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The New Farm Bill: Analyzing Your Options

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Agricultural and Consumer Economics

2008 Illinois Farm Economics Summit
The Profitability of Illinois Agriculture: Looking Ahead in Extraordinary Times

Commodity Program Options

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- Producers have choice between:
  - (1) Traditional programs
    - Direct payments
    - Countercyclical payments
    - Marketing loans
  - (2) ACRE option
    - Direct payments with 20% cut
    - ACRE revenue plan
    - Marketing loans with 30% cut in loan rates

Commodity Program Options

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- The choice between program options
  - Starts with 2009 crop year
  - Traditional programs are default
  - If/when ACRE is chosen, that choice lasts through the life of the Farm Bill (through 2012)
  - Choice most likely made on FSA farm id basis

Traditional Programs

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- Maintains direct payments, countercyclical payments, marketing loan programs as in 2002 farm bill
  - Adjustments to loan rates and target prices
  - No base acre or yield adjustments
  - 83.3% payment rates for '09-'11
- Payment Limits
  - Direct $40,000
  - Countercyclical $65,000
  - Marketing loan gains unlimited

Traditional Programs

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	Loan Rate	Target Price	Direct Payment Rate
Corn	$1.95	$2.63	$0.28
Soybeans	$5.00	**$6.00 (+$0.20)**	$0.44
Wheat	**$2.94 (+$0.19)**	**$4.17 (+$0.25)**	$0.52

Traditional Programs

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- Counter-cyclical program
  - Makes payments when season average prices are below trigger prices.

	Corn	Soybeans	Wheat
Target price	$2.63	$6.00	$4.17
-Direct Payment Rate	$0.28	$0.44	$0.52
Trigger Price	$2.35	$5.56	$3.65
-Loan Rate	$1.95	$5.00	$2.94
Maximum Payment Rate	**$0.40/bu**	**$0.56/bu**	**$0.71/bu**

ACRE Program

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- ACRE based on a state-level revenue index for each program crop
  - ACRE is a put option on state-level revenue
  - Guarantees 90% of expected revenue
- Yield Component: 5-year average of state yields
- Price Component: 2-year average of national prices

ACRE Program

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- Payments are based on planted acreage
  - Limited to base acreage total
  - If planted acres > base, farmer chooses which acres to enroll
- Payment limits
  - Direct: $40,000 minus 20% of DP ($32k)
  - ACRE: $65,000 plus 20% of DP ($73k)
  - Marketing loan gains unlimited (but lower loan rates)

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ACRE Program

- Eligibility – "Double Trigger" program
  - Actual *state* revenue must fall below state guarantee level
  - Actual *farm* revenue must fall below farm guarantee level
- Implications
  - Losses could be triggered at state level, but not at farm level (farmer would not receive a payment)
  - Losses could be triggered at farm level, but not at state level (nobody would receive a payment)

ACRE Program

- Payments are crop specific, but whole farm must be enrolled in ACRE
  - Example: Cannot enroll corn base under ACRE and soybean base under traditional
- Revenue guarantee cannot change by more than 10% from previous year
  - 10% "cups" and "caps"

ACRE Payment Mechanics

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- **ACRE Payments are made if:**
  - State revenue falls below state trigger
    AND
  - Farm revenue falls below farm trigger
- **Payment Calculations**
  - 0.833 x State Revenue Loss x Farm Yield Factor
    - State Revenue Loss = Revenue Guarantee – Actual Revenue
    - Farm Yield Factor = (Farm Yield/State Yield)

2009 ACRE Yield Component

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	Corn	Soybeans	Wheat
2004	~~180~~	~~50~~	59
2005	~~143~~	46.5	61
2006	163	48	~~67~~
2007	175	~~43~~	~~57~~
2008	179*	46*	64
2009 Yield Guarantee	172*	47*	61
*Projected			

2009 ACRE Price Component

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	Corn	Soybeans	Wheat
2007	$4.20	$10.10	$6.48
2008*	$4.00*	$9.00*	$6.70*
2009 Price Guarantee	$4.10*	$9.55*	$6.59*
*Projected			

2009 Revenue Guarantees

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	Corn	Soybeans	Wheat
2009 Revenue Guarantee	$635	$404	$362
2010 Guarantee cup/cap	$571 $698	$364 $444	$325 $398

ACRE Payment Examples

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	Yield	Price	ACRE Payment
Corn	180	$3.50	$4.68
Soybeans	50	$8.00	$3.97
Wheat	65	$5.50	$4.29

ACRE Payment Examples

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	Yield	Price	ACRE Payment
Corn	200	$2.75	$84.68
Soybeans	60	$5.75	$58.97
Wheat	75	$3.75	$80.54

*Remember there is a cap on ACRE payments ($73k)

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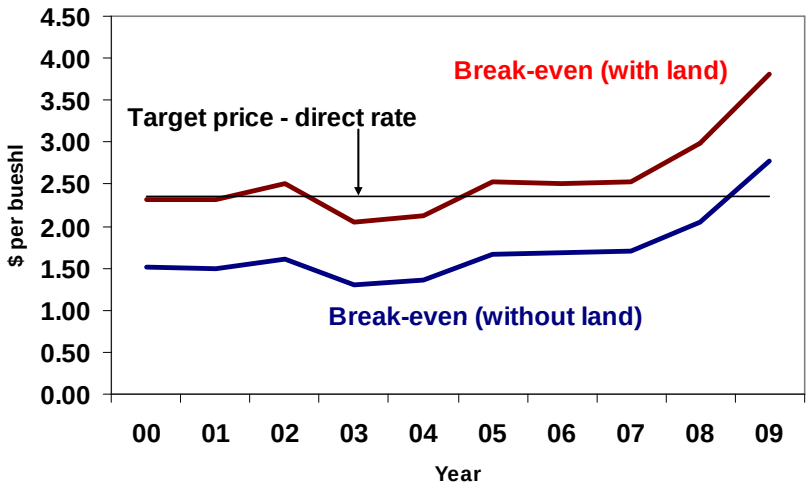
ACRE vs. Traditional

- Chance of payments for 2009:
  - ACRE – relatively high
  - CCP – relatively low (but getting bigger)
- Potential size of payments for 2009:
  - Larger under ACRE, up to payment cap
- Over time:
  - ACRE revenue guarantee moves with market
  - CCP based on fixed price levels
  - 10% cup/cap limits are important
  - ACRE payments will tend to occur in consecutive years

ACRE vs. Traditional



Considerations

- ACRE requires producers to give up a portion of guaranteed direct payments
- Double Trigger Rule
  - How closely do your farm's yields follow the state?
  - ACRE is NOT a substitute for crop insurance
- Operation characteristics
  - Base vs. planted acres
  - Size
  - Land tenure
  - Leverage

Program Option Side-by-Side

Traditional Program Option	ACRE Program Option
Direct Payments $40,000 limit	**Direct Payments** $32,000 limit Payments reduced by 20%
Marketing Loan Program No payment limit	**Marketing Loan Program** No payment limit Loan rates reduced by 30%
Counter-Cyclical Program $65,000 limit Payments based on: Fixed target prices Base acreage	**ACRE Program** $73,000 limit Payments based on: State-level revenue Planted acreage

Disaster Assistance (SURE)

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- Supplemental Disaster Assistance
  - Supposedly replaces ad hoc disaster assistance
  - Covers whole farm losses, based on whole-farm revenue
- Eligibility
  - (1) Crop insurance must be purchased for all crops
  - (2) Farm located in, or next to, a declared disaster county (or) significant farm-level losses
- Greatest benefit in areas with high yield variability
  - greater chance of disaster designation

Income Limitations

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2002 Farm Bill	2008 Farm Bill
$2.5 million AGI cap unless 75% of income from farming	Direct Payments: $750,000 AGI cap Other Commodity Programs: $500,000 AGI cap Disaster Assistance: $1 million AGI cap unless 66.6% of income from farming

Payment Attribution

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- 2008 Farm Bill eliminates the "3-entity" rule
- Program payments will now be directly attributed for payment limit purposes
  - Likely tied back to Social Security Numbers
  - Spouses actively engaged are also eligible
  - Will likely affect organizational structure considerations

Crop Insurance

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- Target loss ratio of overall program reduced
- Subsidy rates on area plans reduced
  - GRP
  - GRIP

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Additional Resources

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- **USDA Farm Bill Side-by-Side Comparison**
  http://www.ers.usda.gov/FarmBill/2008/
- **FSA Homepage**
  http://www.fsa.usda.gov/
- **FarmPolicy blog**
  www.farmpolicy.com/