

Farm Security & Rural Investment Act of 2002



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General Approach

- No set-asides
- No stock accumulation
- No market price support
- Some payments decoupled from production, other payments tied to production and level of price
- 6-year lifespan (begins 2002)



Commodity Provisions

- Continues fixed annual payments
- Continues deficiency payments when prices go below the loan rate
- Institutes new Counter-Cyclical Program (CCP) with target prices
- Allows for updating acreage and yields and addition of oilseed acreage for CCP



Fixed Payments & Target Prices

	Fixed Payment	Target Price	
	2002-2007	2002-2003	2004-2007
Wheat (bu)	\$0.52	\$3.86	\$3.92
Corn (bu)	0.28	2.60	2.63
Sorghum (bu)	0.35	2.54	2.57
Barley (bu)	0.24	2.21	2.24
Oats (bu)	0.024	1.40	1.44
Rice (cwt)	2.35	10.50	10.50
Soybeans (bu)	0.44	5.80	5.80
Upland Cotton (lb)	0.0667	0.7240	0.7240



Marketing Loan Rates

	2001 Rates	2002-2003	2004-2007
Wheat (bu)	\$2.58	\$2.80	\$2.75
Corn (bu)	1.89	1.98	1.95
Sorghum (bu)	1.71	1.98	1.95
Barley (bu)	1.65	1.88	1.85
Oats (bu)	1.21	1.35	1.33
Rice (cwt)	6.50	6.50	6.50
Soybeans (bu)	5.26	5.00	5.00
Upland Cotton (lb)	0.52	0.52	0.52



Decisions, Decisions, Decisions

- Farmers will have **more** decisions to make, not less
- Option of updating base acres and yields
- Several alternatives for timing of payments
- May be new opportunities for conservation program participation
- Payment limits may affect decisions
- Sign-up decisions made under risk



Direct Payments

- Replaces decoupled payments established in 1996 farm bill (AMTA, PFC)
- Paid at a fixed rate per crop on 85% of base acres, includes additional crops
- Receive direct payments whether you plant a crop or not
- Option to update base acres, must use “old” program yields
- $DP = (\text{base acres} * 85\%) * \text{old FPY} * DP \text{ rate}$



To Update Or Not To Update

- Tradeoffs, primarily because entire farm must be updated, not selected commodities
- Updating often adds income for one commodity at the expense of another
- Decision is extremely farm-specific
- Updated program yields not used to calculate direct payments, just CCPs
- Direct payments and CCPs made on 85% of base acres



Counter-Cyclical Payments

- Establishes a vehicle for “automatically” distributing the emergency/ad hoc payments that have been made since 1998
- Do not have to produce commodity to receive CCP
- Commodity specific based on a national price trigger (target price)
- Payment rate depends on the effective price for the commodity, where effective price is the direct payment rate plus the higher of the market price or national loan rate
 - Target price - effective price = CCP rate (\$/unit)
 - CCP = (base acres * 85%) * program yield * CCP rate



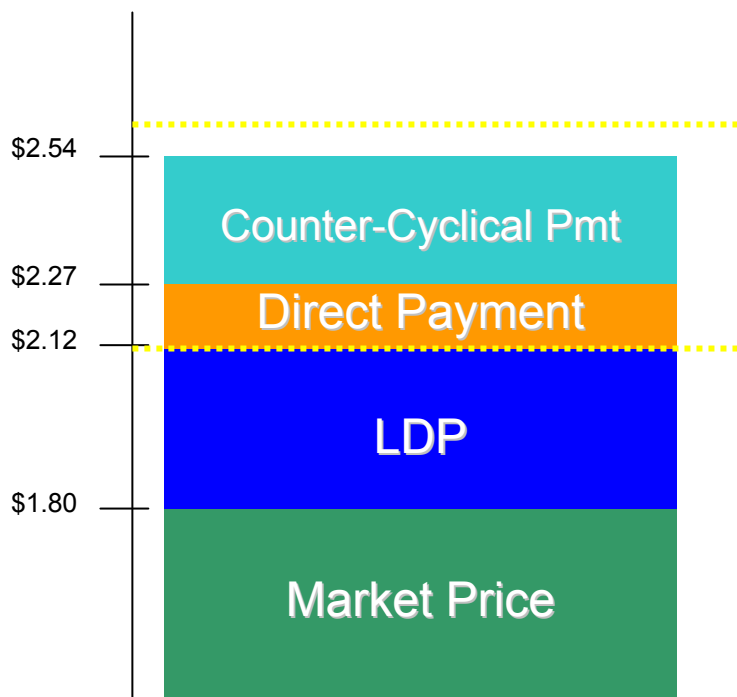
Target Prices

- Target price **is not** a guaranteed price
- Target price is merely a number used to calculate other possible payments
- As price rises, the difference between market price and revenue received narrows
- Maximizing farm program benefits more intertwined with market direction and marketing decisions than ever before

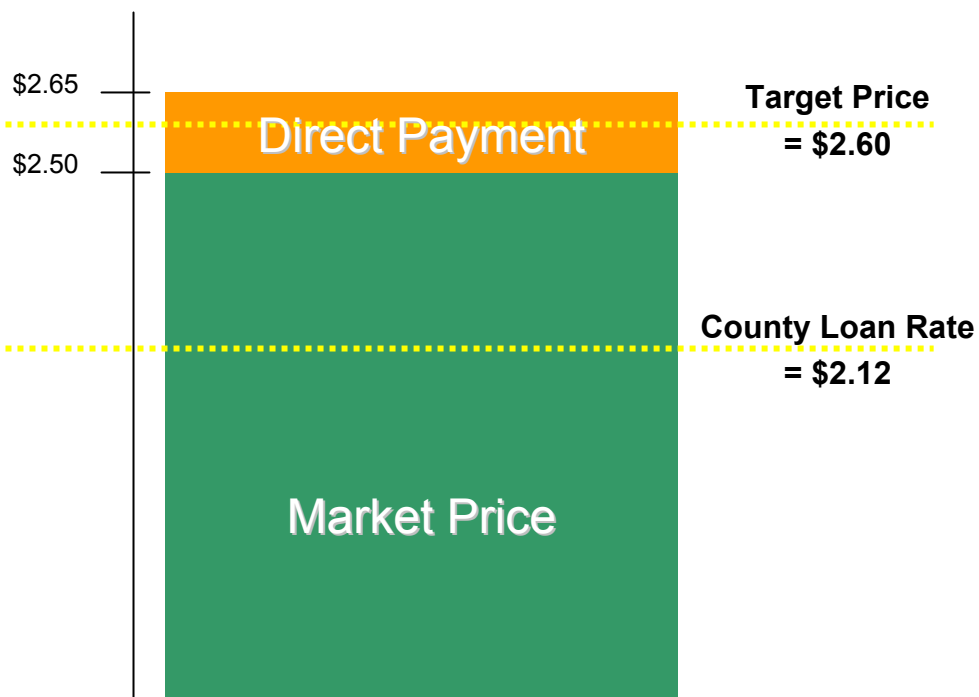


Corn Price/Revenue Example*

Cash Price: \$1.80
Revenue Received: \$2.54



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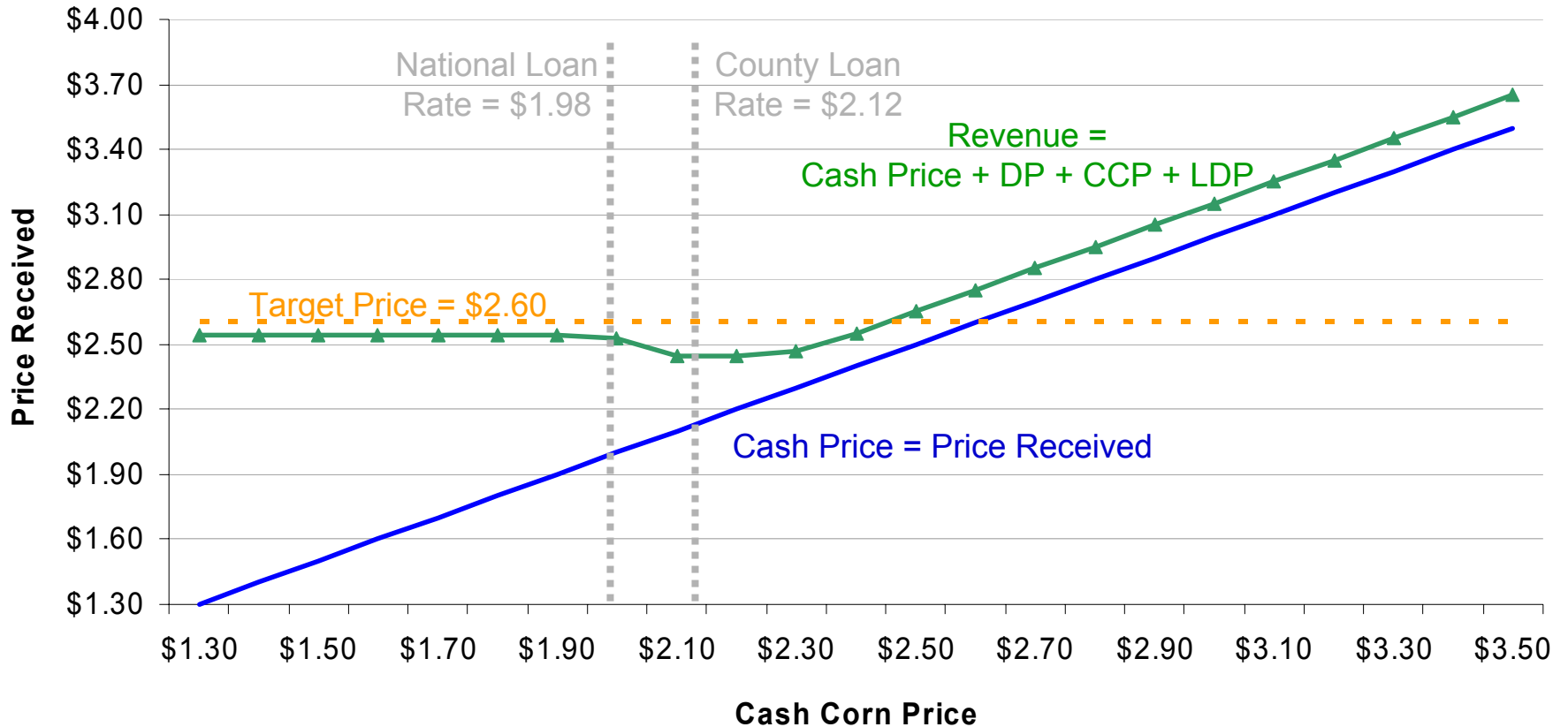


** Assumptions:*

- “Old” Farm Program Yield = 80
- Updated CCP Yield = 117
- “Old” Program Base Acreage = 1,200
- Actual Yield 1998-2001 = 125
- Payment Limits Not Applicable
- Updated Base Acreage = 1,080



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Implications of Commodity Policies

- No price floor
- No emergency reserves
- No price ceiling
- Supports incomes, not prices
- Subsidizes livestock and other users
- Subsidizes agribusiness input suppliers and output processors



Conservation Provisions

- Total conservation price tag: \$17.1 billion
- Basically expands most existing conservation programs and adds several new programs
- Emphasis of conservation spending shifts from land retirement to working lands



Conservation Programs

- Conservation Reserve Program (CRP)
 - Cap raised from 36.4 to 39.2 million acres
 - Land automatically eligible for re-enrollment
- Wetlands Reserve Program (WRP)
 - Cap raised from 1.075 to 2.275 million acres
 - Permanent easements, 30-year easements and/or restoration cost-share



Conservation Programs, cont'd

- Env'l Quality Incentive Program (EQIP)
 - \$9 billion mandated
 - 60/40 split between livestock and crop producers
 - Priority areas eliminated
 - Animal unit cap eliminated
 - Conservation plan requirement retained
 - 1 to 10 year contracts
 - Total payments capped at \$450,000



Conservation Programs, cont'd

- Farmland Protection Program (FPP)
 - Purchase conservation easements
 - \$985 million
 - Requires partnership with non-profits
- Wildlife Habitat Incentive Program (WHIP)
- Grasslands Reserve Program (GRP)



Conservation Programs, cont'd

- Conservation Security Program (CSP)
 - Incentives to maintain and increase stewardship practices
 - \$2 billion
 - Begins in FY03
 - Land in CRP, WRP, GRP and animal waste facilities not eligible
 - 3-tiered participation, up to 10 year contract, annual cap up to \$45,000



Other Provisions

- Peanut quota buyout
- Maintains/increases most trade, rural development and nutrition programs
- Adds new energy title to the legislation
- Addresses bioterrorism / biosecurity
- Relaxes rules to make more borrowers eligible for federal farm credit assistance



Cost of Legislation

- Cost estimated at \$173-\$190 billion over ten years
- Some frontloading in first six years
- Cost estimates heavily dependent on export growth (particularly to China) and increasing prices
- APAC estimates costs could run \$100 billion over the projections



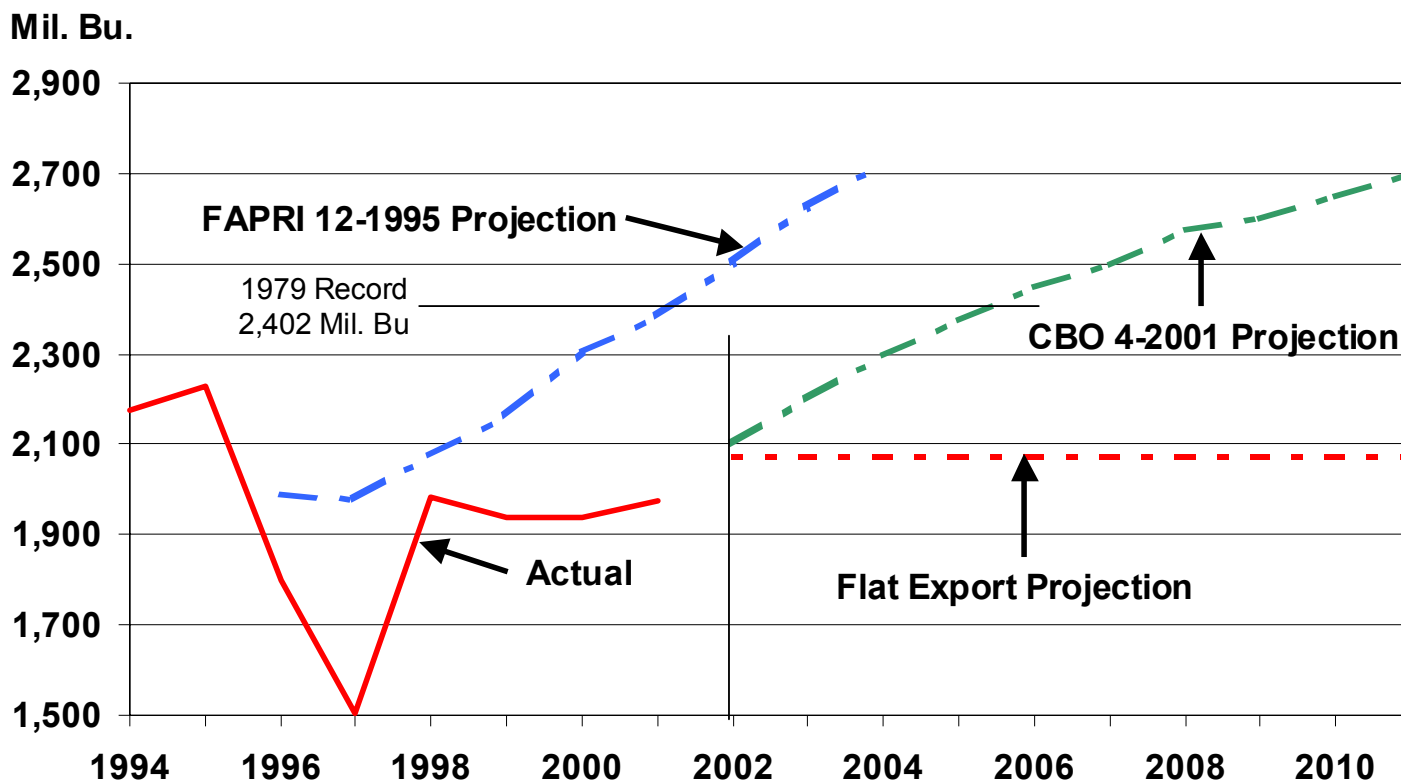
Expectations vs. Experience

- Prices and program cost based on optimistic export projections



U.S. Corn Exports

Comparison between 1995 FAPRI projection, 2001 CBO projection, 1994-2001 PS&D actual, and 2002-2011 APAC flat export projection



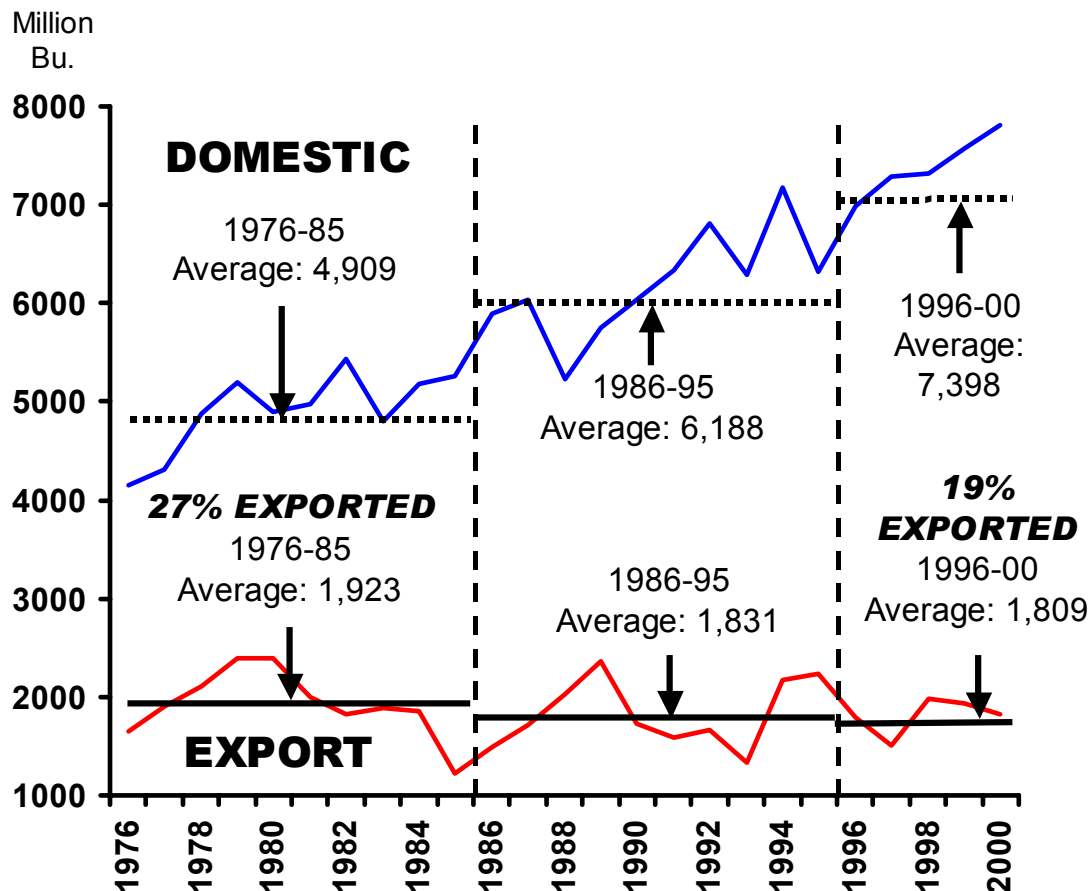


Expectations vs. Experience

- Prices and program cost based on optimistic export projections
- Major crop exports have been flat for years



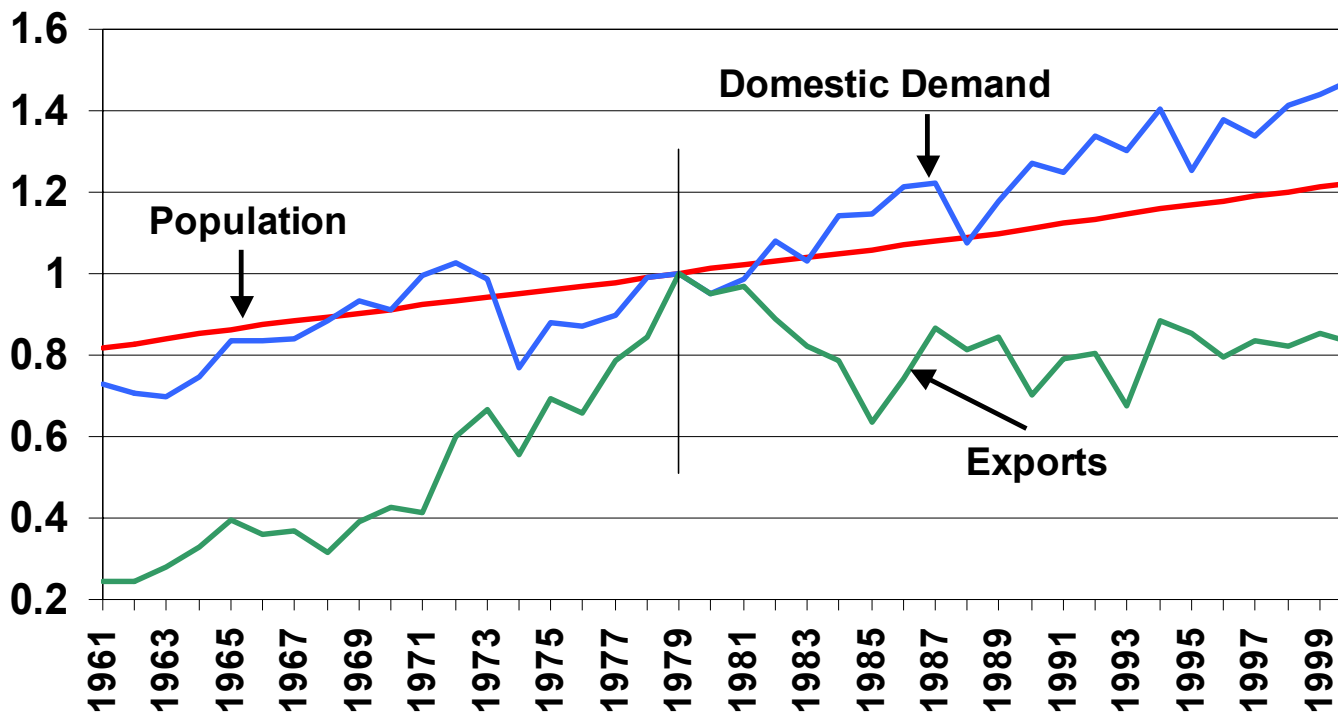
U.S. Corn Utilization



Domestic and export demand for corn



Where is the Growth in Demand?



Indexed growth in U.S. population, domestic demand for total grains and seeds and export demand for total grains and seeds

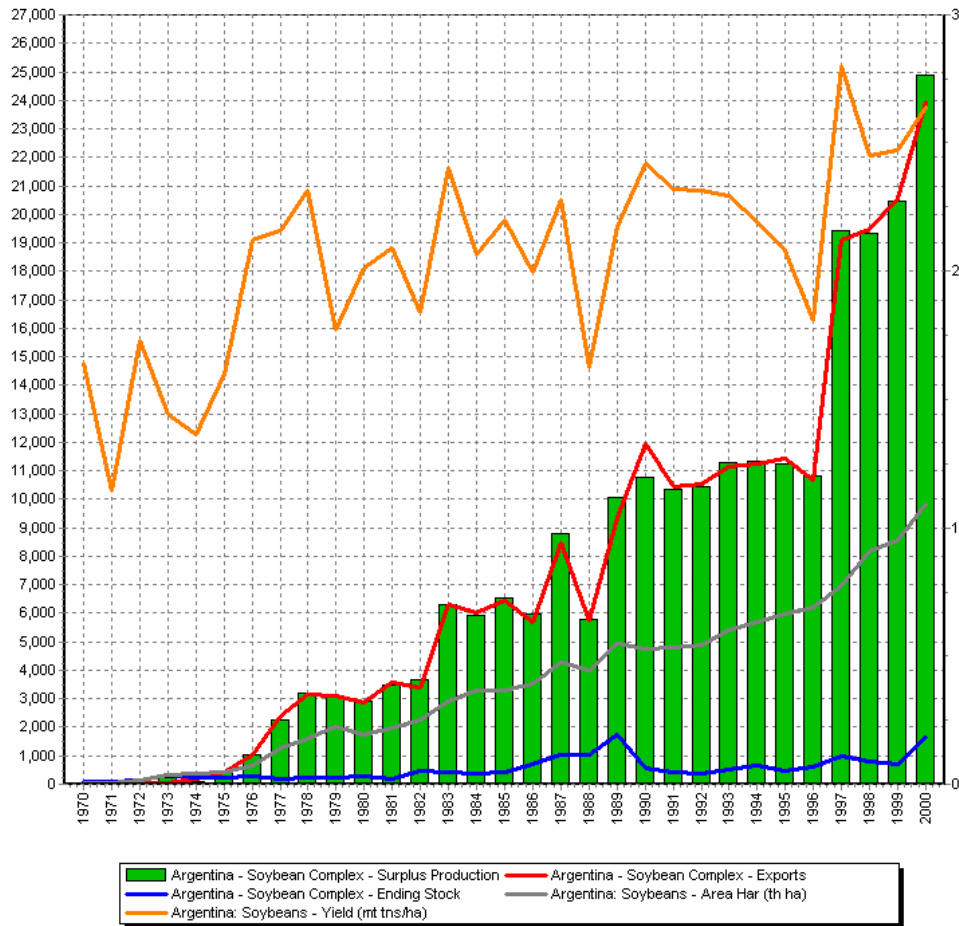
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- **Export competitors export all their production above domestic demand in the year it is produced**

World Soybean Market



Argentine soybean complex exports and surplus production

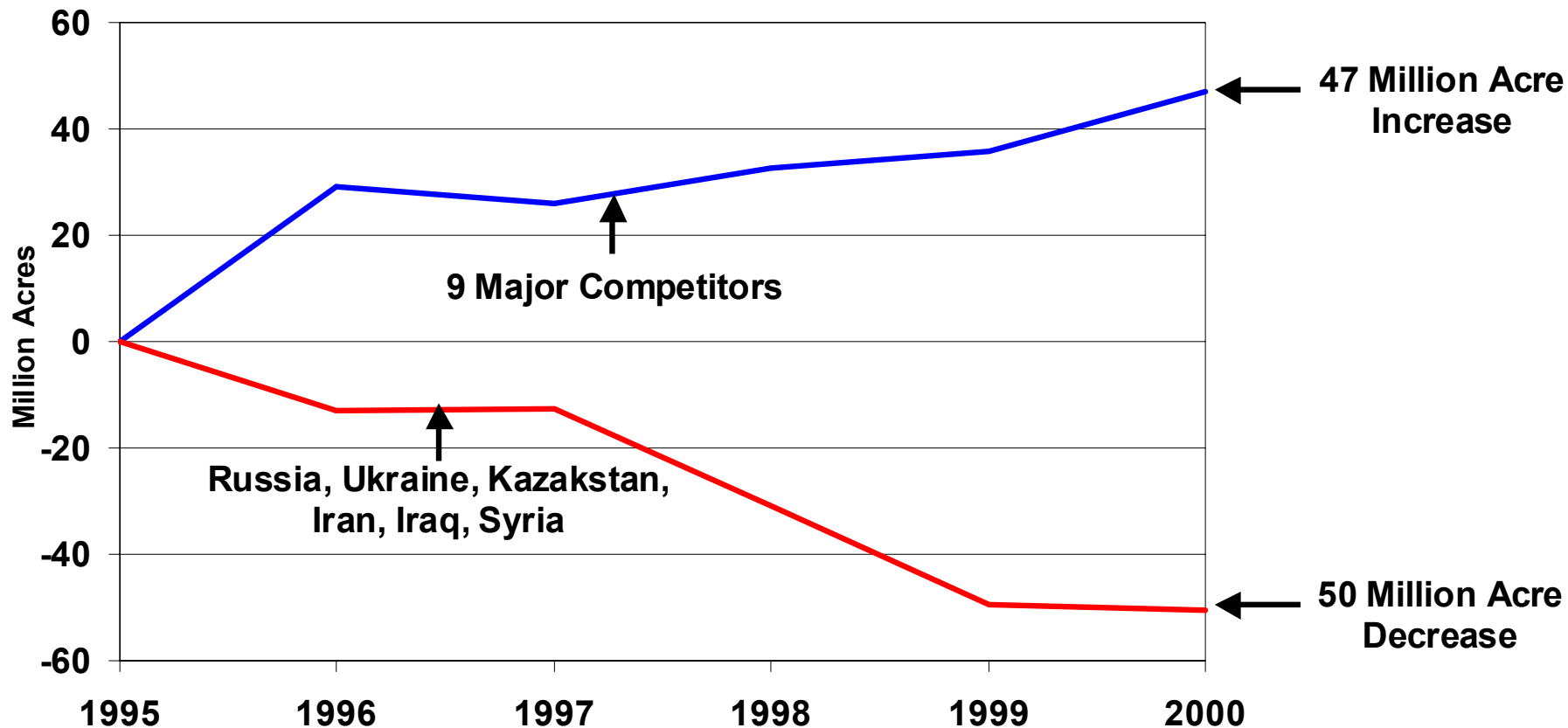


Expectations vs. Experience

- Prices and program cost based on optimistic export projections
- Major crop exports have been flat for years
- Export competitors export all their production above domestic demand in the year it is produced
- **Eliminating set-asides and lower commodity prices did not cause export competitors to reduce acreage**



Change in Foreign Crop Acreage





Important Issues

- Payment limitations – Relatively Little Reduction
- Country of origin labeling (COOL) for meats - adopted
- Packer ownership of livestock – not adopted
- Contract protection - adopted
- Level of conservation spending – significant increase over prior legislation



Producers' To Do List

- Assemble 1998-2001 acreage & yield records (seed purchase receipts, warehouse and elevator receipts, scale tickets, etc.) for certification in October sign-up
- Familiarize yourself with the changes and new programs
- Several decision making tools/calculators available



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