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

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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
<table>
<thead>
<tr>
<th>Commodity</th>
<th>DP Rate</th>
<th>Target Price</th>
<th>Loan Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period</td>
<td></td>
<td>2007</td>
<td>2008-09</td>
</tr>
<tr>
<td>Corn (bu)</td>
<td></td>
<td>$0.28</td>
<td>$2.63</td>
</tr>
<tr>
<td>Cotton (lb)</td>
<td>$0.0667</td>
<td>$0.724</td>
<td>$0.7125</td>
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<tr>
<td>Peanuts (ton)</td>
<td>$36</td>
<td>$495</td>
<td>$495</td>
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<tr>
<td>Rice (cwt)</td>
<td>$2.35</td>
<td>$10.50</td>
<td>$10.50</td>
</tr>
<tr>
<td>Soybeans (bu)</td>
<td>$0.44</td>
<td>$5.80</td>
<td>$5.80</td>
</tr>
<tr>
<td>Wheat (bu)</td>
<td>$0.52</td>
<td>$3.92</td>
<td>$3.92</td>
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</tbody>
</table>
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- If DCP contract already exists and ACRE is elected for the farm, the DCP contract is rescinded and a new ACRE contract implemented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
- 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”

AND Farm Trigger

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

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

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:
    
    o Wheat – best
    o Soybeans – minimal price
    o Corn – greatest movement in price and yield
<table>
<thead>
<tr>
<th>Georgia Commodity</th>
<th>Olympic Average State Yields</th>
<th>ACRE Program Guarantee Price</th>
<th>State ACRE Program Guarantee</th>
</tr>
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<tbody>
<tr>
<td>Wheat</td>
<td>48.7</td>
<td>$6.590</td>
<td>$289</td>
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<tr>
<td>Corn</td>
<td>127.7</td>
<td>$4.100</td>
<td>$471</td>
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<tr>
<td>Cotton</td>
<td>819.7</td>
<td>$0.537</td>
<td>$396</td>
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<tr>
<td>Peanuts</td>
<td>2980.0</td>
<td>$0.223</td>
<td>$597</td>
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<tr>
<td>Soybeans</td>
<td>28.7</td>
<td>$9.550</td>
<td>$246</td>
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</table>
Cotton DP/CCP Yield = 730 lbs

- Cotton CCP
- ACRE Price
- DCP Direct
- ACRE Direct
- ACRE Yield

<table>
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<tr>
<th>Yield</th>
<th>750</th>
<th>725</th>
<th>700</th>
<th>675</th>
<th>650</th>
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<tbody>
<tr>
<td>ACRE Price</td>
<td>$0.65</td>
<td>$0.60</td>
<td>$0.55</td>
<td>$0.50</td>
<td>$0.45</td>
</tr>
<tr>
<td>DCP Direct</td>
<td>$100</td>
<td>$100</td>
<td>$100</td>
<td>$100</td>
<td>$100</td>
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</tbody>
</table>

ACRE ACRE Price Direct Direct Yield
Soybean DP/CCP Yield = 24 bu

- Soybean CCP
- ACRE Price
- ACRE Yield
- DCP Direct
- ACRE Direct

Direct Payments

Yield: 22, 20, 18, 16, 14

- $9.50
- $9.00
- $8.50
- $8.00
- $7.50

- $0
- $4
- $8
- $12
- $16
- $20
- $24
- $28
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

**UGA – Center for Agribusiness and Economic Development**
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
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
Crops of Economic Significance

- If a crop in the total operation generates less than 5% of the total crop revenue for the operation; the crop is exempt from crop insurance or NAP for SURE eligibility.
- OR if the normal expected revenue of the crop is less than $9,091; it is exempt.
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
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
  - the percent of crop insurance yield guarantee
  - the percentage of crop insurance price
  - the crop insurance price
  - the acres planted or prevented planted of the crop
  - 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 \( \times \)
  - the actual yield of the crop \( \times \)
  - the market year average price
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

Wheat Yield

SURE

CDP

$0

$10,000 $20,000 $30,000 $40,000 $50,000 $60,000 $70,000 $80,000 $90,000

24 22 20 18 16 14 12 10

Wheat Yield
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
<table>
<thead>
<tr>
<th>Commodity</th>
<th>CAT</th>
<th>50%</th>
<th>55%</th>
<th>60%</th>
<th>65%</th>
<th>70%</th>
<th>75%</th>
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<tbody>
<tr>
<td>Cotton 90 APH 685 lbs</td>
<td>0</td>
<td>$307</td>
<td>$516</td>
<td>$726</td>
<td>$935</td>
<td>$1,145</td>
<td>$1,355</td>
</tr>
<tr>
<td>Cotton CRC 685 lbs</td>
<td>N/A</td>
<td>$1,880</td>
<td>$2,117</td>
<td>$2,355</td>
<td>$2,592</td>
<td>$2,829</td>
<td>$3,067</td>
</tr>
<tr>
<td>Wheat 90 APH 45 bu</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$67</td>
<td>$166</td>
<td>$265</td>
</tr>
<tr>
<td>Wheat CRC 45 bu</td>
<td>N/A</td>
<td>$967</td>
<td>$1,087</td>
<td>$1,207</td>
<td>$1,327</td>
<td>$1,447</td>
<td>$1,567</td>
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<td>Peanuts 90 APH 2900 lbs</td>
<td>0</td>
<td>$2,581</td>
<td>$2,902</td>
<td>$3,223</td>
<td>$3,544</td>
<td>$3,865</td>
<td>$4,186</td>
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<td>Highbush 90 APH 5000 lbs</td>
<td>0</td>
<td>$37,875</td>
<td>$42,713</td>
<td>$47,550</td>
<td>$52,387</td>
<td>$57,225</td>
<td>$62,062</td>
</tr>
</tbody>
</table>
American Recovery and Reinvestment Act

Agricultural Disaster Assistance Transition for 2008: $744,000,000
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) – AWEP
  - 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