

# Overview of the 2002 Farm Bill



**Kelly Tiller and Daryll Ray**

**Assistant Professor and Professor  
Agricultural Policy Analysis Center  
The University of Tennessee**

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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
<b>Wheat (bu)</b>	\$0.52	\$3.86	\$3.92
<b>Corn (bu)</b>	0.28	2.60	2.63
<b>Sorghum (bu)</b>	0.35	2.54	2.57
<b>Barley (bu)</b>	0.24	2.21	2.24
<b>Oats (bu)</b>	0.024	1.40	1.44
<b>Rice (cwt)</b>	2.35	10.50	10.50
<b>Soybeans (bu)</b>	0.44	5.80	5.80
<b>Upland Cotton (lb)</b>	0.0667	0.7240	0.7240



# Marketing Loan Rates

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



# Decisions, Decisions, Decisions

- Farmers will have **more** marketing 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



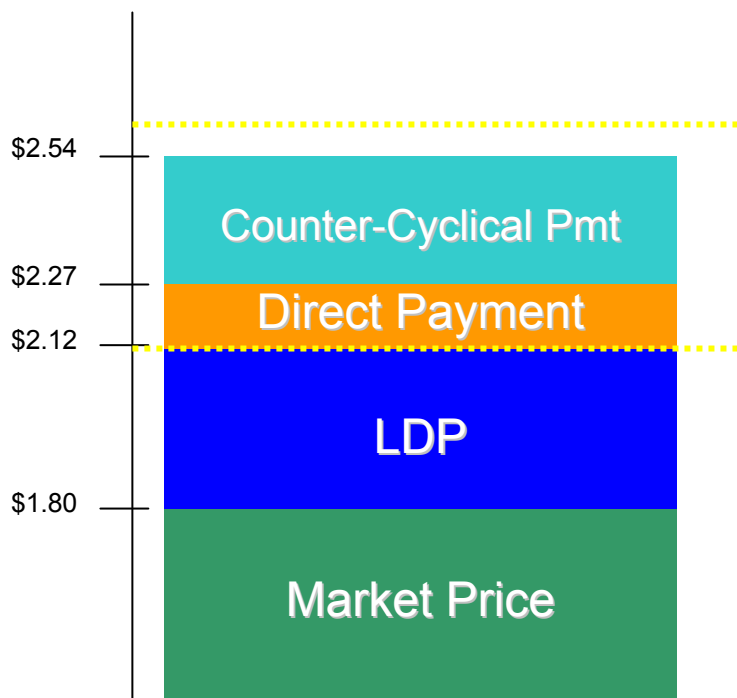
# Target Prices

- 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

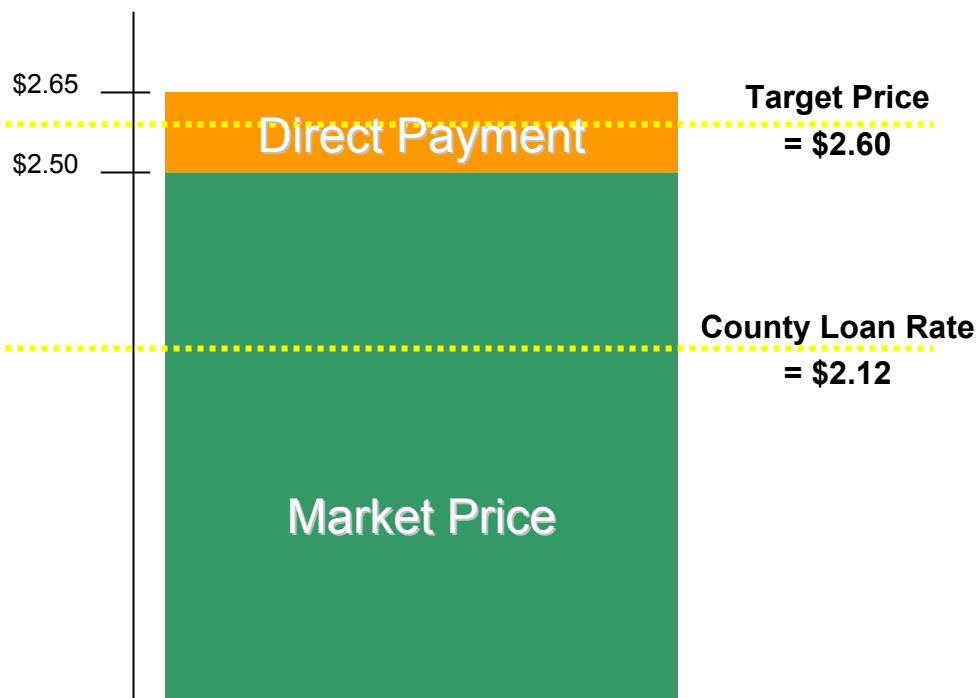


# Corn Price/Revenue Example\*

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



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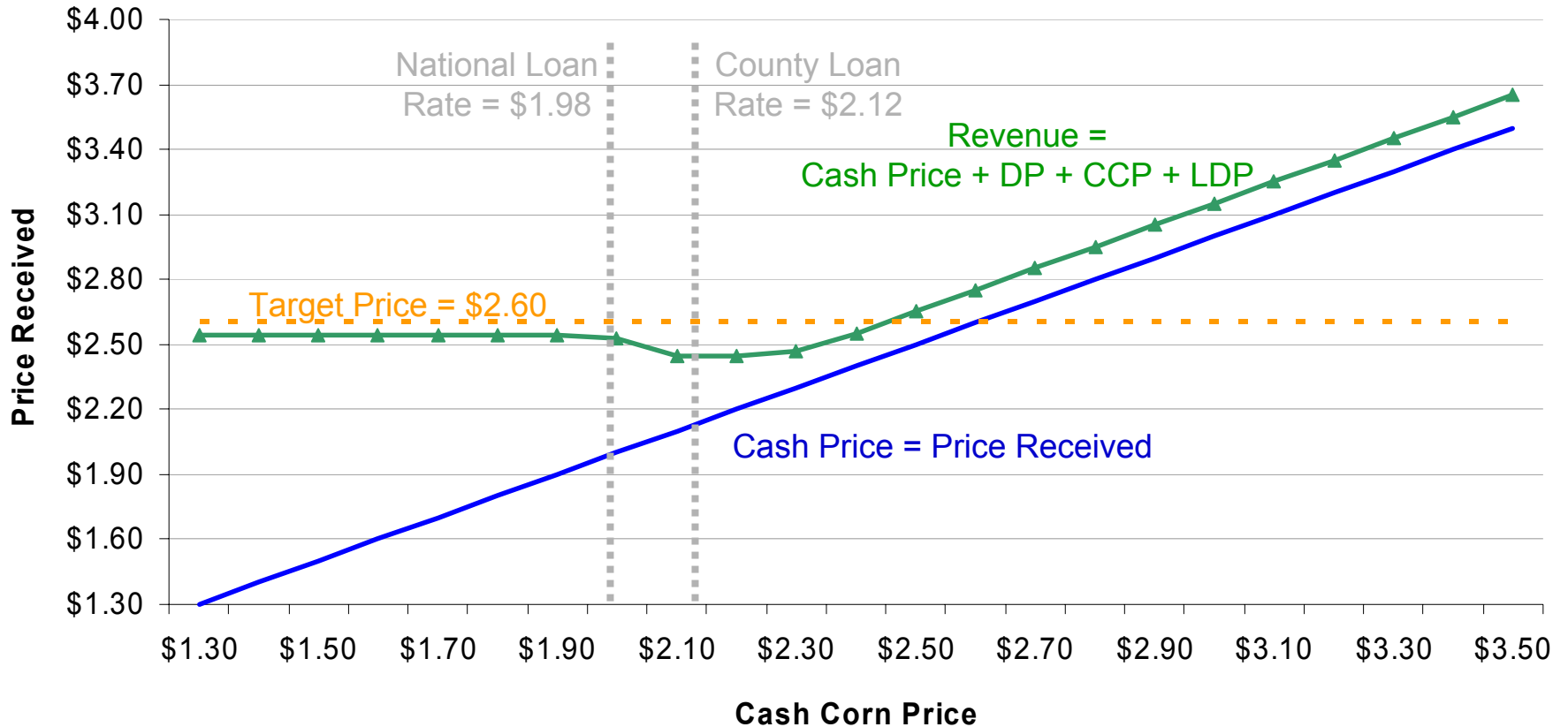


*\* Assumptions:*

- “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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# General Payment Timeline

Final '02 PFC payment (if hasn't been paid in full yet)  
will be made on or before September 30th

Oct 02

1<sup>st</sup> CCP  
advance  
for '02 crop

extra  
payment  
for '02 crop

Dec 02

opportunity  
for direct payment  
50% advance  
for '03 crop

Feb 03

2<sup>nd</sup> CCP  
advance  
for '02 crop

Aug 03

final CCP  
payment  
for '02 crop

Oct 03

1<sup>st</sup> CCP  
advance  
for '03 crop

final  
direct payment  
for '03 crop



# 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



# Livestock Provisions - Dairy

- Milk Price Support Program extended
  - Minimum support price fixed at \$9.90/cwt
- Dairy Export Incentive Program extended
- Promotion fees for imports
- Fluid milk promotion extended
- Milk Income Loss Contract program



# Milk Income Loss Contract Program

- Payments occur when Class I price in Boston falls below \$16.94/cwt
- Payments are 45% of the difference when the Class I price is lower
- Direct payment every month
- Payments are retroactive from Dec. 1, 2001 through Sept. 30, 2005
- Paid on 2.4 million pounds of milk per year
- Signup began August 13, 2002, payments begin October 2002



# Implications of Dairy Policies

- Projected to increase milk production, lower milk prices
- Roughly, 500 cows is break even size
- CCC purchases will be considerable
- Payments will probably retard the loss of small farms
- MILC program will probably cost more than the \$1.3 billion projected



# Other Livestock Provisions

- Country-of-origin labeling requirements for fresh meat sold at retail
  - Becomes mandatory in 2004
  - Will increase costs for labeling, certifying, etc.
- Packer ownership ban excluded
- Livestock disaster assistance
- Confidentiality in livestock contracts
- Introduces provisions on animal welfare



# 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



# World Trade Organization

- As the costs are currently projected, the legislation falls within WTO limits
- If the assumptions do not hold then it is possible (likely) to exceed WTO limits
- The Secretary of Agriculture has the authority to reduce payments in order to remain compliant with preset WTO limits



# Contentious Issues

- Payment limitations
  - adopted in weakened form
- Country of origin labeling for meats
  - adopted
- Ban on packer ownership of livestock
  - not adopted
- Contract protection
  - adopted



# APAC's Weekly Policy Column

To receive an electronic version of the weekly ag policy column by APAC Director Daryll Ray, send an email to:

[igbrown@utk.edu](mailto:igbrown@utk.edu)

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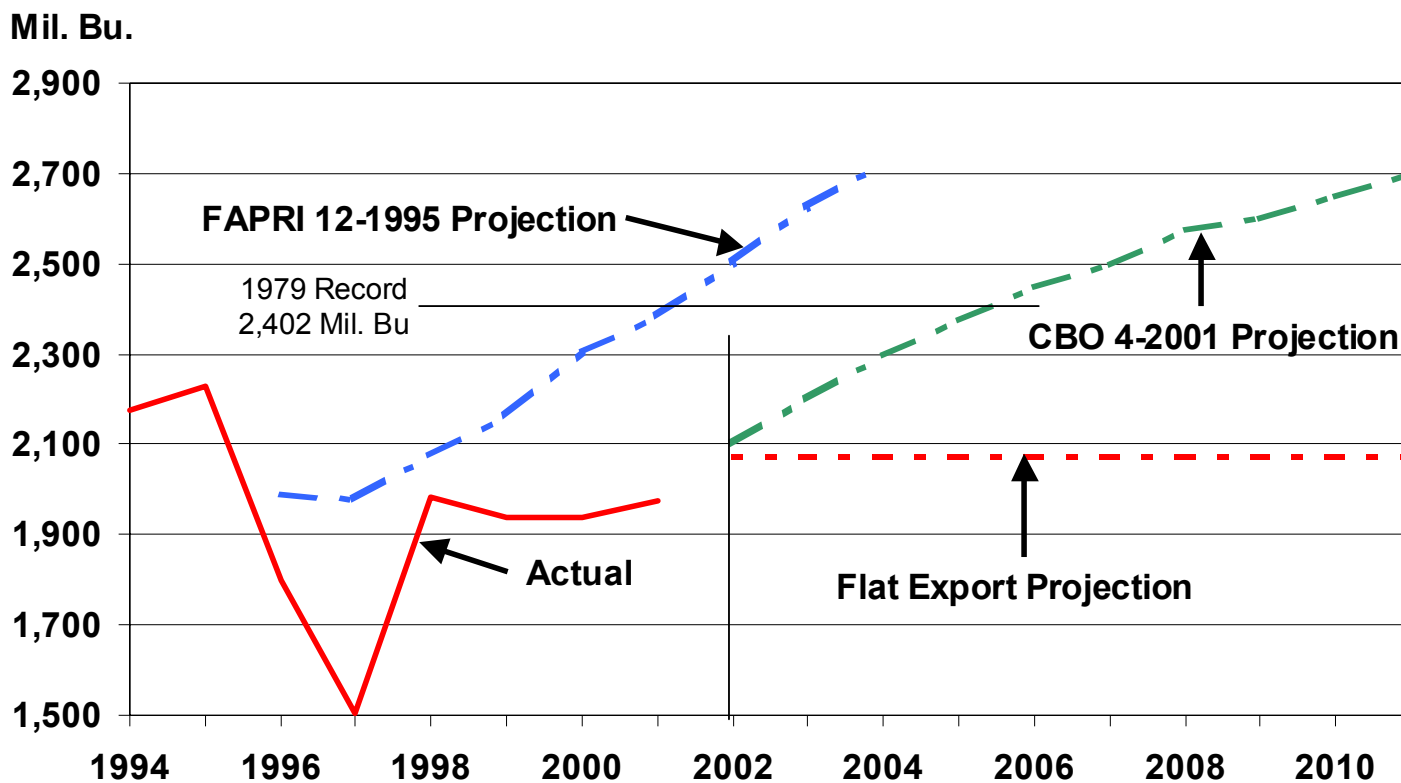
# Expectations vs. Experience

- 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



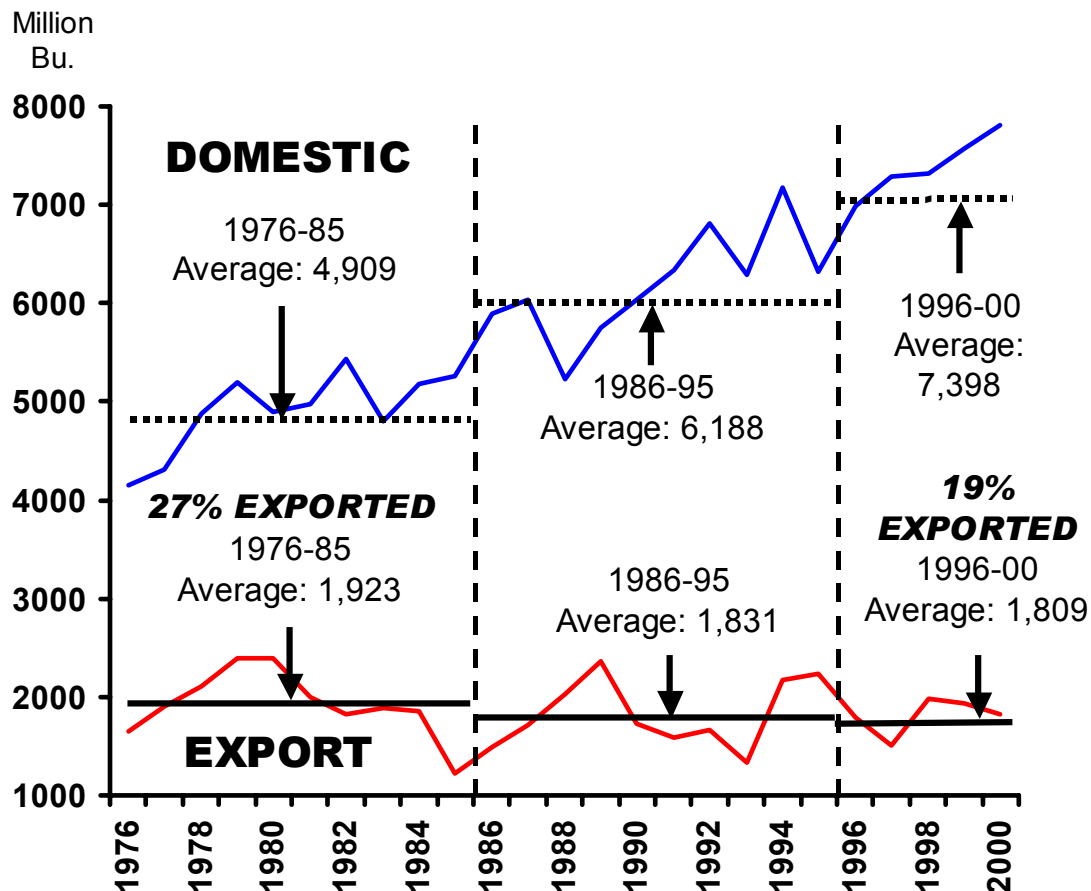


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- Prices and program cost based on optimistic export projections
- Major crop exports have been flat for years



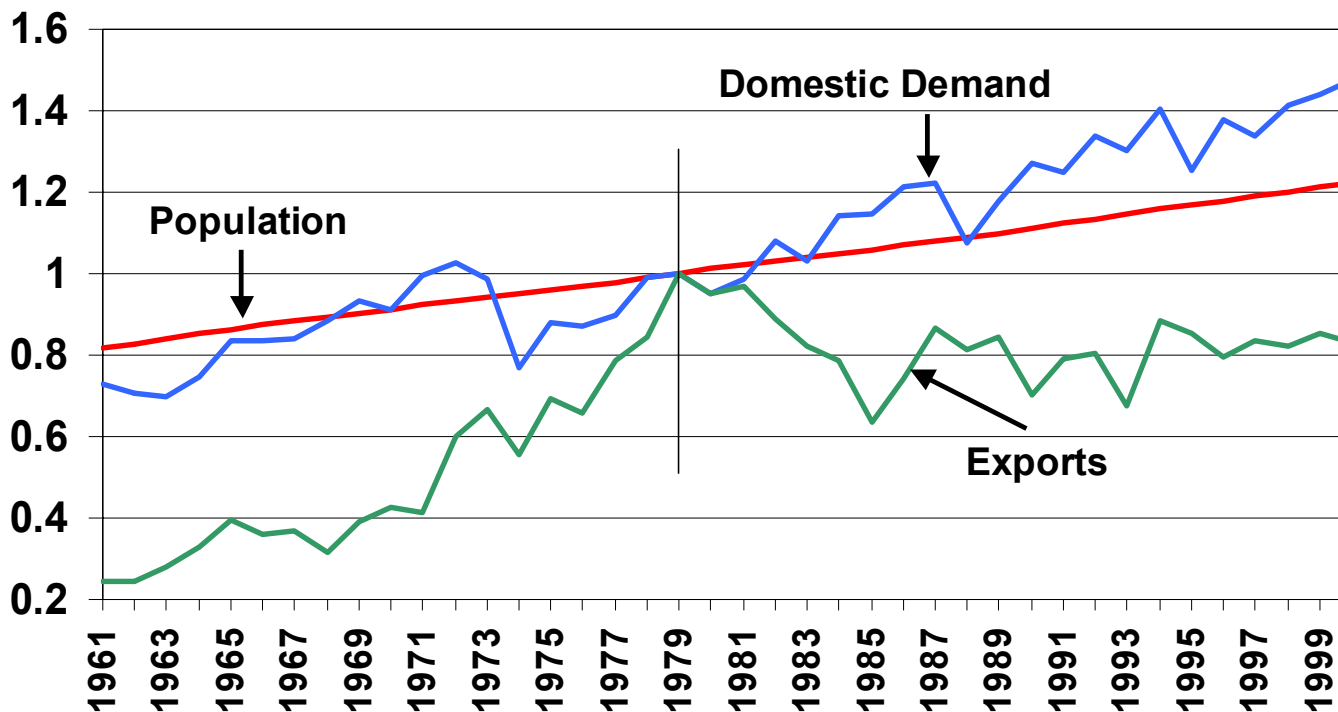
# U.S. Corn Utilization



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

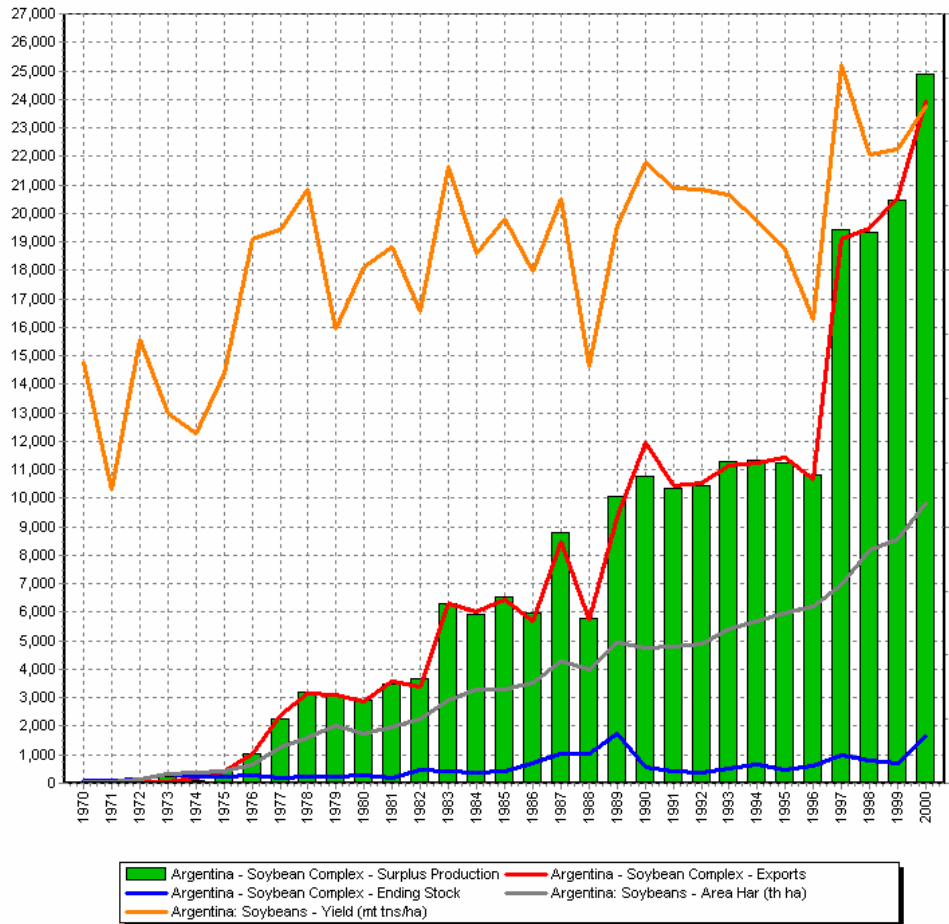
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- **Export competitors export all their production above domestic demand in the year it is produced**

# World Soybean Market



Argentine soybean complex exports and surplus production

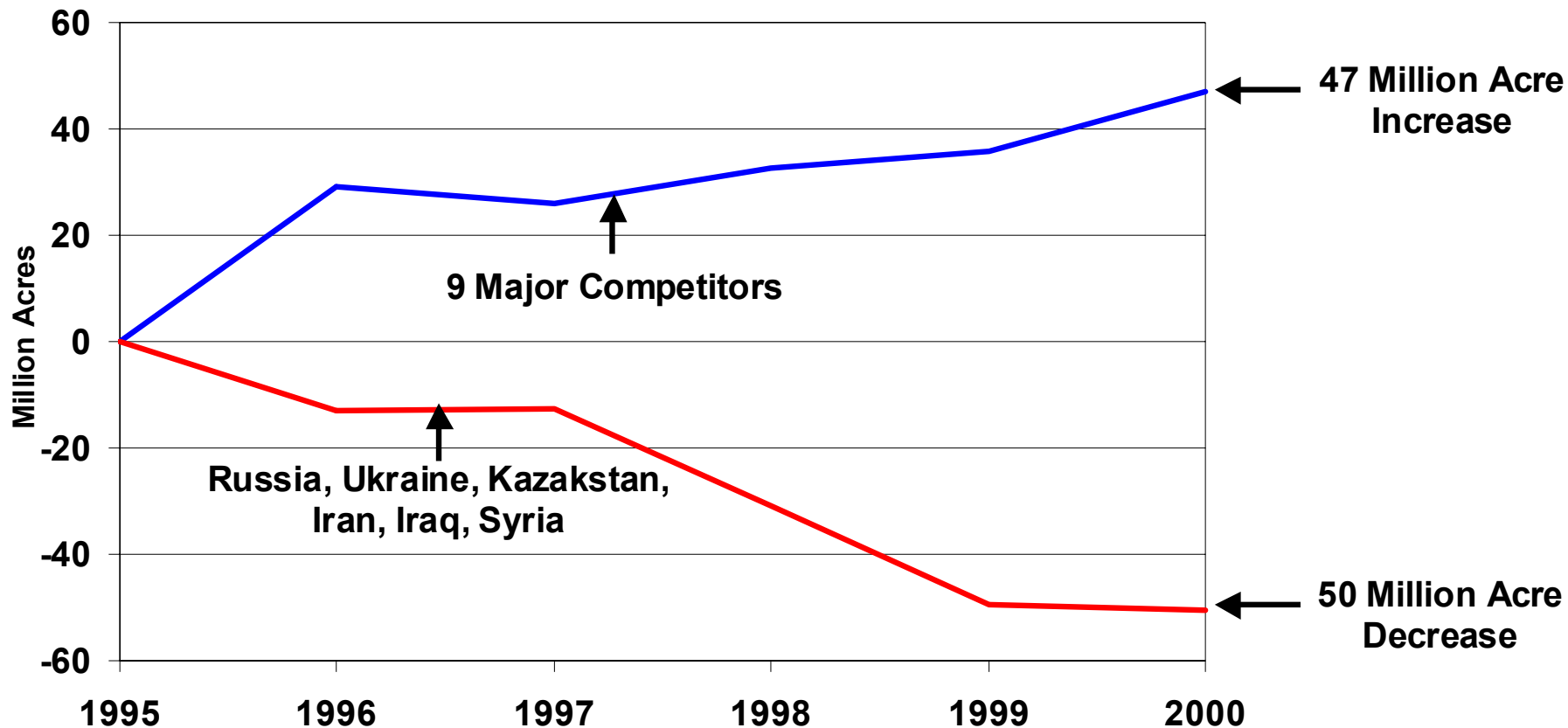


# Expectations vs. Experience

- 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





# 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