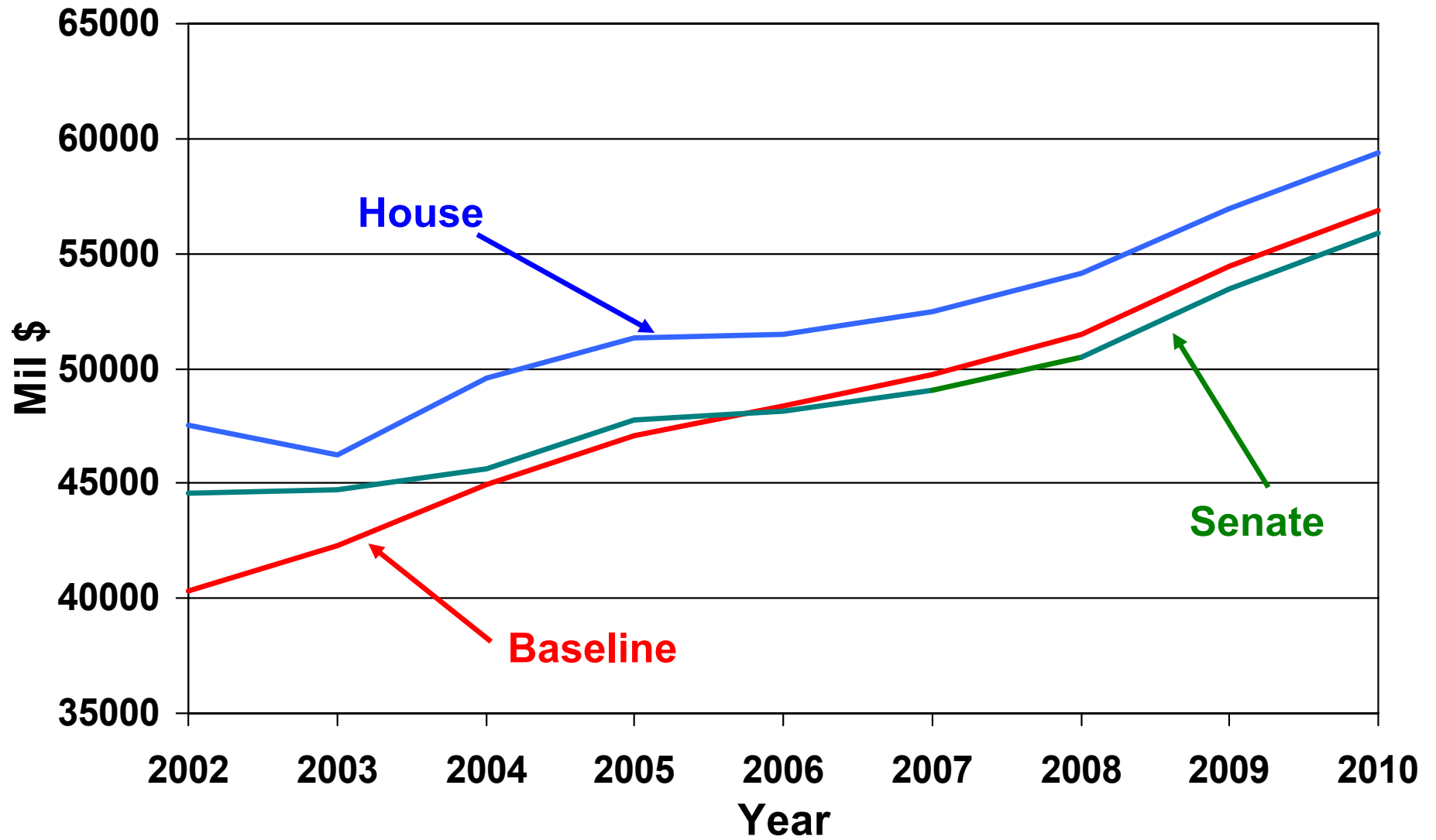
Soybean Market Price



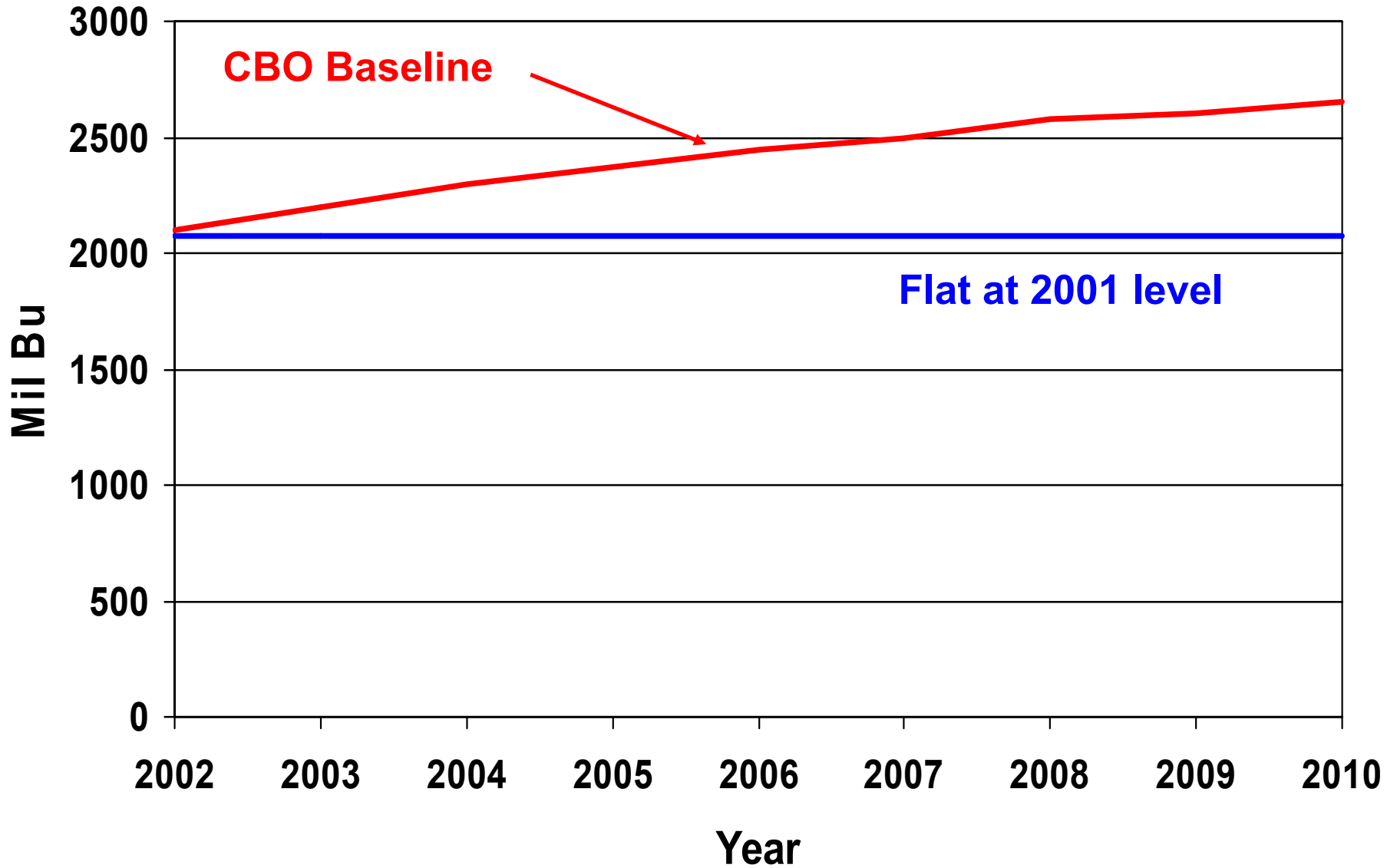
Total Government Payments



Net Farm Income

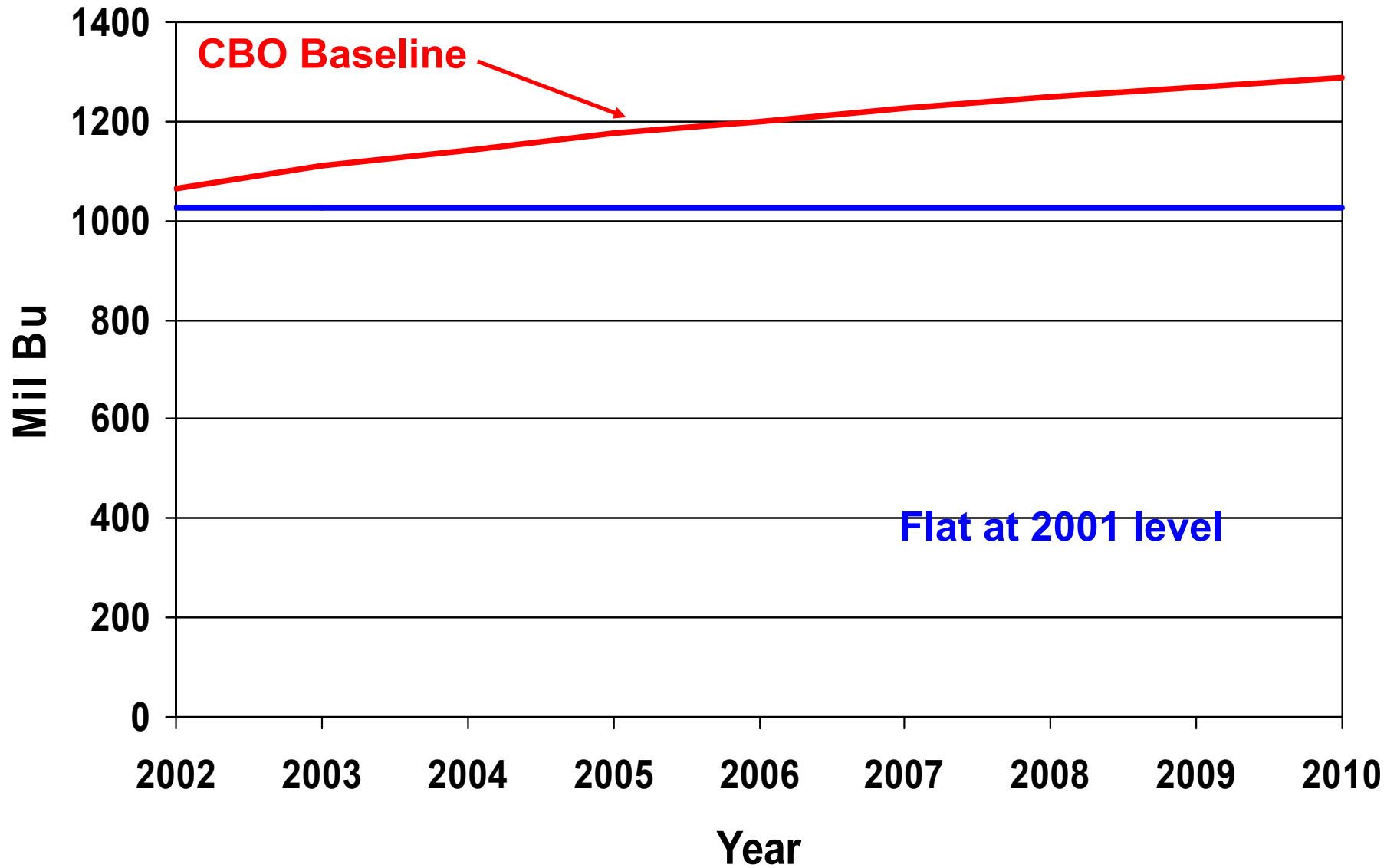


Corn Exports: Baseline and Flat



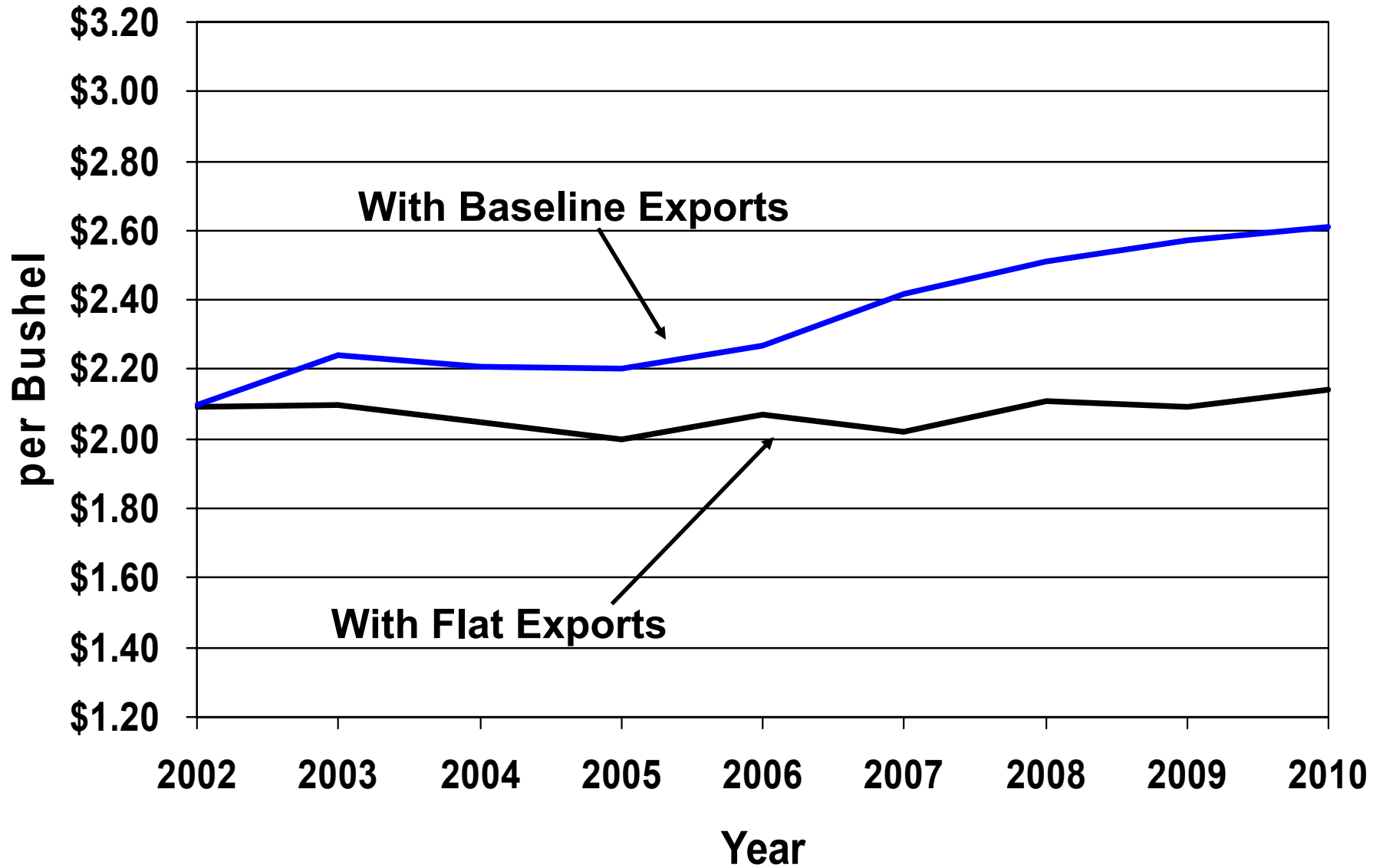
Wheat Exports:

Baseline and Flat



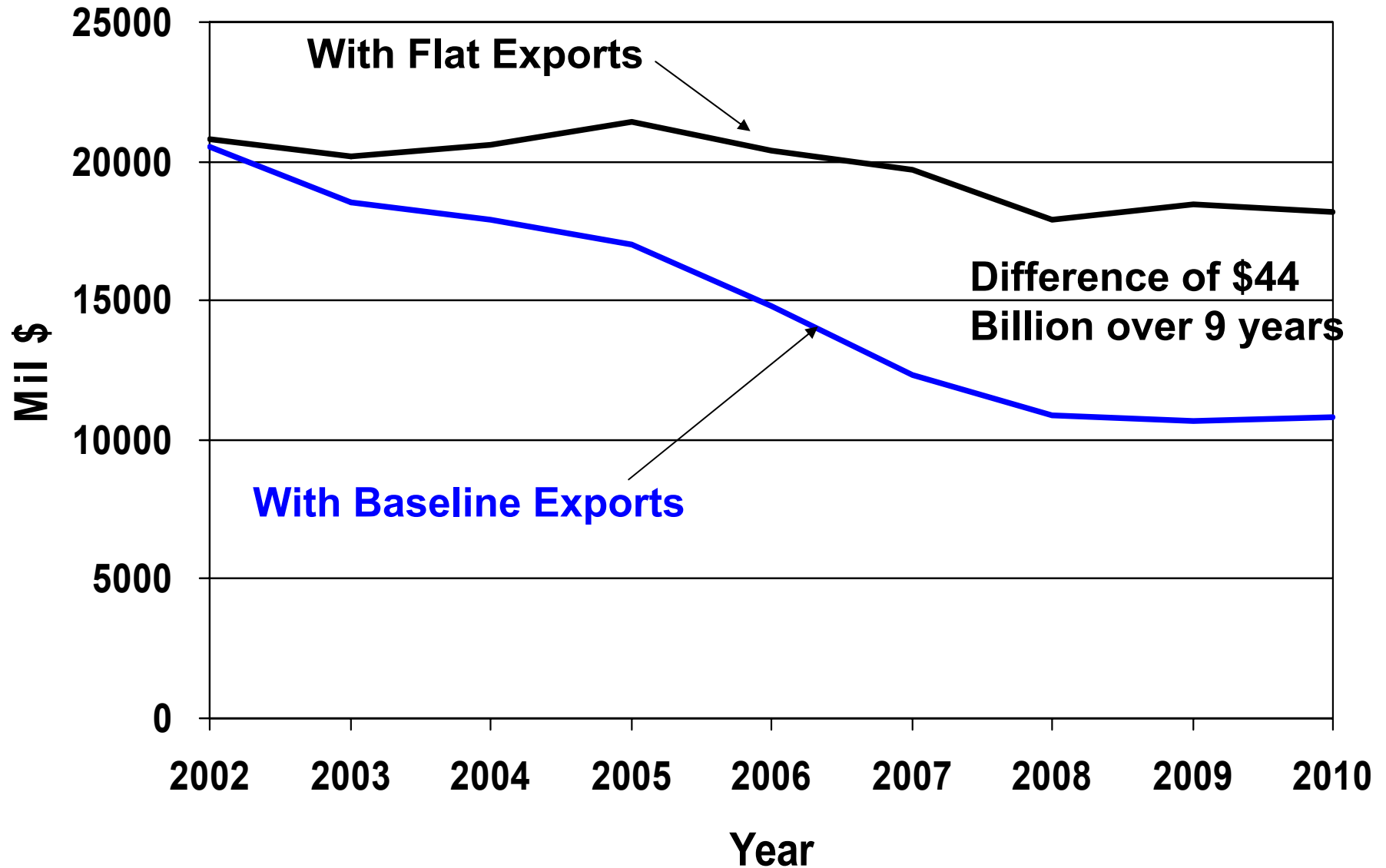
Corn Price

House Bill with flat exports vs. House Bill with baseline exports



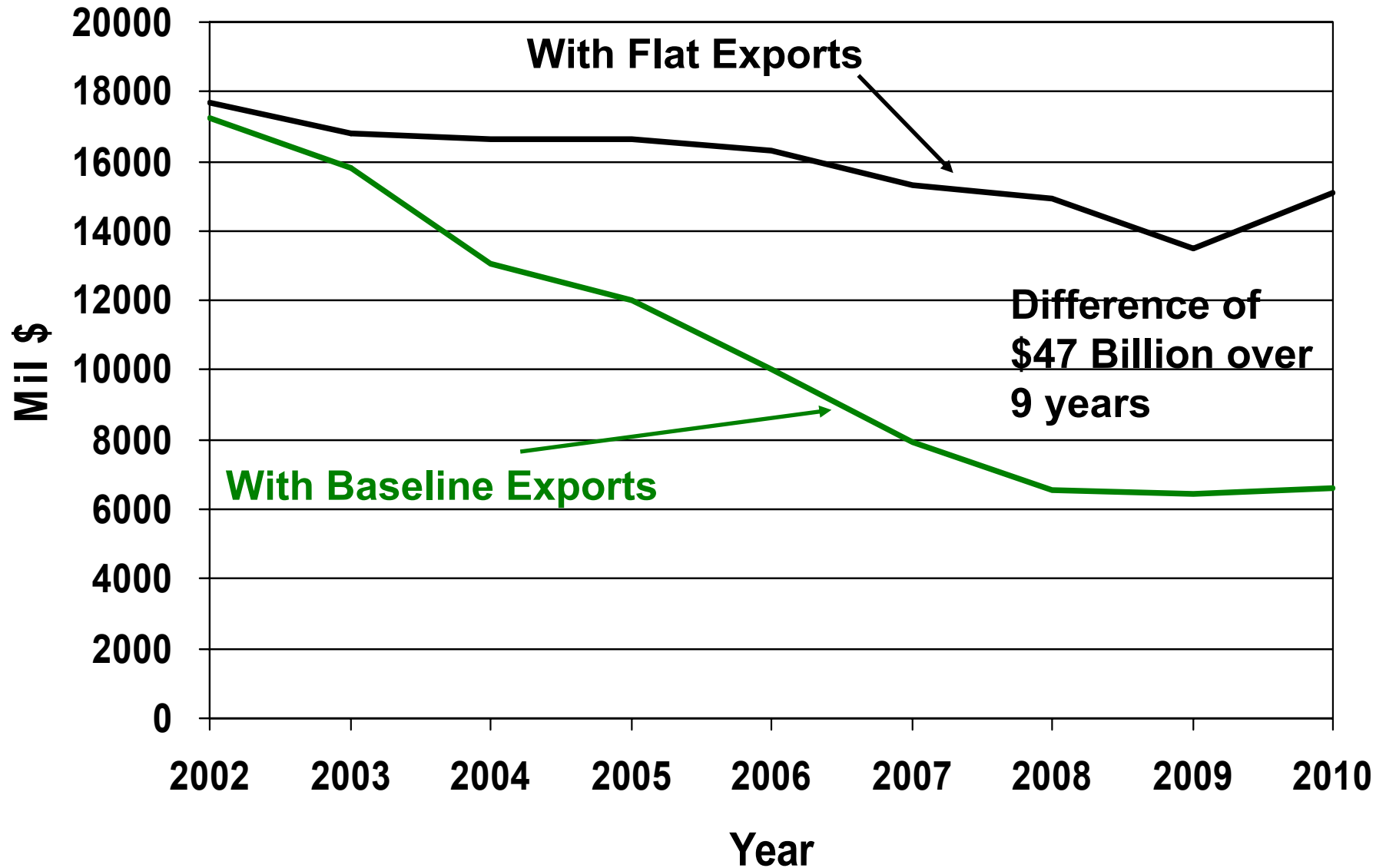
Total Government Payments

House Bill with flat exports vs. House Bill with baseline exports



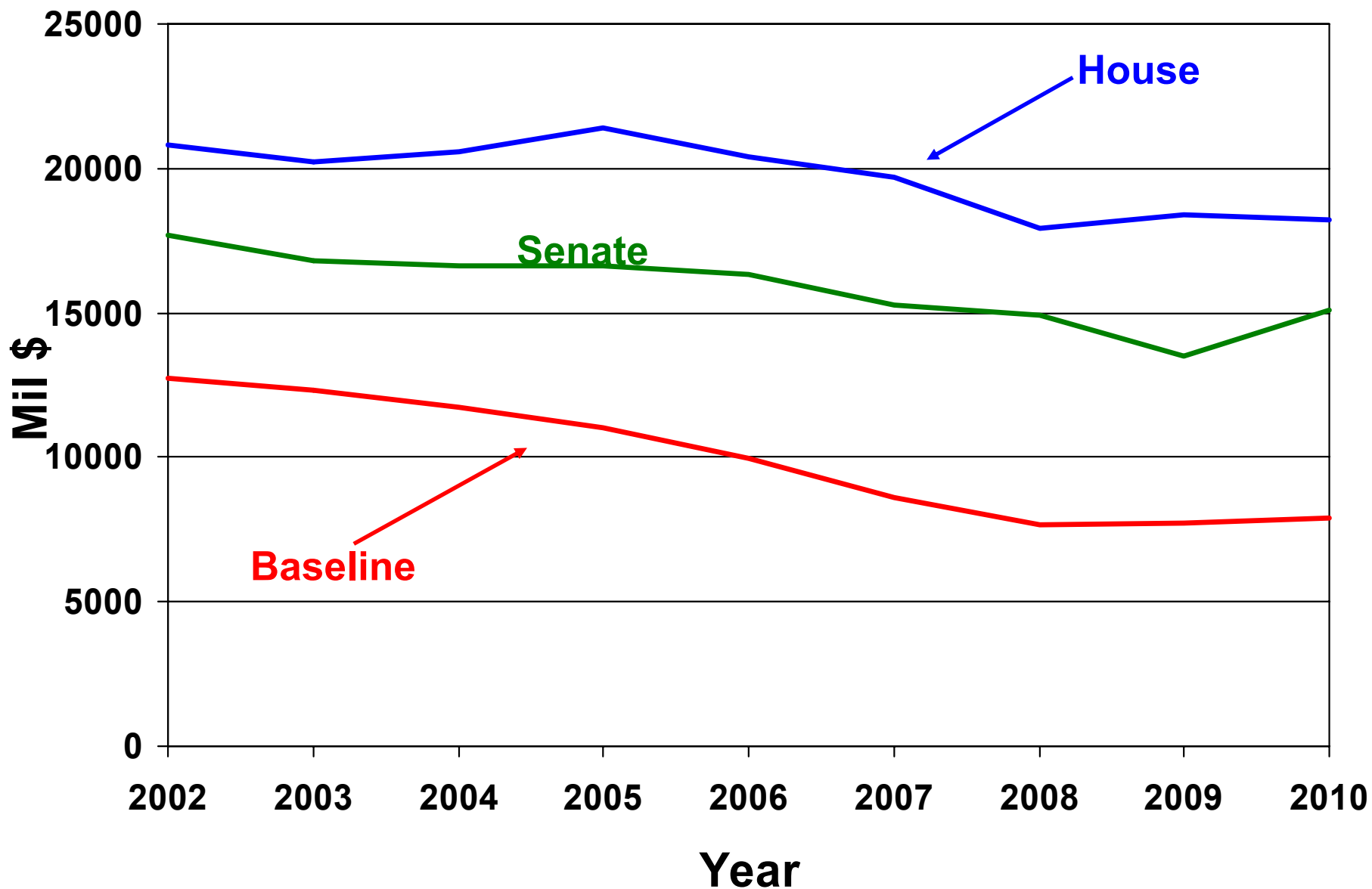
Total Government Payments

Senate Bill with flat exports vs. Senate Bill with baseline exports

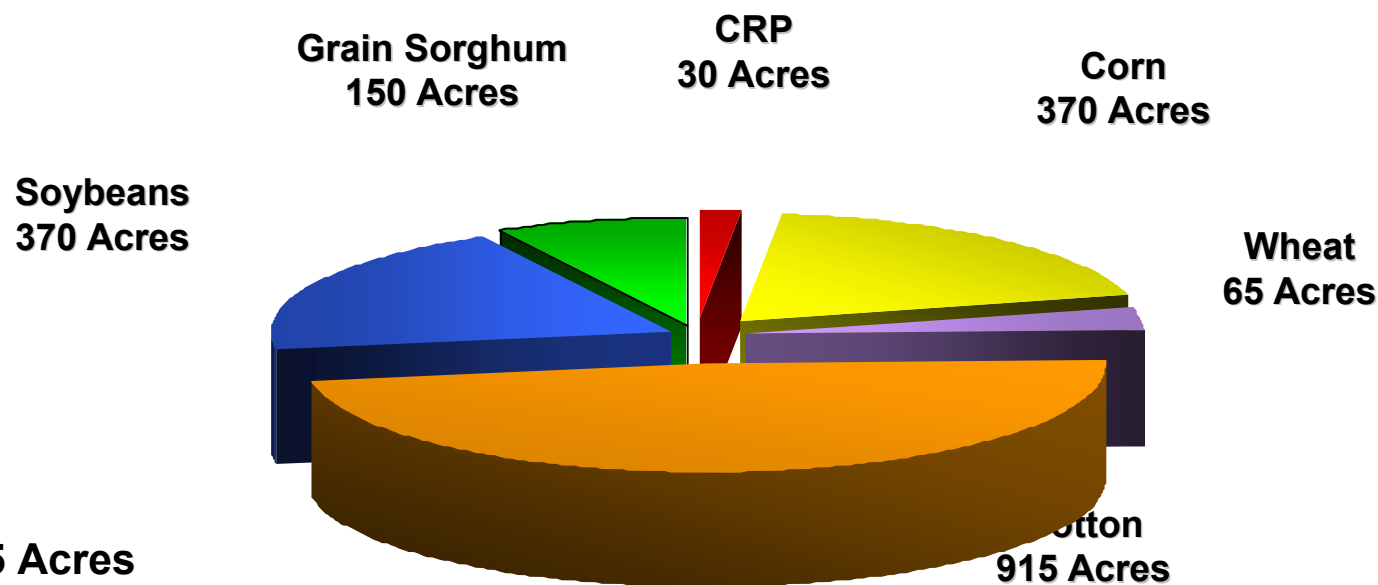


Total Government Payments:

With Corn and Wheat Exports Flat



West Tennessee Moderate-Size Cotton Farm



Owned: 225

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

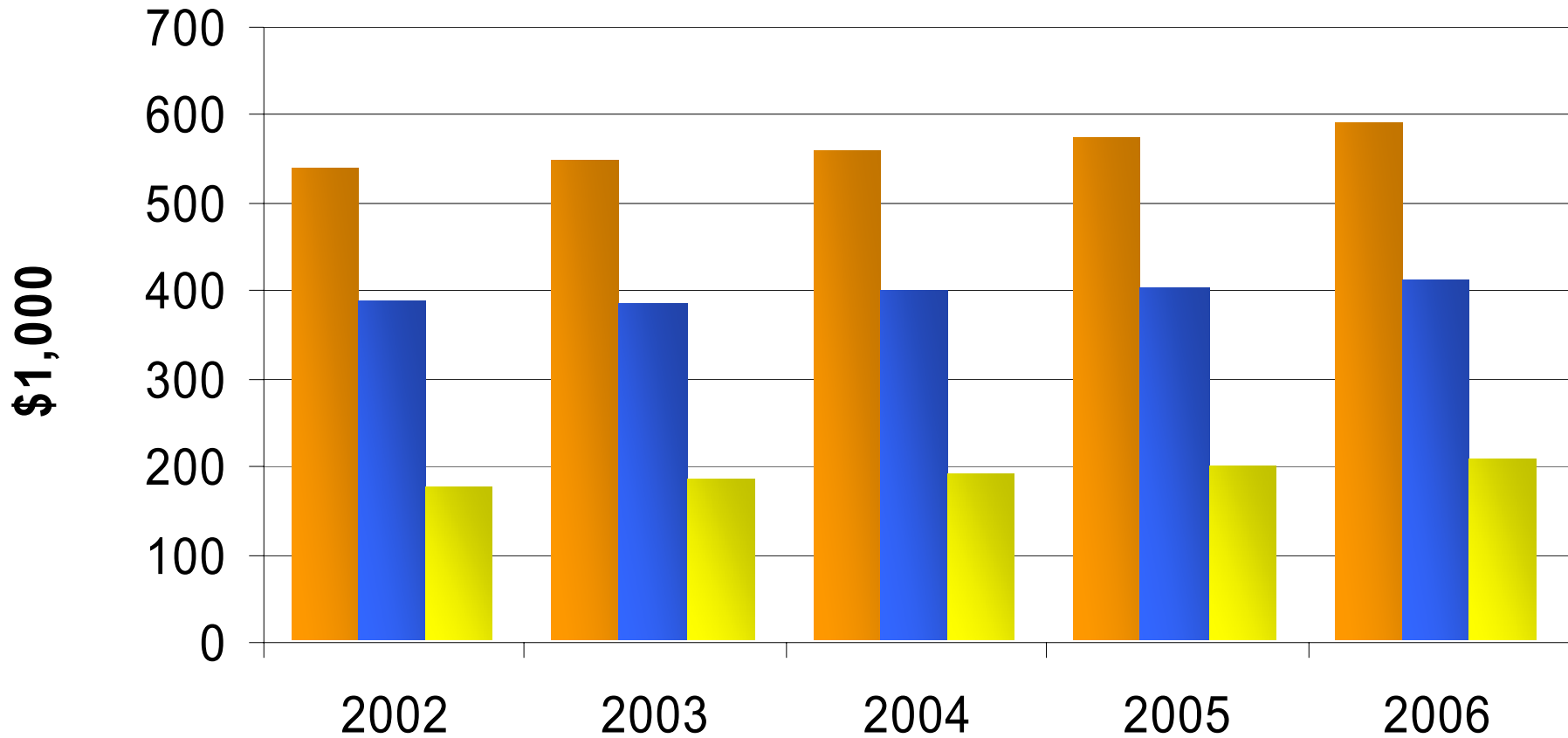
- A 1,900-acre soybean farm in Fayette County, TN
- 2/3 No-Till
- No off-farm income considered
- Farm assets are \$1,342,800
 - Real Estate: \$665,000
 - Machinery: \$377,800
 - Other Assets: \$300,000

Baseline Scenarios

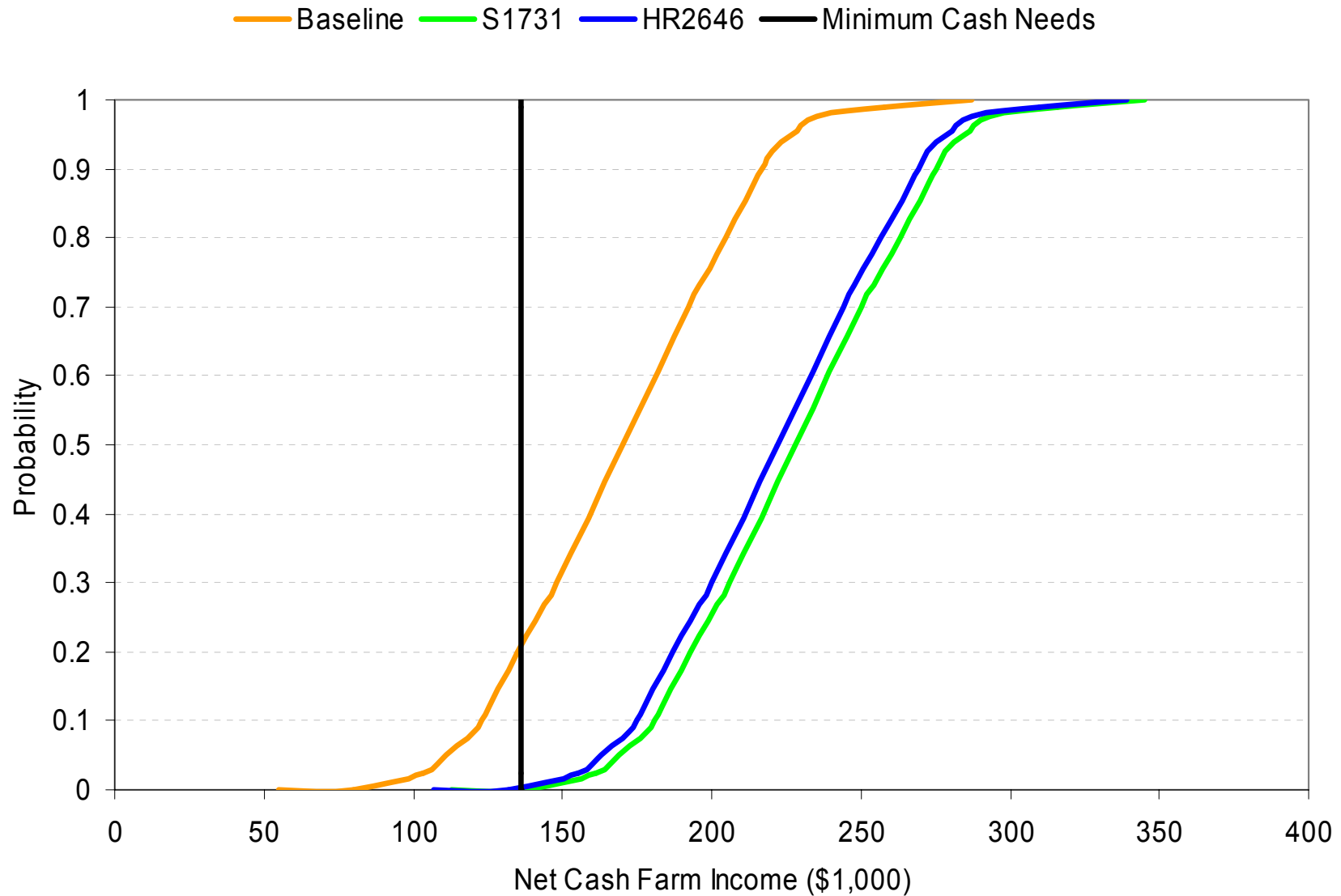
- **Farm projections made using the 2001 FAPRI baseline projections**
- **Baseline assumes that 1996 Farm Bill provisions continue at 2002 levels without additional payments**
- **Incorporates price and yield risk**
- **Projects net farm income, cash flow, long-term survivability, financial strength**

Moderate TN Cotton Farm

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



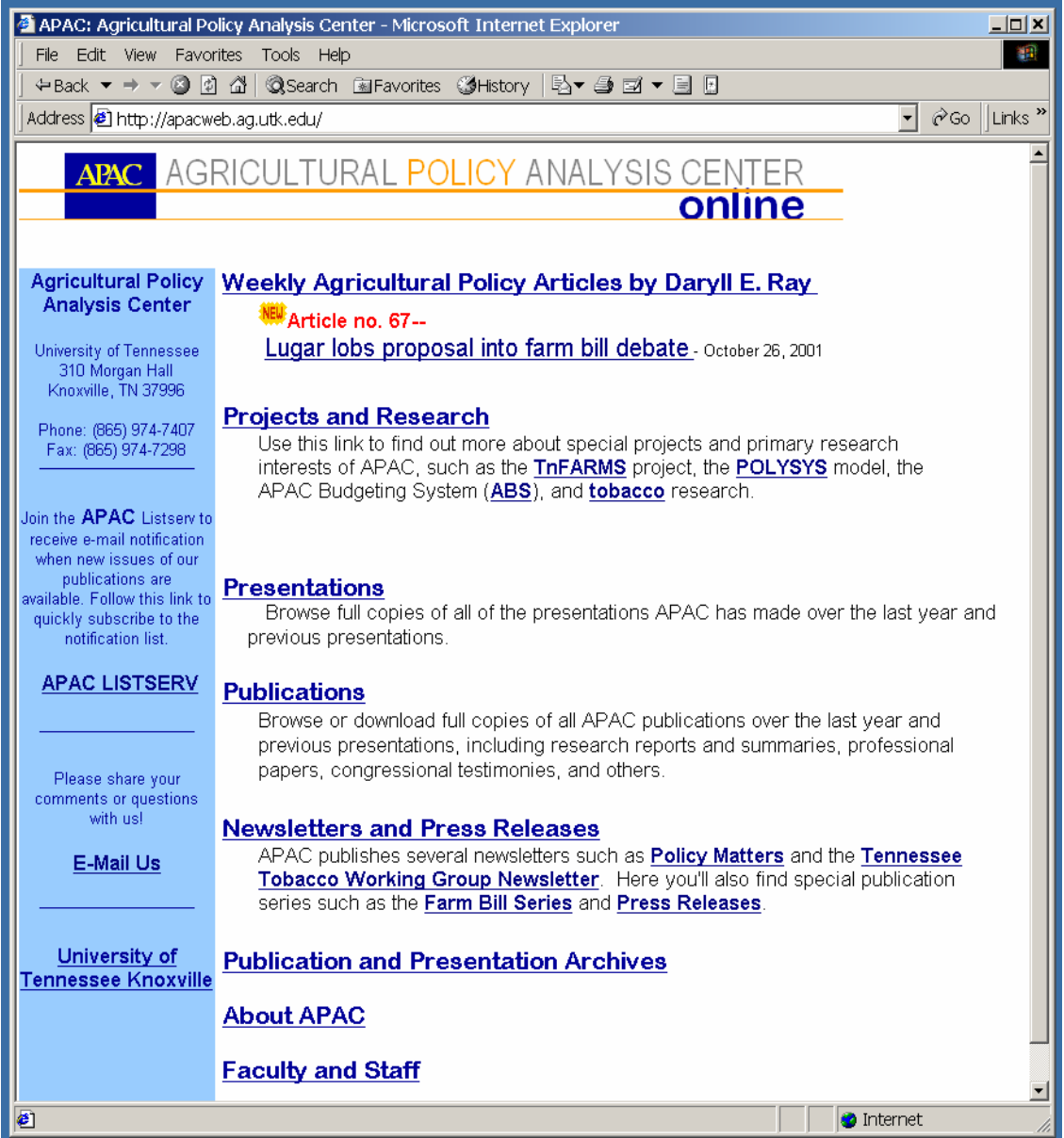
Moderate Cotton Farm Results



For More Information ... www.agpolicy.org

Agricultural Policy Analysis Center
The University of Tennessee
Dept. of Agricultural Economics
310 Morgan Hall
Knoxville, TN 37901

Weekly Columns Available
On Website also: agpolicy.org



The screenshot shows a Microsoft Internet Explorer browser window displaying the APAC website. The address bar shows the URL <http://apacweb.ag.utk.edu/>. The website header features the APAC logo and the text "AGRICULTURAL POLICY ANALYSIS CENTER online". The main content area is divided into several sections:

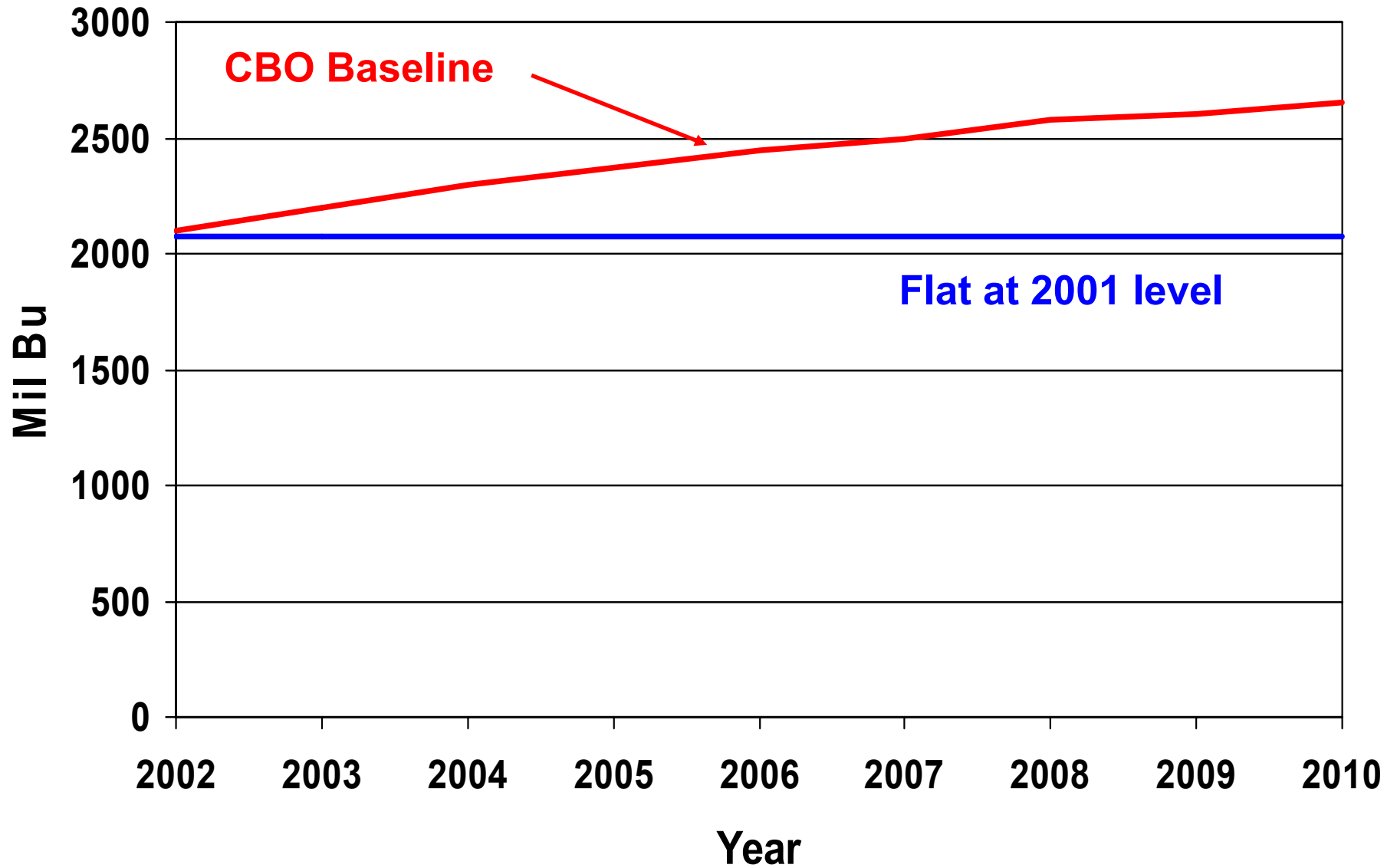
- Agricultural Policy Analysis Center**: Includes contact information for the University of Tennessee, 310 Morgan Hall, Knoxville, TN 37996. Phone: (865) 974-7407, Fax: (865) 974-7298.
- Weekly Agricultural Policy Articles by Darryll E. Ray**: Features a new article titled "Lugar lobs proposal into farm bill debate" dated October 26, 2001.
- Projects and Research**: Describes special projects and primary research interests of APAC, including the TnFARMS project, the POLYSYS model, the APAC Budgeting System (ABS), and tobacco research.
- Presentations**: Offers full copies of presentations made over the last year and previous presentations.
- Publications**: Provides 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**: Lists several newsletters such as Policy Matters and the Tennessee Tobacco Working Group Newsletter, along with special publication series like the Farm Bill Series and Press Releases.
- Publication and Presentation Archives**: A link to access past publications and presentations.
- About APAC** and **Faculty and Staff**: Links to learn more about the center and its personnel.

The browser window also shows a navigation menu with options like File, Edit, View, Favorites, Tools, and Help. The status bar at the bottom indicates the connection is to the Internet.

Results Summary

- **Base acres Updated**
- **Incomes improve significantly**
 - Avg net cash farm inc., moderate: \$214,000 - \$227,000
- **Reduce probability of a cash flow deficit to near 0%**
- **Slightly more improvement under S. 1731, due to higher payment rates, higher base, front loading**

Corn Exports: Baseline and Flat



Wheat Exports:

Baseline and Flat

