



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

THE NEW FARM BILL OUTSIDE THE BELTWAY: A VIEW FROM THE SOUTH

March 3, 2009

Wes Harris

**Special Projects Coordinator – Public Policy
Center for Agribusiness and Economic Development**

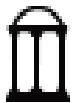
The University of Georgia

USDA Economists Group

Professionals using economics in daily activities

Introduction

- **Personal**
- **Reality Check – Farm Bill fatigue translated into denial & complacency**
- **Educational programs to about 2,000 farmers and agribusiness pros**
- **Reactions and implications of educational efforts**

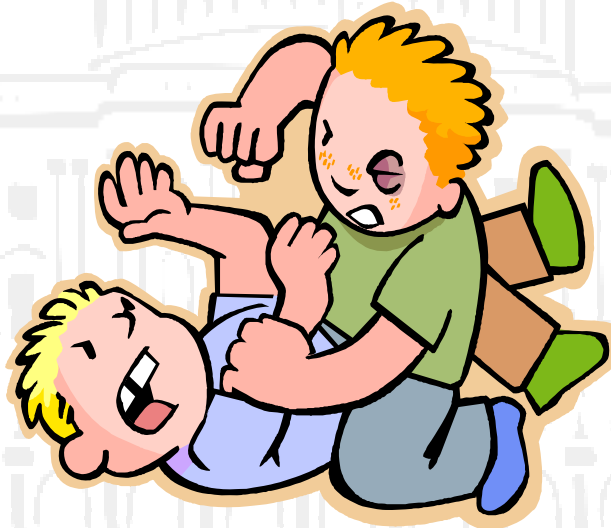


Overview

- **ACRE vs DCP**
- **Payment Limitation Reform**
 - Payment Eligibility
- **Marketing Assistance Loan**
- **Cotton and Peanuts**
- **Disaster**
- **Conservation issues**
- **No dairy, rice or sugar discussion**



ACRE vs DCP



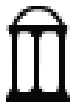
UGA – *Center for Agribusiness and Economic Development*



| Commodity | DP Rate | Target Price | | | Loan Rate | | |
|--------------------------|-------------------------|---------------------|-----------------|-----------------|------------------|----------------|----------------|
| Period | 2007 2008-12 | 2007 | 2008-09 | 2010-12 | 2007 | 2008-09 | 2010-12 |
| Corn (bu) | \$0.28 | \$2.63 | \$2.63 | \$2.63 | \$1.95 | \$1.95 | \$1.95 |
| Cotton (lb) | \$0.0667 | \$0.724 | \$0.7125 | \$0.7125 | \$0.52 | \$0.52 | \$0.52 |
| Peanuts (ton) | \$36 | \$495 | \$495 | \$495 | \$355 | \$355 | \$355 |
| Rice (cwt) | \$2.35 | \$10.50 | \$10.50 | \$10.50 | \$6.50 | \$6.50 | \$6.50 |
| Soybeans (bu) | \$0.44 | \$5.80 | \$5.80 | \$6.00 | \$5.00 | \$5.00 | \$5.00 |
| Wheat (bu) | \$0.52 | \$3.92 | \$3.92 | \$4.17 | \$2.75 | \$2.75 | \$2.94 |

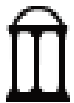
Average Crop Revenue Election (ACRE)

- June 1st is *final* deadline for DCP or ACRE contracts
- If DCP contract already exists and ACRE is elected for the farm, the DCP contract is rescinded and a new ACRE contract implemented
- Elect and then enroll with all producers agreeing



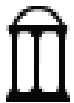
Average Crop Revenue Election

- **ACRE is one time irrevocable election beginning in 2009**
- **Election is for all crops**
- **May elect in 2009, 2010, 2011, or 2012**
- **Agree to 20% reduction in all direct payments and 30% reduction in loan rates**



ACRE

- *A production program:*
**only planted acres of the
crop are eligible**
- **WTO AMS - Amber**



ACRE

- Farm must have base and cannot exceed base acres on the farm
- ACRE is by **individual farm number**
- If producer does not make an election for ACRE then DCP applies



Average Crop Revenue Election

State ACRE Guarantee = 90%
X 5-Year Olympic State Avg. Yield X
2-year Natl. Average Mkt. Yr. Price
Restricted to < 10% change/year
"cup and cap"

>

Actual State Revenue =
Actual State Planted Acre Yield X
MAX [Natl. Average Mkt. Yr. Price
OR
70% Loan Rate]

AND Farm Trigger

Farm ACRE Benchmark =
(Farm's 5-Year Olympic Avg. Yield X
2-year Natl. Average Mkt. Yr.
Price) + Ins Premium

>

Actual Farm Revenue =
Actual Farm's Planted Acre Yield X
MAX [Natl. Average Mkt. Yr. Price
OR 70% Loan Rate]

Farm Payment = 0.833 (0.85 in 2012) * Actual Planted or Considered Planted
Acres X [Farm's 5-Year Olympic Average Yield / State's 5-year Olympic Average
Yield] X MIN[(State ACRE Guarantee – Actual State Revenue) OR State ACRE
Guarantee * 25%]

Note: All Yields are Planted Acre Yields

J. Outlaw, TAMU AgriLife

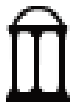
ACRE Decision - 2009

- If the farm has cotton or peanut base:
 - **NO** - direct payment cost and ccp loss, LDP/MLG loss due to 30% reduction in loan value
- Insignificant or no cotton or peanut base, but may plant cotton or peanuts in 2009 – 2012
 - **NO** - loss of LDP/MLGs & possible ccps (peanut contracts?)



ACRE Decision - 2009

- Insignificant or no cotton or peanut base and will not plant either 2009 – 2012
 - **Possibly** – depending on crops you intend to plant:
 - Wheat – best
 - Soybeans – minimal price
 - Corn – greatest movement in price and yield

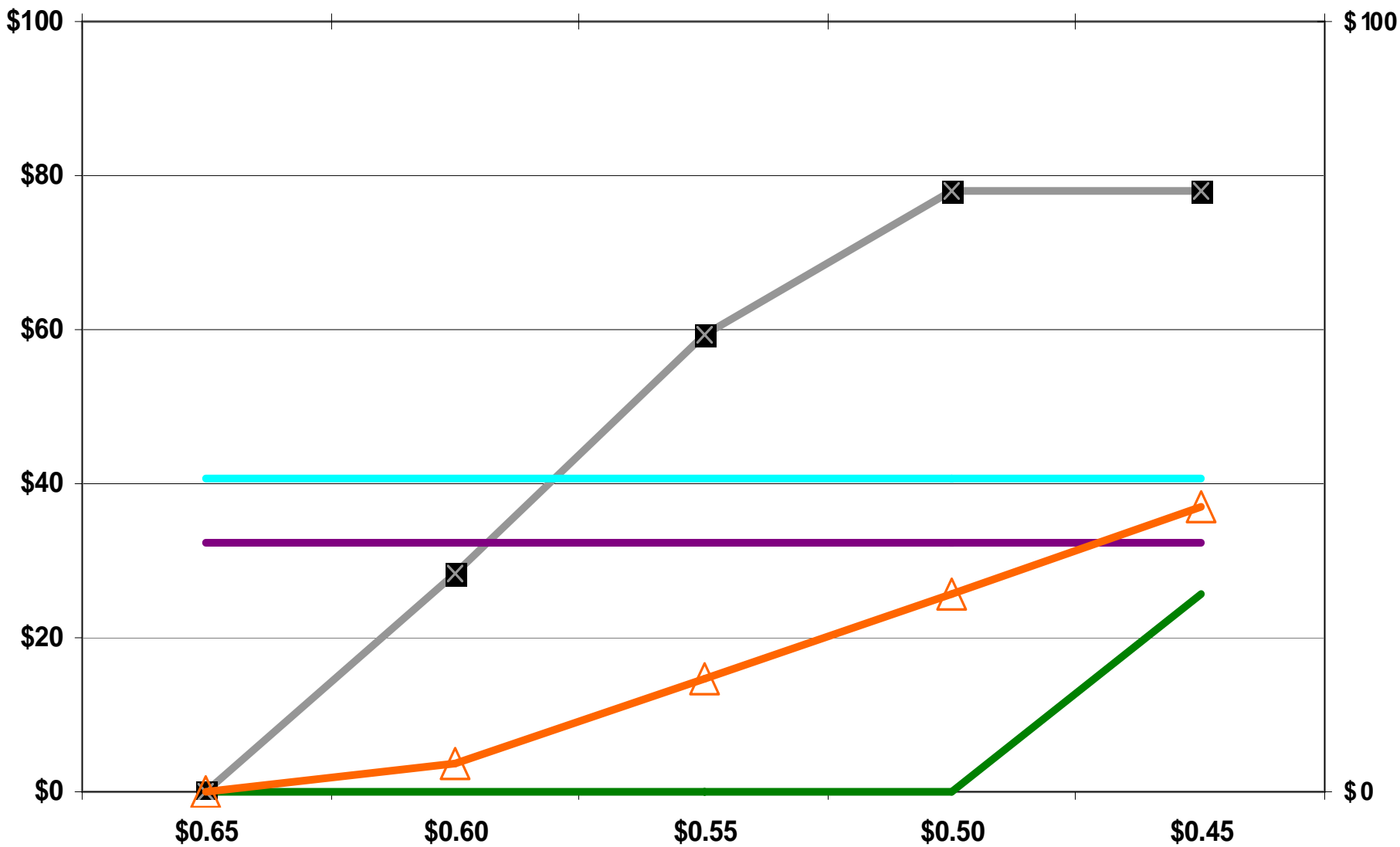


| Georgia Commodity | Olympic Average State Yields | ACRE Program Guarantee Price | State ACRE Program Guarantee |
|------------------------------|---|---|---|
| Wheat | 48.7 | \$6.590 | \$289 |
| Corn | 127.7 | \$4.100 | \$471 |
| Cotton | 819.7 | \$0.537 | \$396 |
| Peanuts | 2980.0 | \$0.223 | \$597 |
| Soybeans | 28.7 | \$9.550 | \$246 |

Cotton DP/CCP Yield = 730 lbs

—■— Cotton CCP
 —■— ACRE Price
 —■— DCP Direct
 —■— ACRE Direct
 —▲— ACRE Yield

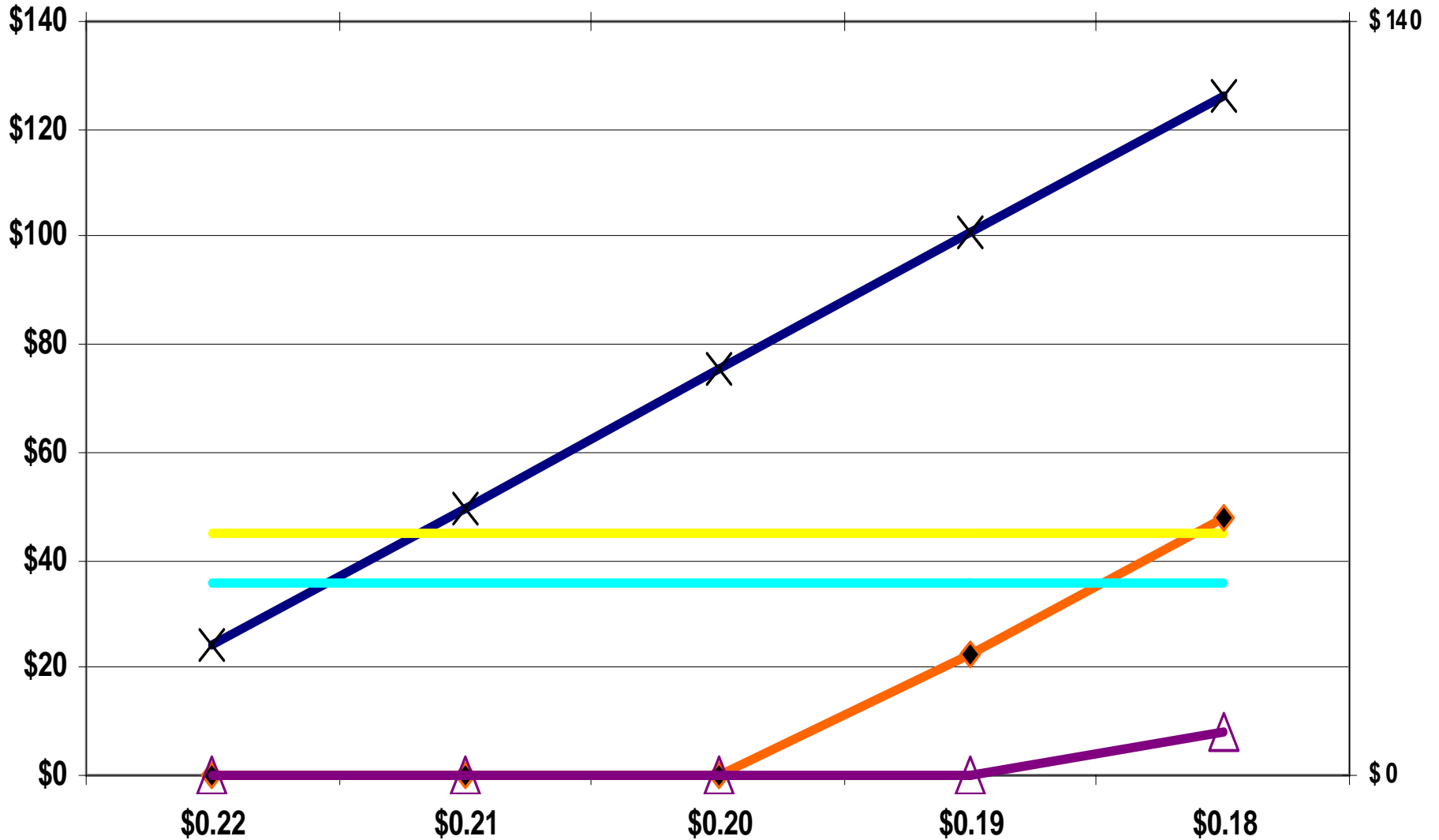
Yield
750
725
700
675
650



Peanuts DP/CCP Yield = 3000 lbs

—x— Peanut CCP —◆— ACRE Price — DCP Direct — ACRE Direct —△— ACRE Yield

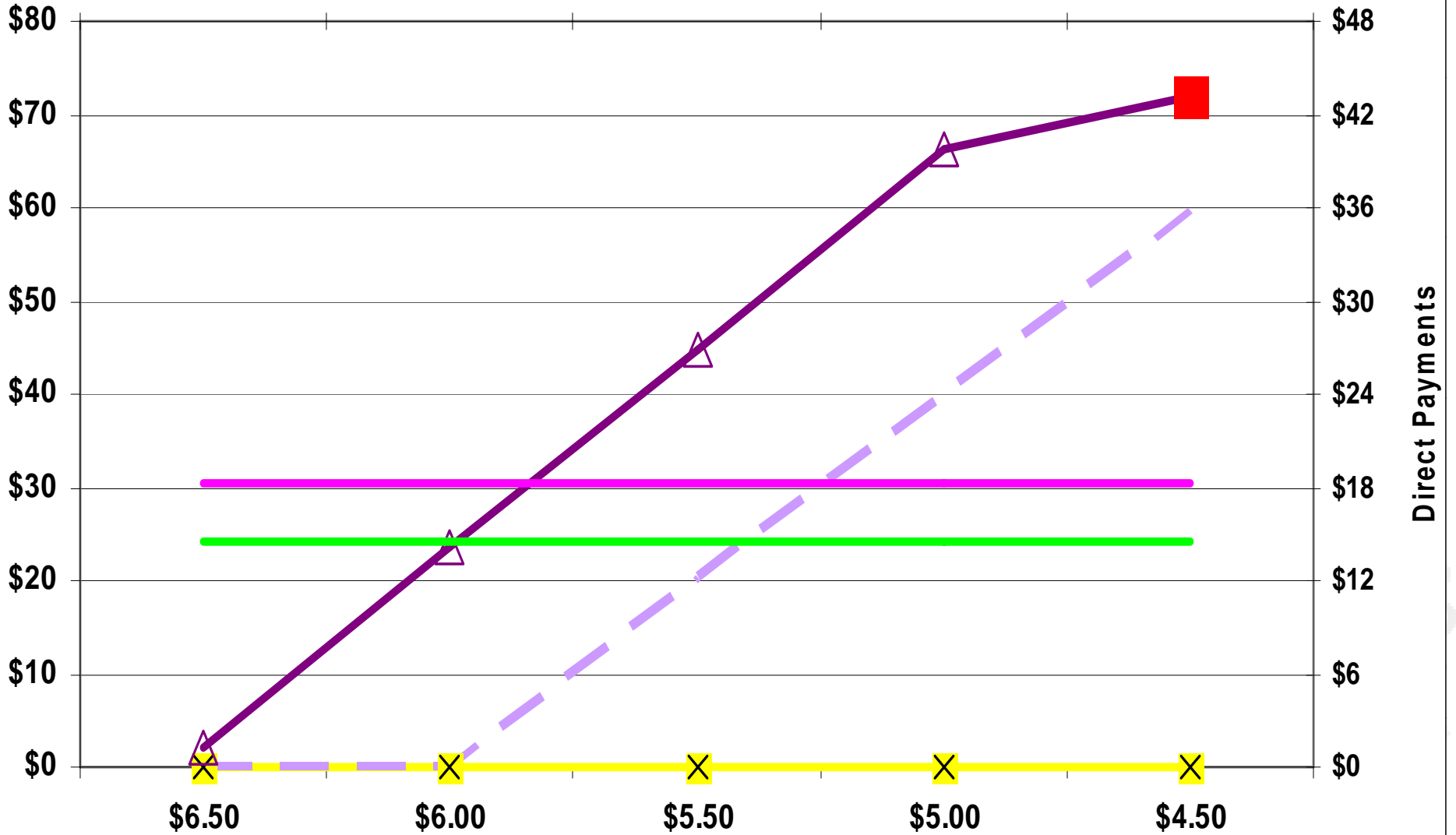
Yield 3100 3000 3000 2900 2800



Wheat DP/CCP Yield = 42 bu

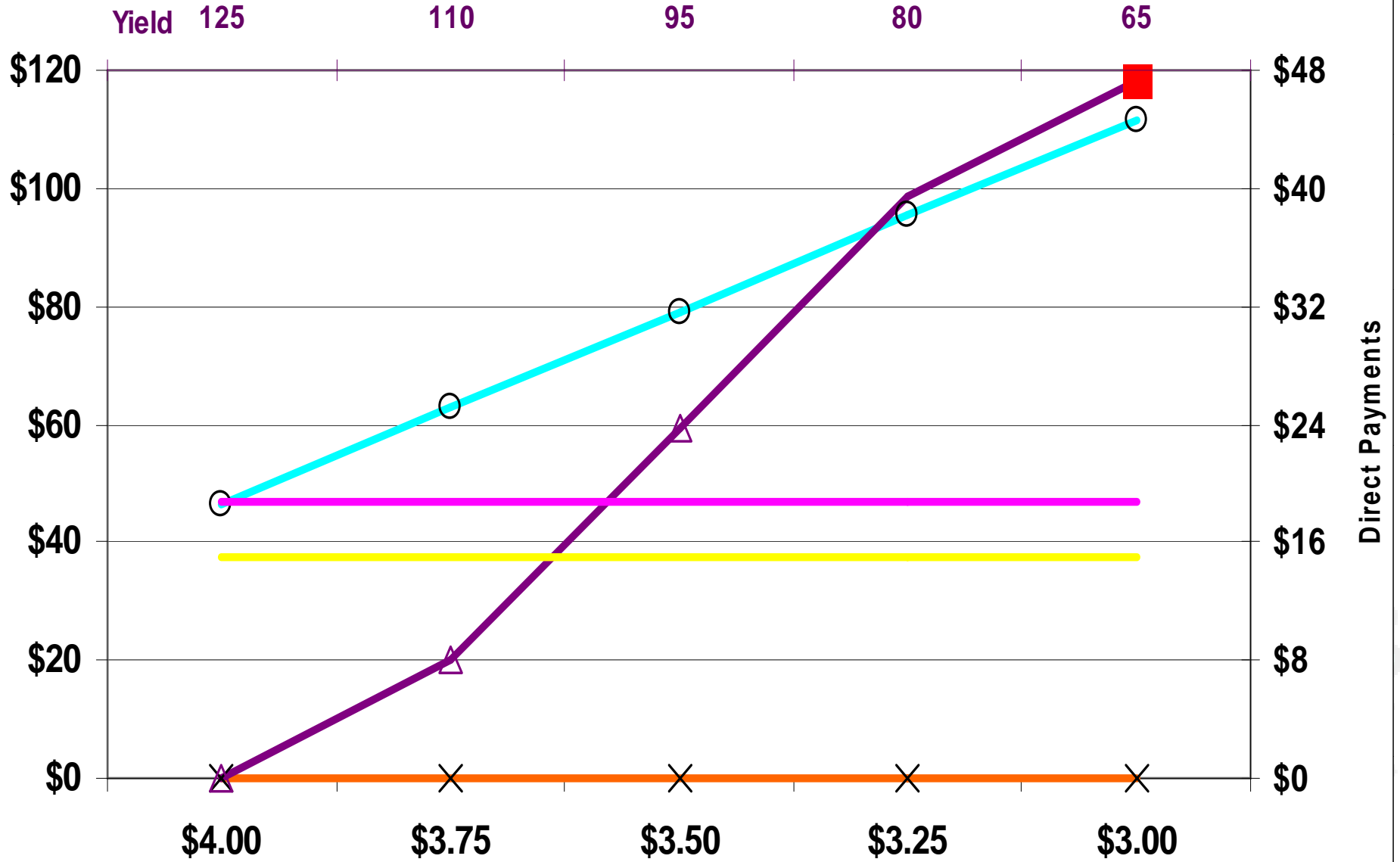
Wheat CCP ACRE Price ACRE Yield DCP Direct ACRE Direct

Yield 44 40 36 32 30



Corn DP/CCP Yield = 80 bu

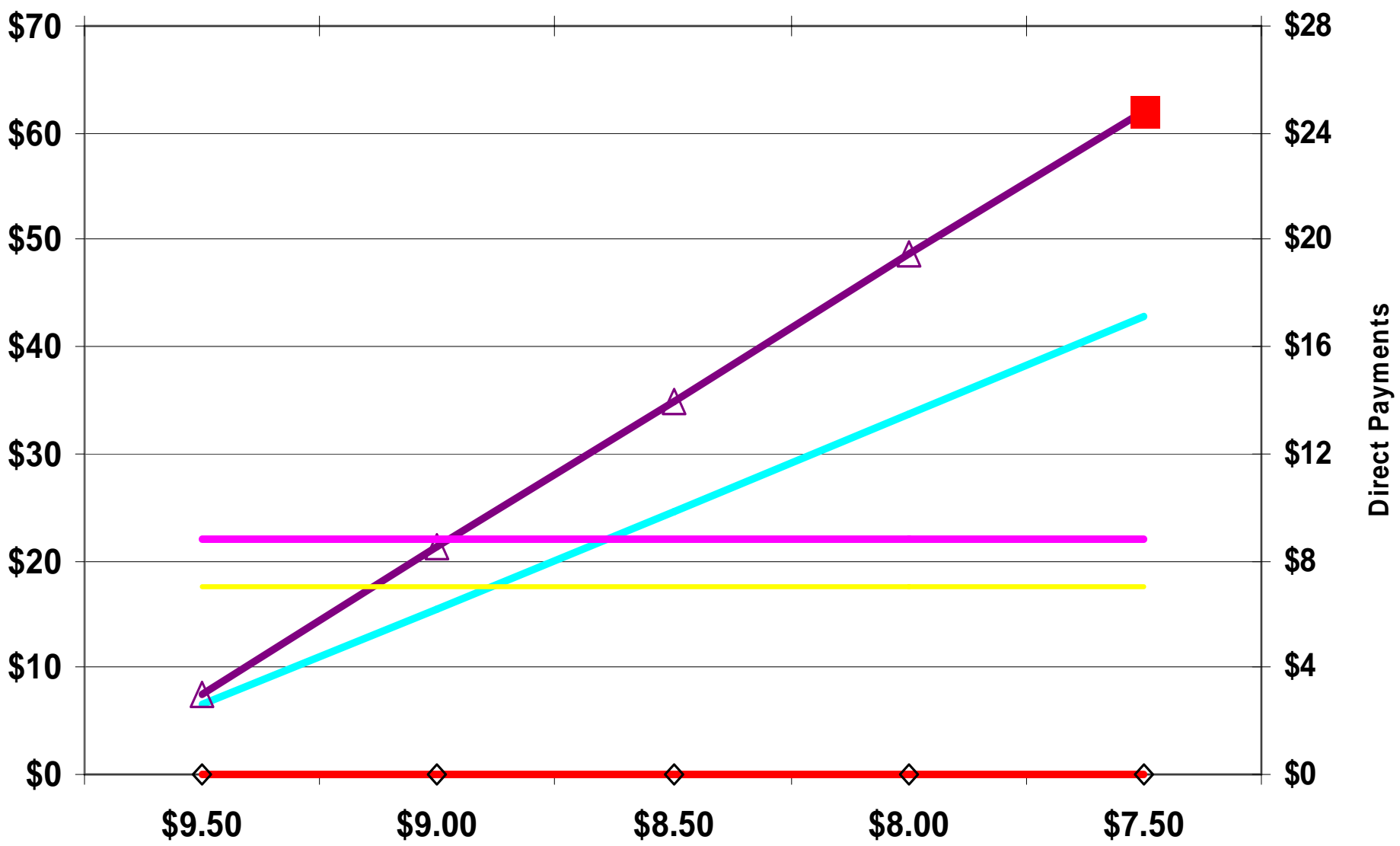
—X— Corn CCP —○— ACRE Price —△— ACRE Yield — DCP Direct — ACRE Direct



Soybean DP/CCP Yield = 24 bu

◆ Soybean CCP
 — ACRE Price
 △ ACRE Yield
 — DCP Direct
 — ACRE Direct

Yield 22 20 18 16 14



Payment Limitations 2009-2012

- **AGI:**
 - **Farmer** **\$750,000** (no direct payments)
 - **Non-farmer** **\$500,000** (all commodity progs)
- **Conservation programs:**
 - **AGI limit \$1 million unless 2/3 from farm and forestry**
- **Direct attribution - 3 entity rule repealed**
- **Spouse eligibility with qualifications**



Payment Limitations

- Direct payment limit*: \$40,000
- Counter-Cyclical limit*: \$65,000
- ACRE direct limit*: **\$40,000 – 20% DP**
- ACRE limit*: **\$65,000 + DP reduction**
- No MLG/LDP limit after 2008*

***including peanuts**

- DP and CCP limits ⇔ 2008 – 2012
- ACRE limits ⇔ 2009 - 2012



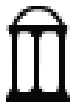
Payment Limits – Direct Attribution

- Individual social security numbers and tax id numbers for legal entities
- Individual can be part of unlimited number of entities, but individual limit applies from attribution



Payment Limits – Eligibility

- **Right hand: labor and management**
- **Left hand: capital, equipment, or land**
- **Spouse granted right hand contribution as actively engaged, must meet left hand as significant and requisite contribution – separate of other spouse**



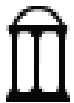
Payment Limits - Eligibility

- The 2008 Farm Bill requires a ***significant*** contribution of active personal labor or active personal management to a farming operation to qualify a person or legal entity for payment



Payment Limits – Partnerships

- **Joint Venture (JV) or General Partnerships (GP):**
payment limit multiplied by the number of persons or legal entities (other than JVs and GPs) that comprise the direct ownership of the JV or GP



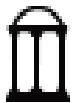
Payment Limits – Partnerships Example

- **Father, two sons, and legal entity form GP all payment eligible:**
 - **DCP DP Limit: $(4)*(\$40,000) = \$160,000$**
 - **ACRE DP Limit: $(4)*(\$40,000-\$8,000) = \$128,000$**
 - **CCP Limit: $(4)*(\$65,000) = \$260,000$**
 - **ACRE Limit: $(4)*(\$65,000+\$8,000) = \$292,000$**



Payment Limits - Legal Entities

- **Active personal labor, active personal management, or a combination thereof, by each member or shareholder that has an ownership interest in an **entity** is required, and such contributions must be **significant and commensurate****



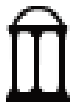
Payment Limits - Legal Entities

- **Active personal labor or active personal management of each member:**
 - **must be made to the farming operation on a regular basis**
 - **must be identifiable and documentable as a separate and distinct contribution from that of any other member or shareholder in the farming operation.**



Payment Limits - Legal Entities

- Legal entities have same program payment limits as individuals
- If any member exceeds individual payment limit, the payments to the entity are reduced by the percentage share of the member
- If a member is not payment eligible (labor/mgt) entity payment reduced by the percentage share of member



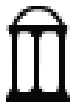
Example of Distinct Labor/Mgt

- Corp ABC with 4 members (1,2,3,4)
 - 1 – **Executes** all marketing (contracts/grain deliveries/gin transactions) 25% owner
 - 2 - **Purchases** all inputs (invoices, purchase orders) 25% owner
 - 3 – **Maintains** payroll and supervision (payroll documents) 25% owner
 - 4 – Provides capital 25% owner
- Payments reduced by 25% as 4 is not eligible due to no labor/mgt contributed



Marketing Assistance Loans/LDPs

- Same as 2002 Farm Bill with a few changes
- Loan rate on wheat increases to \$2.94
- Loan repayment rates based on avg market prices during previous 30 day period **except** for **cotton, peanuts and rice**
- Secretarial discretion provided (LRR)



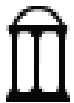
Marketing Assistance Loans/LDPs

- **Cotton and Rice loan repayment rate is the lesser of**
 - Loan rate + interest
 - Prevailing world market price
- **Cotton storage will be reduced by 10% (eliminated in Budget Recon?)**



Marketing Assistance Loans/LDPs

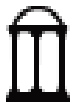
- **Loan Deficiency Payments** calculated from loan repayment rates (30 day) or cotton, peanut, or rice LRRs
- ***Beneficial interest may be retained***



Economic Assistance to Upland Cotton Users

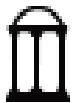
- Beginning 8/1/08 thru 7/31/12 economic assistance is provided at the rate of **4¢ per lb to domestic users of upland cotton**
- After 8/1/12 support is 3¢ per lb
- **Acquire, construct, install, modernize, develop, convert, or expand land, plant, bldgs, equip, facilities, or machinery**
- **Paid monthly**

****Target price reduction****



Peanuts

- **Separate title**
- **Separate payment limits**
- **Timing of payments same as covered**
- **Handling and associated costs paid by CCC on loan peanuts**
- **Redeemed peanut loans repay handling and associated costs**



Peanuts

- ***CCC pays storage, handling, and associated costs on all forfeited peanut loans***
- **LRR and LDPs calculated on date of request of payment**



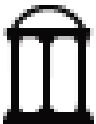
Title XV – Supplemental Agricultural Disaster Assistance

**Amended by H. R. 6849
(P.L. 110-398)**

10/13/08

**Further Amended by H. R. 1
(P. L. 111-5)**

2/17/09



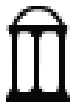
Title XV – Supplemental Agricultural Disaster Assistance

- The Trade Act of 1974 is amended to create a Supplemental Agricultural Disaster Assistance (SADA) trust fund to provide funds for producers suffering losses in designated disaster areas with a waiver for those farms outside the declared areas when losses exceed 50% for the farm – funds generated through **2011**



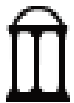
SADA

- **The Trust Fund will support five new disaster assistance programs:**
 - **Supplemental Revenue Program (SURE)**
 - **Livestock Forage Disaster Program (LFP)**
 - **Livestock Indemnity Program (LIP)**
 - **Tree Assistance Program (TAP)**
 - **Emergency Assistance Program for livestock, honey bees, and farm raised fish (ELAP)**



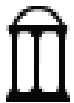
SADA

- **Except for LIP – ALL SUPPLEMENTAL DISASTER ASSISTANCE PROGRAMS REQUIRE CROP INSURANCE OR NON-INSURED CROP ASSISTANCE PROGRAM (NAP) COVERAGE FOR EACH CROP OF ECONOMIC SIGNIFICANCE**



SURE

- **The Supplemental Revenue Assistance Program (SURE) provides crop disaster assistance payments for crop production losses or crop quality losses, or both**
- **Crop disaster payments will be:**
 - ***60 percent of the difference between the disaster assistance program guarantee and the total farm revenue for the farm***



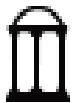
SURE Crop Loss Eligibility

- *The actual production yield for at least 1 crop of economic significance must be reduced by at least 10 percent due to disaster (adverse weather) from the actual production history yield**
- ***As amended**



SURE

A farm constitutes the sum of all crop acreage in *all counties* that is planted or intended to be planted for harvest by the producer



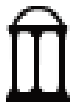
SURE

- Program guarantee is calculated adding for each insurable commodity the product of:
 - the larger of the APH yield, or the CCP yield **X**
 - the percent of crop insurance yield guarantee **X**
 - the percentage of crop insurance price **X**
 - the crop insurance price **X**
 - the acres planted or prevented planted of the crop **X**
 - 115 percent



SURE

- **Noninsurable commodities (NAP) on the farm would be added at the rate of the product of:**
 - the NAP yield guarantee **X**
 - the acres planted or prevented planted of the crop **X**
 - 100 percent of the NAP established price **X**
 - 120 percent



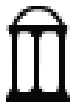
SURE

- Total farm revenue equals the sum of:
 - the actual value of each *economically significant* crop
 - 15 percent of any direct payments
 - all counter-cyclical or ACRE payments
 - prevented planting payments
 - all crop insurance indemnities
 - payments received under NAP
 - any LDP/MLG
 - and any other disaster assistance payments (ECP etc)



SURE

- The actual value for each crop is the product of:
 - the actual crop acreage harvested **X**
 - the actual yield of the crop **X**
 - the market year average price



SURE

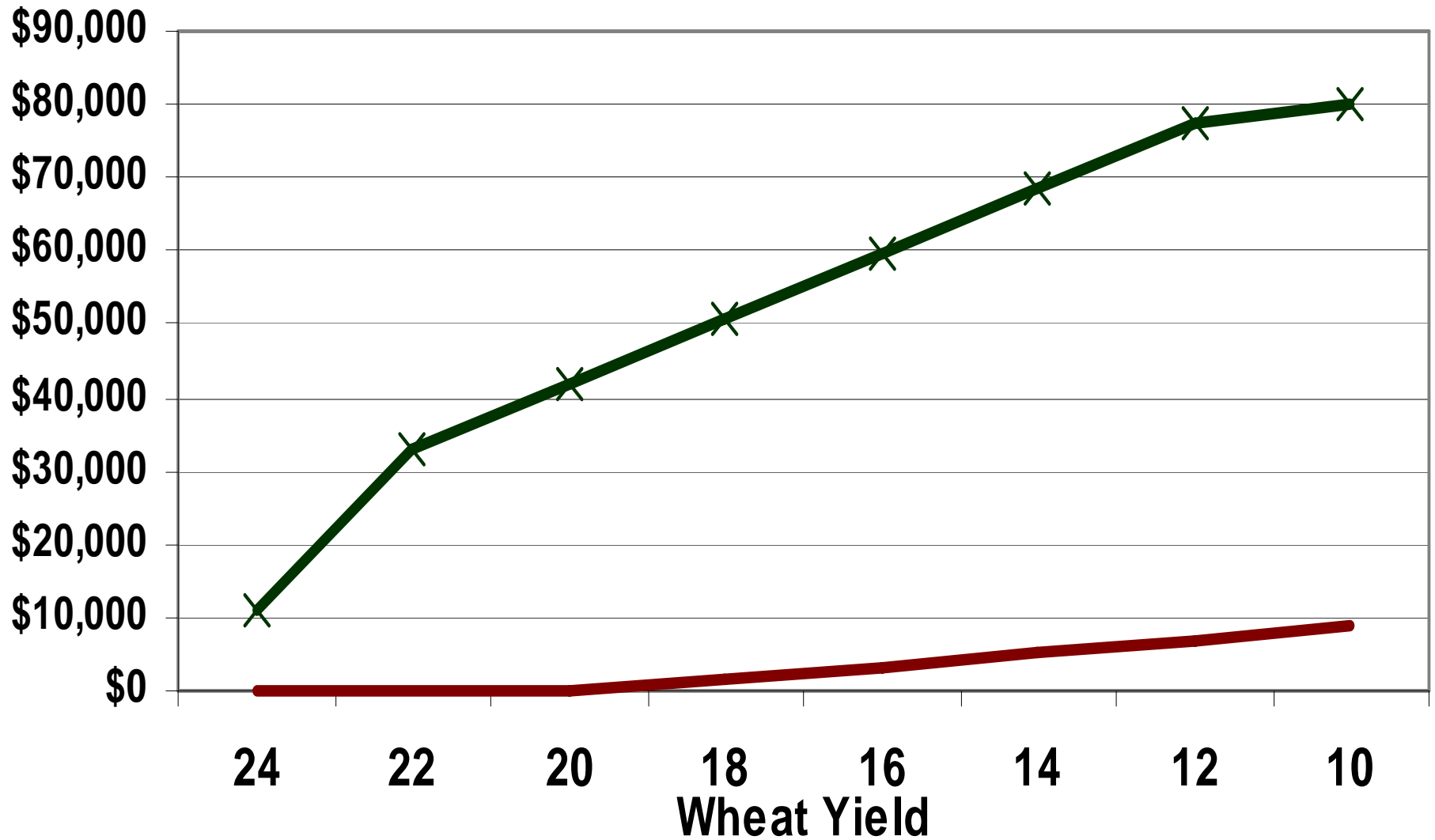
- **Adjustments will be made to the average market prices to reflect the average quality discounts applied to the local or regional market price of a crop, hay, or ~~forage~~* due to a reduction resulting from adverse weather**

***As amended (function of AG vs Finance)**

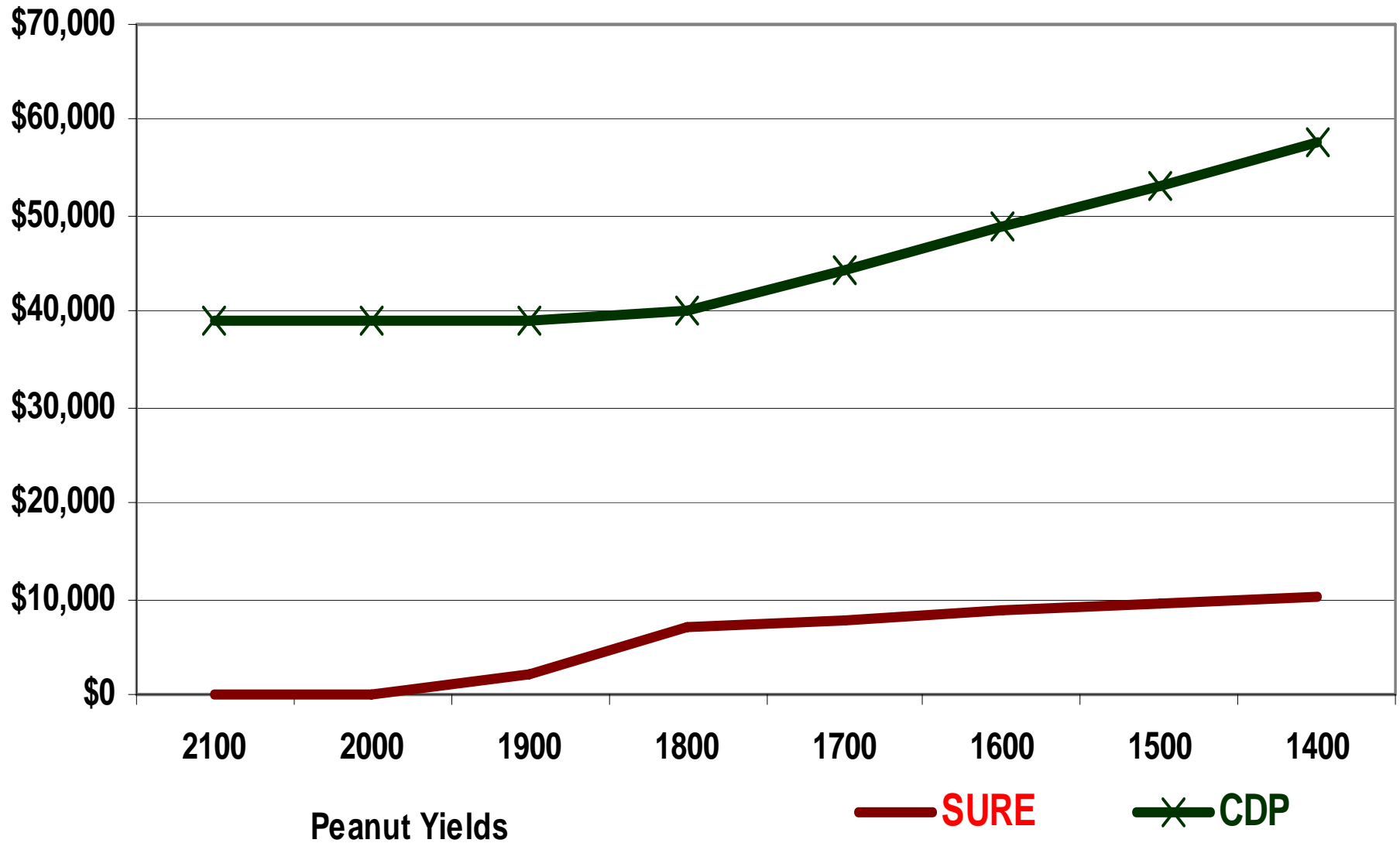


**SURE vs CDP Bowman County, ND 1400 ac Wheat, 200 ac
Corn (30 bu) Wheat APH 40, Corn APH 100**

— SURE —×— CDP



**SURE vs CDP Georgia Farm 50% Loss in: Cotton (1000 ac, 650 APH).
Corn (150 ac, 75 APH), Soybeans (100 ac, 24 APH); normal Wheat
crop (100 ac, 40 APH); Peanuts (400 ac, 2800 APH) variable**



| Commodity 100 acres@ 65% loss | CAT | 50% | 55% | 60% | 65% | 70% | 75% |
|--|------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cotton 90 APH 685 lbs | 0 | \$307 | \$516 | \$726 | \$935 | \$1,145 | \$1,355 |
| Cotton CRC 685 lbs | N/A | \$1,880 | \$2,117 | \$2,355 | \$2,592 | \$2,829 | \$3,067 |
| Wheat 90 APH 45 bu | 0 | 0 | 0 | 0 | \$67 | \$166 | \$265 |
| Wheat CRC 45 bu | N/A | \$967 | \$1,087 | \$1,207 | \$1,327 | \$1,447 | \$1,567 |
| Peanuts 90 APH 2900 lbs | 0 | \$2,581 | \$2,902 | \$3,223 | \$3,544 | \$3,865 | \$4,186 |
| Highbush 90 APH 5000 lbs | 0 | \$37,875 | \$42,713 | \$47,550 | \$52,387 | \$57,225 | \$62,062 |

American Recovery and Reinvestment Act

Agricultural Disaster Assistance Transition for 2008:

\$744,000,000

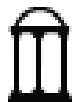


UGA – *Center for Agribusiness and Economic Development*



ARRA

- Producers failing to pay the “buy in” fee due Sep 2008 are eligible if they:
 - pay the buy in fee within 90 days; **AND**
 - for each insurable commodity, agree to obtain a policy for the *next insurance year that crop insurance is available* at 70% or more of APH at 100 percent of the expected market price, or an equivalent coverage; **AND**
 - for each noninsurable commodity agree to pay the administrative fee by the applicable State filing deadline, for the noninsured crop assistance program for the *next year for which a policy is available*



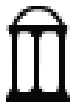
ARRA

- Producers will be eligible to receive assistance *as if* they:
 - had obtained a policy or plan of insurance for the 2008 crop year at a level of coverage not to exceed **70 percent of APH** at 100 percent of price, or an equivalent coverage; or
 - had paid the administrative fee by the applicable State filing deadline, for the noninsured crop assistance program for the 2008 crop year, except USDA will use **70 percent of the applicable yield** (vs 50% yield & 55% price)



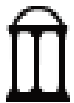
ARRA – Equitable Relief

- Producers that met the requirements as set by FECA and are eligible to receive a disaster assistance payment for the 2008 crop year will receive an amount equal to the greater of--
 - the amount calculated under ARRA by paying new buy in; or
 - the amount that is calculated using **120%** instead of 115% of guarantee for crop insurance, or **125%** instead of 120% for NAP



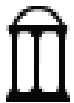
ARRA - Equity

- **USDA will make adjustments as necessary to ensure that no producer receives *a payment or an amount in excess of the assistance received by a similarly situated producer* that had purchased the same or higher level of crop insurance prior to this action**



ARRA – Multiyear Loss

- **USDA may provide additional assistance to provide equitable treatment for eligible producers on *a farm* that suffered production losses in the 2008 crop year that result in multiyear production losses**



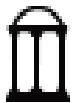
Disaster Programs

- Experience is verifying difficulty of creating an encompassing and budget sensitive crop disaster program
- Congress and USDA must work cooperatively to effectively reduce unintended consequences
- **WELCOME BACK AD HOC!**

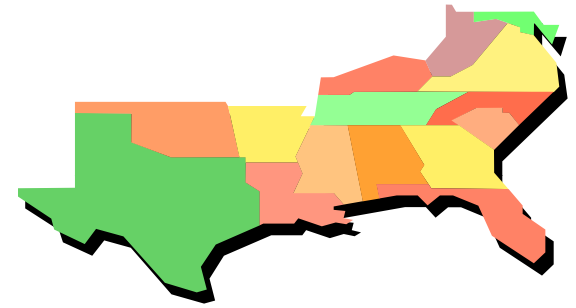


Conservation – Title II

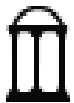
- **Environmental Quality Incentives Program (EQIP) – AWEPP**
 - Agricultural Water Enhancement Program
- **Conservation Stewardship Program (CStP)**
- **Market Driven Conservation – Carbon Markets**



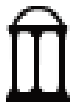
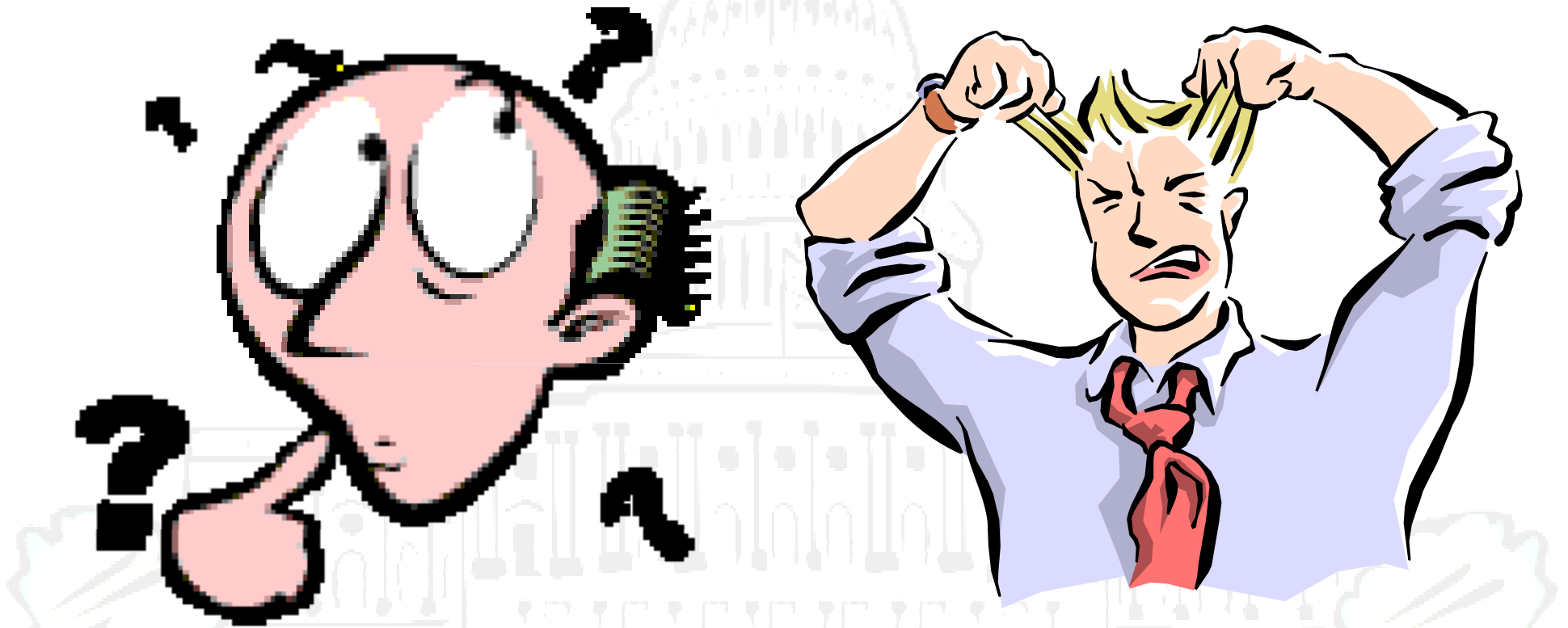
Southern Summary



- **Loss of innocence**
- **Wins:**
 - LRR and LDP calculations
 - Beneficial Interest Maintained
 - MLG/LDP payment limitation removal
 - Peanut separate Payment Limits
 - Cotton, Sugar, Dairy, Rice Provisions
- **Losses:**
 - ACRE ⇔ Target Prices
 - Payment Limitations (eligibility)
 - Disaster



Questions or Reactions



UGA – *Center for Agribusiness and Economic Development*



Wes Harris

Special Projects Coordinator – Public Policy
*Center for Agribusiness and Economic
Development*

THE UNIVERSITY OF GEORGIA

wlharris@uga.edu

912.871.6130

www.caed.uga.edu



UGA – *Center for Agribusiness and Economic Development*

